

VOLUNTARY PENSION FUNDS
SECTOR IN SERBIA

First Quarter Report 2011

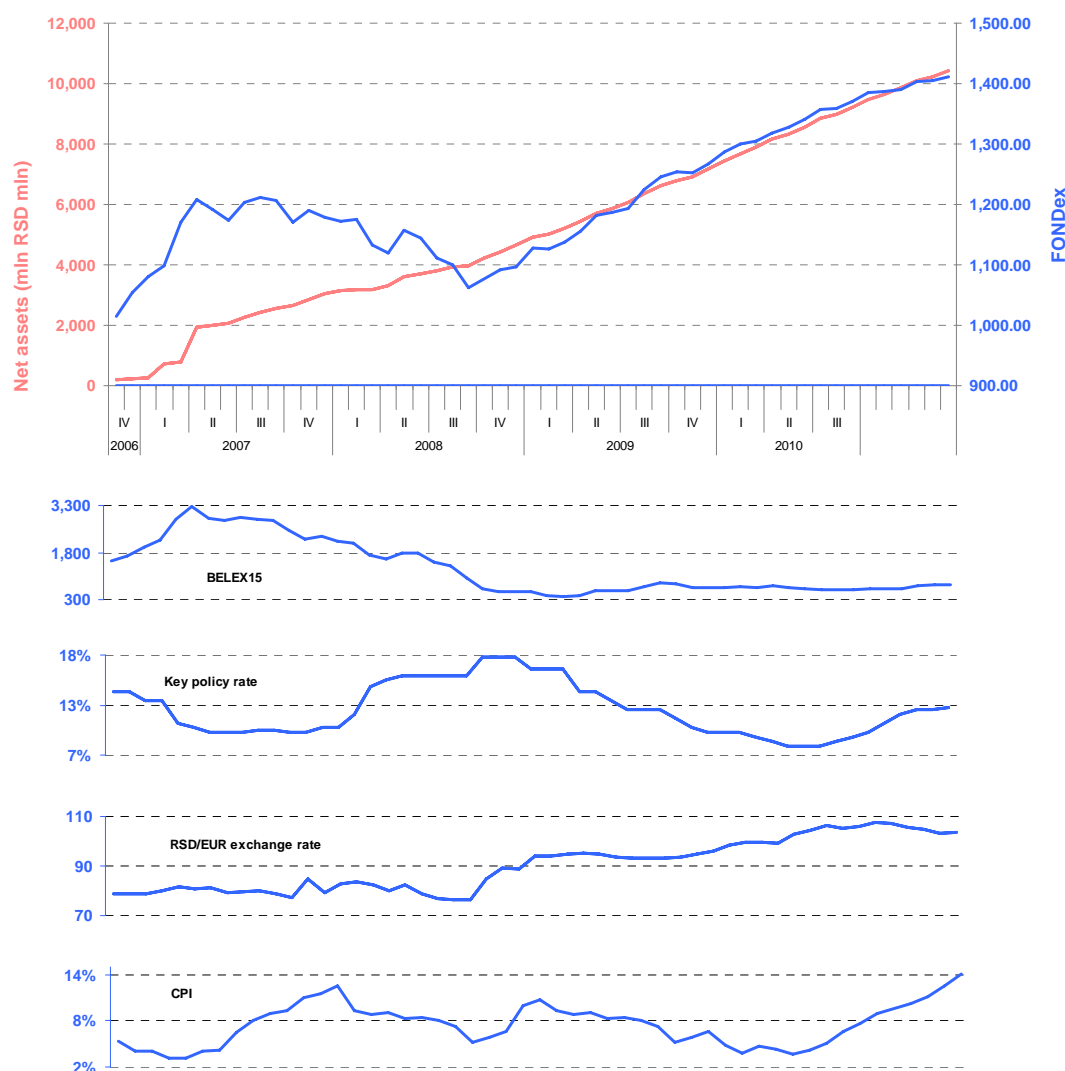
CONTENTS

1. INTRODUCTION	3
2. MARKET PARTICIPANTS	6
3. VPF OPERATIONS	7
VPF net assets	7
Composition of VPF assets	8
VPF securities trading.....	9
Fees charged by management companies	10
Transaction costs	11
Number and structure of VPF beneficiaries.....	11
Contribution payments, withdrawals and transfers.....	14
Return/risk ratio	17
4. CONCLUSION	20

1. INTRODUCTION

Voluntary pensions funds (VPFs) have operated in the Serbian market for more than four years. At end-Q1 2011, VPF net assets reached RSD 10.44 bln, up by 5.8% q-o-q or 32.1% y-o-y.

Chart 1: Movements in FONDex, net assets and key indicators since the start of VPF operation



At end-Q1 2011, FONDex, the index of investment units of all VPFs in the Serbian market, reached 1,411 points¹. The return of FONDex in Q1 came at 1.55%², while the year-to-date return measured 8.2%. The return on T-bills and interest earnings on deposits with banks gave the strongest boost to FONDex.

In Q1 2011, BELEX15 rose by 16.8%, or 11.1% over the past year. In January 2011 alone, the index change equalled as much as 12.8%. BELEX15

¹ The initial FONDex value of 1000 points was recorded on 15 November 2006 when the first VPF began to operate.

² 6.4% per annum.

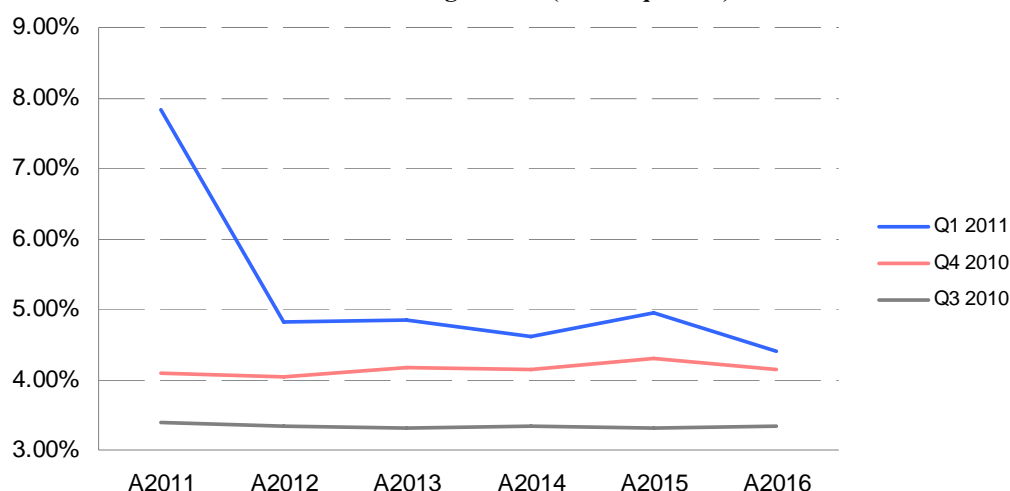
reached its record high of 775.75 on 3 March, while its end-of-quarter value was 761.64 points.

Such trends on the Belgrade Stock Exchange (BSE) provoked no major changes in the funds' asset value given the mere 6.3% portion of shares in VPF portfolios.

Trading on the BSE totalled around RSD 9.41 bln, which was close to Q4 2010 levels (RSD 9.25 bln) and twice as much as in earlier quarters. The greatest share in the volume of trading (one third) concerned NIS and Nikola Tesla airport shares that first appeared in the market in February 2011. The number of transactions surged in the same period, chiefly due to trading in shares of the same issuers that account for over 99% of total transactions.

The upward trend in return on frozen FX savings bonds, set in train in Q4 2010, continued in 2011. Relative to a quarter earlier, returns rose by 24–78 basis points, depending on maturity, but for the A2011-series bonds that rose by as much as 3.72 pp. The yield curve moved up again, ranging from 4.39% to 4.96% – it had an almost flat shape, but for the 2011-series.

Chart 2: Yield curve for frozen FX savings bonds (end of quarter)



The issue of T-bills continued in greater volumes. The total market value of dinar-denominated issues came at around RSD 89.1 bln vs. RSD 61.3 bln in Q4 2010. Most issued were 18-month (21.4 bln), 1-year (19.2 bln) and 3-month bills (17.3 bln).

Table 1: Return and market value of dinar T-bills by maturity

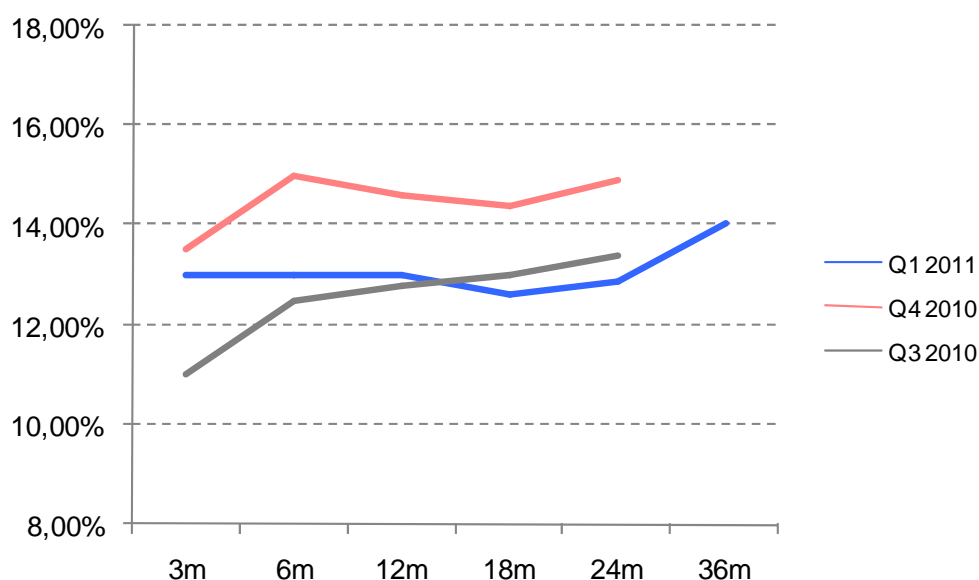
Maturity	Q3 2010		Q4 2010		Q1 2011	
	Return %	Market value (bln)	Return %	Market value (bln)	Return %	Market value (bln)
3m	11.00%	15.6	13.50%	20.9	13.00%	17.3
6m	12.50%*	18.6	15.00%	33.1	13.00%	15.9
12m	12.80%	10.3	14.59%	5.0	13.00%	19.2
18m	13.00%*	2.1	14.39%*	1.1	12.60%*	21.4
24m	13.40%	2.8	14.90%*	1.2	12.89%	13.3
36m					14.05%	2.1
Total		49.4		61.3		89.1

Note: Return at the last auction held in Q1 (asterisk (*)) means that the auction was not held over the last 10 days of the quarter).

Also issued in this period were euro-indexed government debt instruments – 1-year T-bills at 4.48% (0.19 bln) and 15-year bonds at 5.85%.

Rising until mid-2010, the return on T-bills declined in early 2011. Relative to end-Q4 2010, the return on 3-m T-bills fell by 50 bp, or by 159–201 bp for other maturities.

Chart 3: T-bills yield curve (end-of-quarter)



Following the period of a rising euro against the dinar over the last two years, the dinar strengthened in Q1 2011. The euro depreciated by 1.80%³, while the annual rise in the euro exchange rate was 3.85%. More than a third of fund assets (around 35%) were invested in euro-denominated financial instruments, most of which were frozen FX savings bonds (13.65%).

³ 7.1% p.a.

Moderate GDP growth recorded last year continued in Q1 – it rose by 3.4% y-o-y. Industrial output rose by 6.4% y-o-y.

Inflation continued to accelerate. Annual CPI growth came at 11.2% in January, 12.6% in February and 14.1% in March. In q-o-q terms, the growth equalled 1.4%, 1.5% and 2.6% respectively.

Due to these inflationary pressures, key policy rate hikes, in place since H2 2010, continued in 2011. In Q1, the rate was raised twice, reaching 12.25% at the end of March. Key policy rate hikes triggered a rise in interest earned by companies on dinar funds held in custody accounts – 0.75 pp on average (which equals the change in the key policy rate).

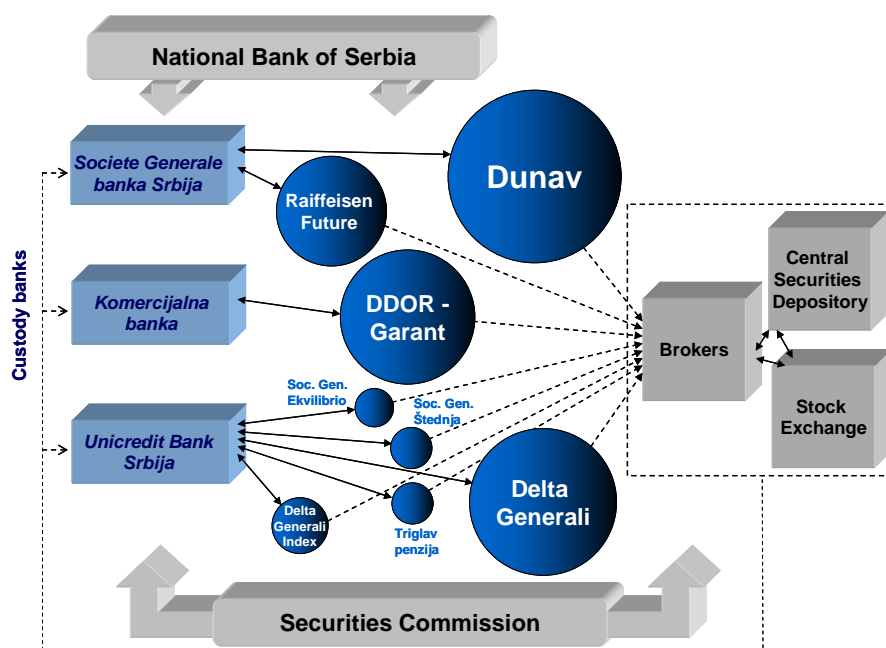
2. MARKET PARTICIPANTS

The VPF market comprises six companies managing eight VPFs, three custody banks, 60 natural persons engaged in dissemination of information about VPF membership (of 229 of them licensed by the NBS to perform such activities) and four agent banks⁴.

VPF management companies cooperate with 11 brokerage houses in securities trading.

At end-Q1 2011, total employment in VPF management companies was 127, down by 2 and 38 q-o-q and y-o-y respectively.

Chart 4: VPF market participants



⁴ NLB banka a.d. Beograd, Raiffeisen banka a.d. Beograd, Volksbank a.d. Beograd and Société Générale Banka Srbija a.d. Beograd.

3. VPF OPERATIONS

VPF net assets

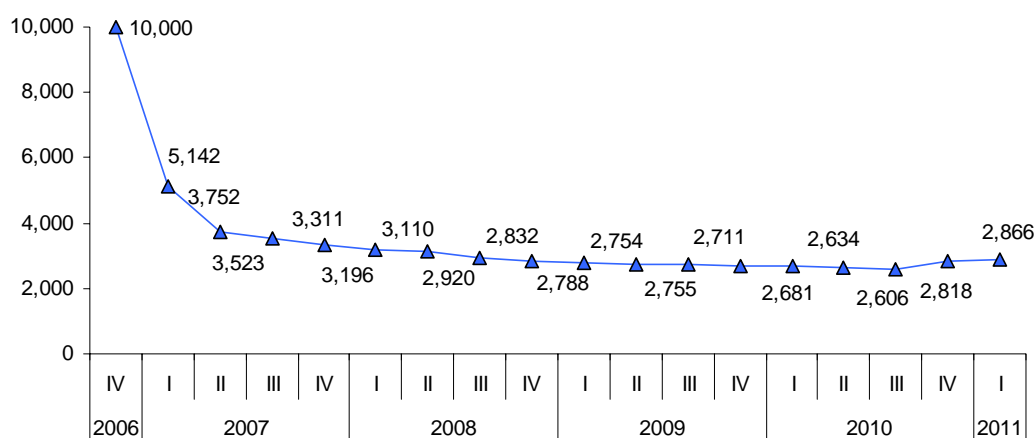
In Q1 2011, net assets rose 5.8% q-o-q or 32.1% y-o-y. In Q1 2011, RSD 556.9 mln were paid to members' individual accounts, which impacted most on net assets growth. In Q1, total contributions, net of contribution fees, came to RSD 543.9 mln, whereas withdrawals amounted to RSD 125.4 mln. Total fees charged by companies were RSD 62.8 mln.

Table 2: End-quarter net assets of the VPF sector *RSD bln*

2007 Q4	2008 Q4	2009 Q4	2010				2011
			Q1	Q2	Q3	Q4	Q1
3.05	4.64	7.19	7.90	8.57	9.21	9.86	10.44

Market concentration rose in the sector due to rising numbers of large funds in net assets – at end-Q1, market concentration measured by HII equalled 2,866 points.

Chart 5: End-quarter concentration in the sector



VPFs are classified in three groups by their share in total net assets: large, medium and small. The structure, however, changed relative to the prior period – at end-Q1, two funds were classified as 'large' and 'medium'. High concentration was also reflected in c. 42% of total net assets owned by one fund, with the four largest funds accounting for as much as 97%.

Table 3: Number of funds by groups divided by market share

Share in net assets (%)	2007 Q4	2008 Q4	2009 Q4	2010				2011
				Q1	Q2	Q3	Q4	Q1
Large (20 and above)	3	2	2	2	2	2	3	2
Medium (5 – 19.99)	-	2	3	3	3	3	1	2
Small (0 – 4.99)	4	6	5	4	4	4	4	4

Composition of VPF assets

In Q1, government debt securities accounted for the major portion of VPF assets – 69.4%, of which T-bills made up 53.5%, frozen FX savings bonds – 13.6%, long-term government bonds – 2.2%, demand deposits – 17.5%, shares – 6.3%, term deposits – 4.3%, and property – less than 1%.

Significant changes in the structure of VPF assets were recorded for Prime Market shares – their participation fell by 5.3 pp q-o-q, mostly due to the reduced portion of NIS shares in fund portfolios (over 6 pp) and the appearance of Nikola Tesla airport shares (0.8% of total fund assets).

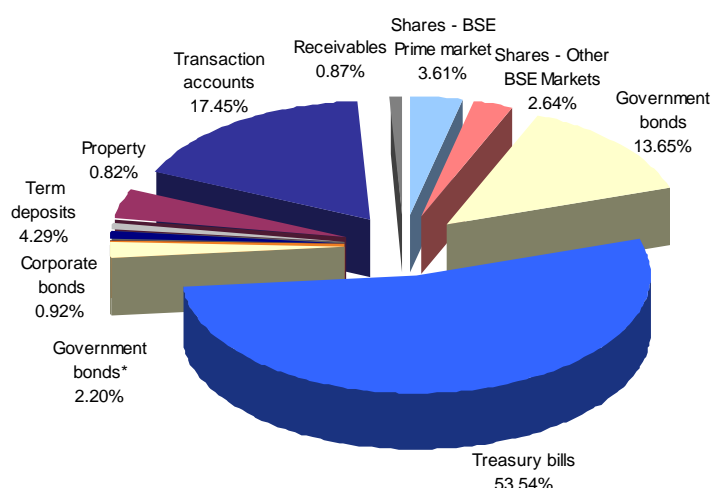
Besides, the share of T-bills rose by 6.8 pp, while the portion of frozen FX savings bonds fell by 4.5 pp – mostly A2012 and A2016 series.

In this period, long-term government securities appeared for the first time – these are 15-year, euro-indexed bonds with a coupon rate of 5.85%, accounting for 2.2% of total assets.

The share of assets denominated in foreign currency, now exclusively in euros, was RSD 3.72 bln or 35.3% of total assets, while dinar-denominated assets accounted for RSD 6.83 bln or 64.7%

The exposure of fund assets to some types of market risk suffered no major changes relative to Q4.⁵ The largest portion of assets – c. 91.9%, was exposed to interest rate risk. The exposure to price risk fell to 21.6% due to a reduced portion of shares and frozen FX savings bonds, while the exposure to currency risk was 35.3%, down by 4.4 pp from end-2010.

Chart 6: End-quarter composition of VPF assets



⁵ Breakdown of assets by the type of market risk they are directly exposed to.

Table 4: Exposure of VPF assets to market risk

	Price risk	Currency risk	Interest risk	2007	2008	2009	2010				2011
							Q1	Q2	Q3	Q4	Q1
Shares	✓			22.4%	6.3%	7.2%	6.5%	5.5%	6.2%	11.4%	6.3%
Frozen FX savings bonds	✓	✓	✓	37.8%	33.7%	25.2%	26.3%	21.2%	19.6%	18.1%	13.6%
T-bills		✓*	✓	0.8%	0.0%	46.6%	42.1%	42.3%	41.6%	46.7%	53.5%
Foreign government securities		✓	✓	-	-	-	-	-	-	-	2.2%
Corporate bonds	✓	✓	✓	-	-	-	-	-	1.1%	0.3%	-
Property	✓	✓	✓	-	-	-	-	-	0.3%	1.0%	0.9%
Funds in dinar accounts	✓	✓		-	1.7%	1.1%	1.0%	1.0%	1.0%	0.9%	0.8%
Funds in FX accounts			✓	37.7%	57.4%	15.9%	18.6%	18.9%	16.0%	8.0%	9.5%
Shares		✓	✓	1%	0.9%	4.0%	5.5%	10.7%	14.1%	13.5%	12.2%

* relates to a portion of euro-denominated T-bills

VPF securities trading

VPF trading volumes of RSD 4,216 mln in Q1 were by 27% lower than last quarter, but picked up relative to all previous quarters. T-bills retained their major share in securities purchases (around 90%), resulting in the maturity to sale ratio of 43% : 57%. The share of VPFs in BSE trading equalled around 4%.

Table 5: VPF securities trading

	2008	2009	2010	2010				2011
				Q1	Q2	Q3	Q4	Q1
Securities trading	1.51	12.59	14.92	3.11	2.94	3.53	5.35	4.22
Purchases	1.07	8.12	8.12	1.57	1.42	1.87	3.26	2.21
BSE	0.78	0.40	1.3	0.14	0.12	0.41	0.63	0.19
Unregulated market	0.25	0.38	0.31	0.15	0.03	0.13	-	0.03
Auctions of government securities	0.03	7.34	6.53	1.29	1.28	1.33	2.63	1.99
Sales	0.39	0.39	0.76	0.14	0.10	0.39	0.13	1.14
BSE	0.09	0.05	0.56	0.004	0.034	0.39	0.13	0.17
Unregulated market	0.30	0.34	0.19	0.13	0.064	-	-	0.98
Maturity	0.05	4.08	6.04	1.40	1.42	1.26	1.96	0.86
Purchase to sale and maturity ratio	2.42	1.82	1.47	1.0	0.93	1.13	1.6	1.1
Share in total BSE trading	1.2%	1.1%	7.6%	2.9%	2.1%	19.1%	7.0%	4%

RSD bln

Fees charged by management companies

The Law on Voluntary Pension Funds and Pension Schemes sets maximum fees that may be charged to fund members. Contribution and management fees may not exceed 3% and 2% respectively, while the account transfer fee may be charged only at the level of real transfer costs.

Fees are one of the parameters that members should bear in mind when choosing a fund, but should not be observed as an isolated factor. The fee level is contingent on the fund investment strategy and its performance. As a rule, funds actively investing in more complex and riskier instruments are intended for younger persons who pay contributions over a longer horizon. Such funds charge higher fees, but are also expected to post higher return in the long run. On the other hand, a fund investing passively in safe financial instruments should charge lower management fees. Investment policy (scheduled investment by fund members), fees charged by companies, the expected fund return and the risk taken by the fund (and the member) should be accounted for when choosing a fund.

Since the start of operation, companies charged a 2% management fee, while the contribution fee declined, currently standing at 2.32%. The relative shares of these two types of fees changed – at the start of VPF operation, contribution fees were dominant by contrast to the current 80% of management fees. This was prompted by rising net asset value and an enlarged base to which management fees are applied.

A further rise in net assets and boosted fund competition may result in gradual lowering of the management fee. One company has envisaged in its schedule of charges a variable amount of fee depending on its performance in the sector and the sum of accumulated funds in individual accounts.

Table 6: Fees from 2007 to 2010 and fees by quarter for 2010 and 2011

RSD mln

	2007	2008	2009	2010	2010				2011
					Q1	Q2	Q3	Q4	Q1
Contribution fee	43.5	56.9	54.9	59.3	14.7	14.4	13.9	16.4	13.0
Management fee	33.4	72.2	117.2	170.6	37.1	40.9	44.7	47.8	49.8

Transaction costs

Transaction costs are incurred by management companies in securities trading. The new Law envisages that costs arising from the purchase, sale and transfer of securities (Central Securities Depository fees, brokerage fees, tax charges and costs of the current maintenance of property that fund assets are invested in) are charged against fund assets. Other costs are incurred by the management company – these are mostly brokerage fees.

Brokerage, custody bank and stock exchange fees accounted for the largest share of transaction costs. Transaction costs are directly related to the volume of management company trading and types of instruments being traded. Most costs are incurred in securities trading on the BSE and the lowest costs in T-bills trading.

In response to relatively high trading volumes at the start of operation, particularly trading on the BSE, transaction costs were the highest at the time. The economic crisis induced a contraction in the activity of management companies that directed their investment to safer instruments implying lower cost. In 2009, the costs rose again in response to high T-bill trading volumes and a gradual increase in shares trading. At the same time, a rise in net assets pushed up the value of fund transactions in absolute amount.

Table 7: Transaction costs from 2007 to 2010 and by quarter for 2010 and 2011

	2007	2008	2009	2010	2010					2011
									Q1	Q1
					Q1	Q2	Q3	Q4		
Transaction costs	10.00	5.34	7.37	9.74	1.53	1.11	3.10	3.72	2.15	
Brokerage fees	4.52	2.22	3.80	4.46	0.74	0.45	1.70	1.57	0.86	
Custody bank fees	1.83	1.47	1.98	2.41	0.39	0.35	0.86	0.81	0.73	
Stock exchange fees	1.56	0.84	0.38	1.14	0.13	0.10	0.24	0.67	0.22	
Central Securities Depository fees	0.99	0.56	1.20	1.45	0.26	0.20	0.30	0.68	0.35	
Transfer tax relating to the acquisition of securities	1.10	0.24	-	-	-	-	-	-	-	-

VPFs generally invest in long-term debt securities, while the portion of shares is relatively low. Such structure impacts on low transaction costs – c. 0.1% relative to net assets.

Number and structure of VPF beneficiaries

At end-Q1 2011, 169,038⁶ of beneficiaries were in the accumulation phase⁷ Total membership contracts⁸ stood at 222,659. At the same time, 10 beneficiaries

⁶ The number of beneficiaries is the number of members of one or more VPFs. The number is smaller than the number of membership contracts as a significant number of beneficiaries have more than one membership contract in one or several funds.

⁷ VPF membership has two phases – the accumulation phase (when contributions are made) and the withdrawal phase (when funds accumulated are withdrawn).

holding 14 membership contracts, who are currently in the withdrawal phase, are receiving scheduled payments. All information from this point onwards, unless specified otherwise, refers to beneficiaries in the accumulation phase.

Table 8: Number of contracts and beneficiaries from 2007 to 2010 and by quarter for 2010 and 2011

	2007	2008	2009	2010	2010				2011
					Q1	Q2	Q3	Q4	Q1
No. of contracts	158,461	201,610	215,704	220,451	217,026	219,517	221,493	220,451	222,659
No. of beneficiaries	- ⁹	155,954	165,244	166,780	166,625	166,862	168,066	166,780	169,038
Percentage of active beneficiaries – 10 ¹⁰	- ⁹	41.14%	34.85%	33.62%	33.59%	33.71%	32.88%	36.31%	31.47%

In the 2008–2010 period, the strongest growth in the number of new beneficiaries was recorded in 2009 (close to 10,000), while 2010 saw a marginal increase. The upward trend continued in Q1 2011 when the number of beneficiaries rose by more than 2,000.

Average accumulated funds per beneficiary depend on the amount of contributions, the funds' return and the length of the accumulation phase. All three factors impact on the growth in average funds in members' individual accounts. Average accumulated funds of members who have made at least one contribution is slightly above RSD 73,700 and is constantly rising.

VPF beneficiaries in Serbia may be domestic and foreign persons. The number of domestic persons holding fund membership contracts is double that held by foreign nationals who, however, hold on average six times more funds in their accounts.

Table 9: Average funds from 2007 to 2010 and by quarter for 2010 and 2011

	2007	2008	2009	2010				RSD 2011
				Q1	Q2	Q3	Q4	Q1
Average accumulated funds	-	34,594	52,234	57,145	61,930	66,401	70,481	73,688

⁸ The number of membership contracts is the sum total of individual membership contracts and the number of members of all pension plans.

⁹ Data on the number of beneficiaries and the average amount of accumulated funds are available as of June 2008.

¹⁰ The average percentage of active beneficiaries by month in the period it relates to.

At end-Q1 2011, the number of members of two or more VPFs amounted to 30,389 or 22% of the total.

Table 10: Number of beneficiaries by number of funds in which they are members

Number of funds	Number of beneficiaries
1	138,649
2	21,217
3	9,128
4	37
5	7

Table 11: Number of beneficiaries by membership contract

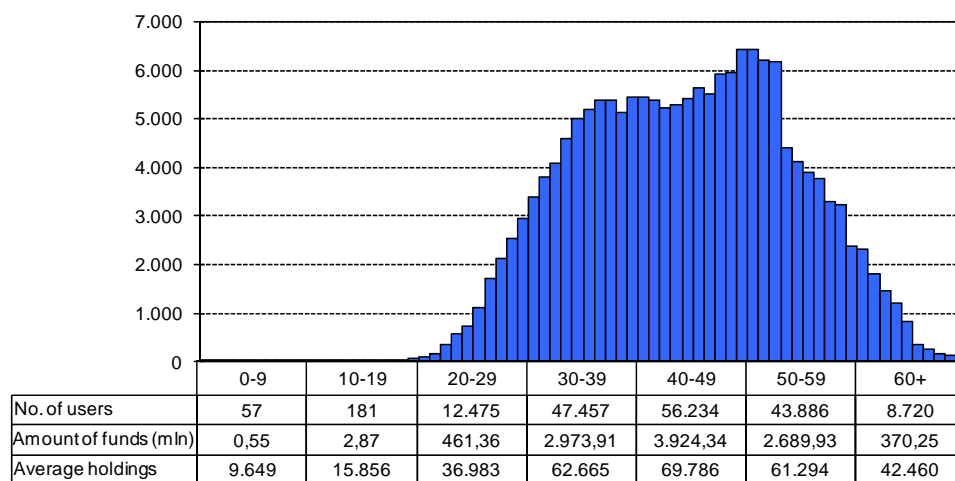
Number of contracts	Number of beneficiaries
1	127,763
2	30,545
3	9,501
4	890
5	301
6	33
7	3
9	1
10	1

Table 12: Structure of beneficiaries by payment dynamics

Active beneficiaries	Период	Number of beneficiaries	Share (%)
	1 month	53,208	31.48%
	3 months	64,310	38.04%
	6 months	81,784	48.38%
	12 months	85,273	50.45%
	From the start of membership (1)	141,612	83.78%
No funds on accounts (2)		27,426	16,22%
Total (1+2)		169,038	

In terms of gender composition, no significant changes were recorded relative to previous years. Men remained dominant (c. 59.9%). The gender ratio is slowly changing – of new members, there were 51.3% men and 48.7% women.

At end-2010, the average age of VPF beneficiaries was close to 44 years, while beneficiaries aged 30–50 accounted for over 61%. Such structure has not changed since the start of VPF operation. Further, the percentage of beneficiaries meeting the age requirement for the withdrawal of funds (53 years) was largely similar to earlier years and accounted for approximately 20% of the total.

Chart 7: Distribution of VPF beneficiaries by age

Contribution payments, withdrawals and transfers

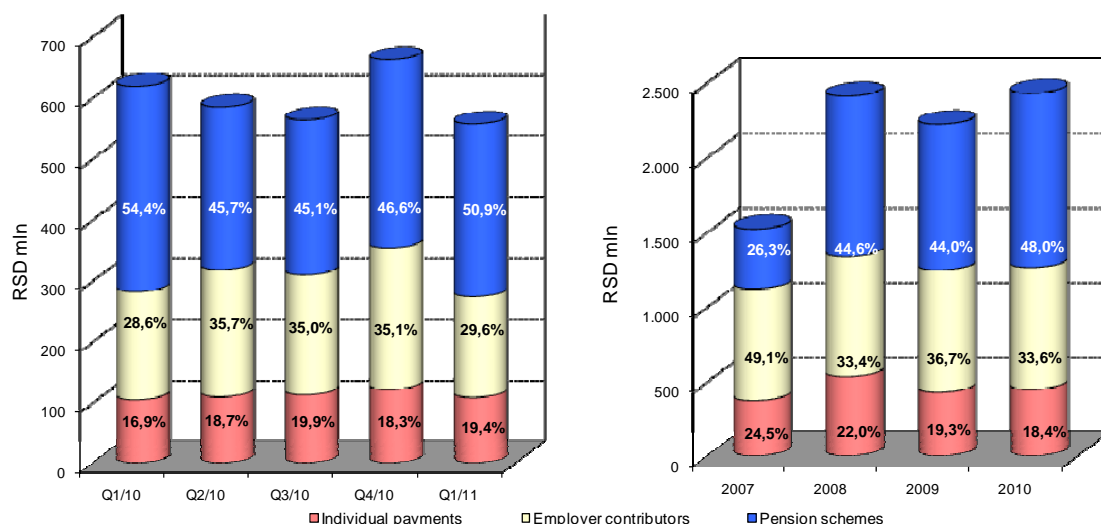
Apart from 2007 when most VPFs were set up and when contributions were the lowest, total contributions were stable throughout the years, ranging between RSD 2.2 and 2.4 bln p.a.

The situation is similar in quarterly terms over the past year. Contributions were stable, ranging between RSD 550 mln and RSD 660 mln.

Table 13: Contributions from 2007 to 2010 and by quarter over the past year

	2007	2008	2009	2010	2010				2011
					Q1	Q2	Q3	Q4	Q1
Total contributions	1.52	2.41	2.22	2.43	0.62	0.59	0.56	0.66	0.56

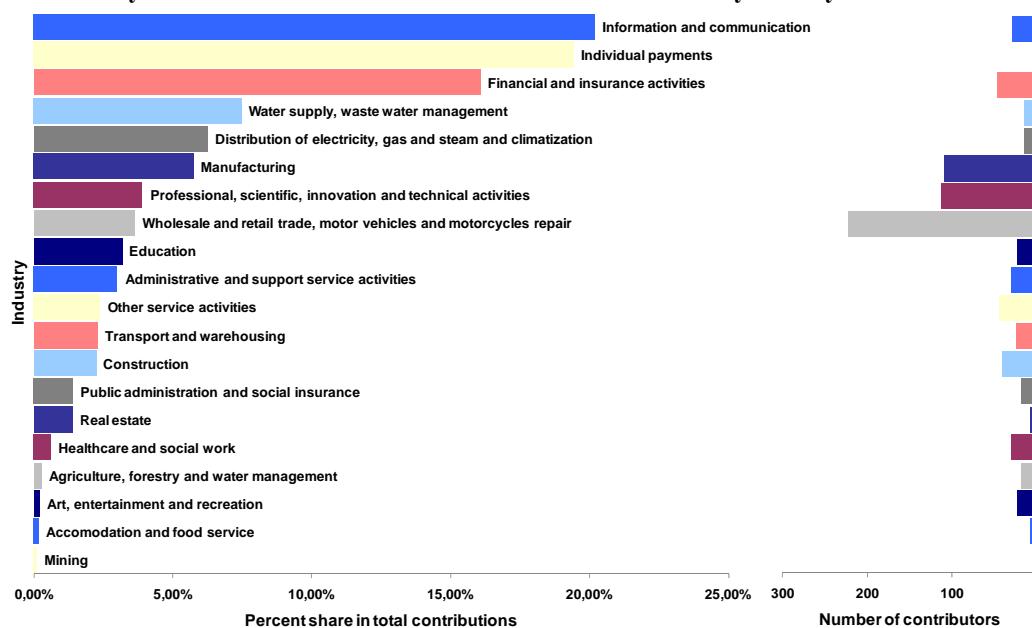
Contribution payments are the highest in the last quarter, particularly last month of a year. In Q4 2010, contributions hit their record high of around RSD 662 mln, as a result of wage payments before the New Year instead of January and therefore the payment of contributions into VPFs. The amount of contributions thus increases in the last month of a year and declines in the first month next year. For instance, contributions amounted to RSD 166 mln in January 2011 and RSD 255 mln in December 2010. A two-month average was c. RSD 200 mln, implying a stable level of monthly contributions over the past years.

Chart 8: Volume and composition of total contributions by year and by quarter over the past year

Most contributions are made through pension plans that imply the highest saving for the employer in terms of exemption from tax and contribution payment for the paid-in amount, up to the legally stipulated ceiling. Furthermore, pension plan sponsors can negotiate the level of contribution fees for their members, which is another reason for the above contribution method.

In Q1 2011, of total contributions, individual payments accounted for c. 19%, employer contributions 30% and pension plans c. 51%. This ratio has remained broadly unchanged since 2008.

Three contributors paid over RSD 25 mln each (c. RSD 160 mln together) or 29% of the total. The remaining more than 800 of companies paid less than RSD 25 mln each, or around RSD 289 mln together. The remaining contributions were made by individuals.

Chart 9: Payment of contributions and number of contributors by activity

Though the Law envisages individual payments, most contributions were made through contributors and pension plans. Employers may contribute on behalf of their employees and thus make saving in the form of tax relief. Ample potential for further growth in the membership base are companies with high staffing levels.

Withdrawals are generally lump-sum, which is logical as members entitled to withdrawal are not long-standing fund members and their accumulated sum is therefore relatively small. Future period is likely to see an increase in scheduled and other types of withdrawals, in response to growth in accumulation years and the accumulated sum, particularly after the adoption of the new Law setting the maximum lump-sum amount to be drawn at 30%.

Table 14: Withdrawals from 2007 to 2010 and by quarter over the past year

	2007	2008	2009	2010	2010				2011
					Q1	Q2	Q3	Q4	Q1
Total withdrawals	141	384	448	458	106	127	101	124	125

Withdrawals grow by the year as a result of system development – as contributions and net assets increase and the Pillar III matures, absolute withdrawals will rise as well. In Q1 2011, contributions exceeded withdrawals by c. RSD 435 mln. However, what is atypical for the nature of VPFs is that withdrawals are made as soon as beneficiaries turn 53 (the minimum retirement age); such beneficiaries, however, do not meet the requirements for state pension. One of the reasons is a short contribution period and small accumulated funds. The new Law forbids lump-sum withdrawals – a beneficiary can draw up to 30% one-off and the rest over the period he/she defines, but not within less than 2 years. The ‘saving for old age’ maxim is thus fully upheld – beneficiaries will be receiving retirement income apart from their state pension.

Transfers practically refer to inter-fund transfers. A member may transfer a part or all of his assets from one fund to another, thereby covering only the real transfer costs. The largest transfers were recorded in 2008. Q1 2011 saw somewhat larger transfers – close to 100 mln.

Table 15: Inter-fund transfers from 2007 to 2010 and by quarter over the past year

	2007	2008	2009	2010	2010				2011
					Q1	Q2	Q3	Q4	Q1
Total withdrawals	19	235	141	216	46	49	46	76	98

Return/risk ratio

Given a short period of VPF operations, market turbulences (the crisis, plummeting stock, etc) and varying times of the start of VPF operation, the return from the outset of operations is not an adequate basis for comparing fund performances. Furthermore, when comparing returns, the portfolio risk should also be taken into account.

Fund return is the percentage change in the investment unit value over a particular period. It represents the ratio of the investment unit value at the start and end of the period. The VPF return since the start of operation may be classified into three phases. The first phase of decreasing return lasted until September 2008 in response to plummeting BSE stock making up over 20% of the overall portfolio. Responding to market changes, funds rechannel their investment to safer instruments, which results in modified investment structure and lowering of the portion of shares to below 10%. At one moment, over 50% of assets were held in custody bank accounts. Funds directed their assets in T-bills when they were first issued, while at the same time maintaining the portion of frozen FX savings at around 25-30%. Such investment policy enabled VPFs to maintain their assets, while FONDex never fell below 1000 points. The shift in the investment structure ushered in the second phase marked by vigorous growth in return. That was the time of key policy rate hikes that exerted a positive impact on T-bills and deposits, the EUR/RSD exchange rate and consequently euro-indexed instruments. The third phase featured stagnation in return (c. 10% in 2010). Such trends indicate that short-term return volatility is possible, particularly in case of funds investing a major part of their assets in riskier securities. Besides, such funds expect higher return in the long run.

Fund risk implies the investment unit volatility directly linked to the risk of instruments from the fund portfolio and their mutual correlation. It is measured by the standard annualised deviation of daily investment unit return. The higher volatility and divergence from the mean value, the higher the standard deviation as a risk measure. Following the initially higher risk levels over 5% p.a, stemming from greater positions taken in shares, the risk entered a steady downward path reflected in modified investment structure, only to settle at 1–2% a year.

Investment unit volatility was more pronounced in 2007 and 2008 when funds began to operate. The riskiest were investments in equity instruments and BSE shares. As their portion in assets declined, volatility subsided.

Table 16: Return and risks of VPFs and FONDex

Name of VPF; start of business / return from the start of business (p.a.)	For the past year					Investment risk
	2007	2008	2009	2010	Q1 2011	
Delta Generali 15/11/2006 / 7.33%	12.08% 7.56%	-9.75% 6.76%	15.20% 2.88%	9.25% 1.45%	8.15% 1.71%	
Raiffeisen Future 03/01/2007 / 11.26%		4.90% 2.72%	12.14% 1.08%	8.81% 1.69%	7.27% 1.89%	
DDOR-Garant 10/01/2007 / 7.42%		-7.07% 4.99%	12.66% 2.21%	9.40% 1.26%	5.85% 2.42%	
Dunav 02/04/2007 / 5.08%		-5.83% 6.27%	15.84% 3.72%	9.40% 1.77%	9.45% 1.78%	
Delta Generali INDEX (ex Nova penzija) 16/04/2007 / 2.41%		-10.18% 5.99%	13.19% 2.26%	8.55% 0.97%	6.48% 1.91%	
Triglav penzija 11/09/2007/6.66%		0.46% 5.24%	11.67% 2.34%	9.16% 1.67%	6.93% 1.80%	
Societe Generale Štednja 06/11/2008 / 12.07%			13.76% 1.75%	9.84% 1.33%	7.47% 1.61%	
Societe Generale Ekvilibrio 06/11/2008 / 11.16%			12.38% 2.24%	9.12% 1.31%	8.95% 1.39%	
FONDex 15/11/2006 / 8.30%		-6.88% 6.29%	15.04% 3.21%	9.57% 1.57%	8.20% 1.72%	

Riskier funds are those leaving more room for riskier investments (into shares, etc) with a view to posting higher return in the long run. They are intended for younger members with over a 10-year investment horizon. As such funds can suffer even short-term losses they are not tailored to older members intending to draw their funds within a short term. Members should therefore opt for a fund with no or small percentage of risky instruments with low volatility.

The return/risk ratio¹¹ moved in line with changes in its individual components. Since the start of VPF operation, the ratio moved in three phases. The first phase was marked by a moderate decline, triggered by falling return, though the decline was mitigated by diminished fund riskiness. It is noteworthy that funds taking less risk at the time posted higher return. Such ratio is however expected in light of negative trends in the financial market. Still, once the market enters calmer waters, the ratio may change as its current levels are unsustainable from a long-term perspective (VPFs being long-term investment vehicles). The second phase was that of vigorous growth in the value and rising return, together with a further decline in risk. The third phase saw stagnation, prompted by the stabilisation of risk and return in 2010.

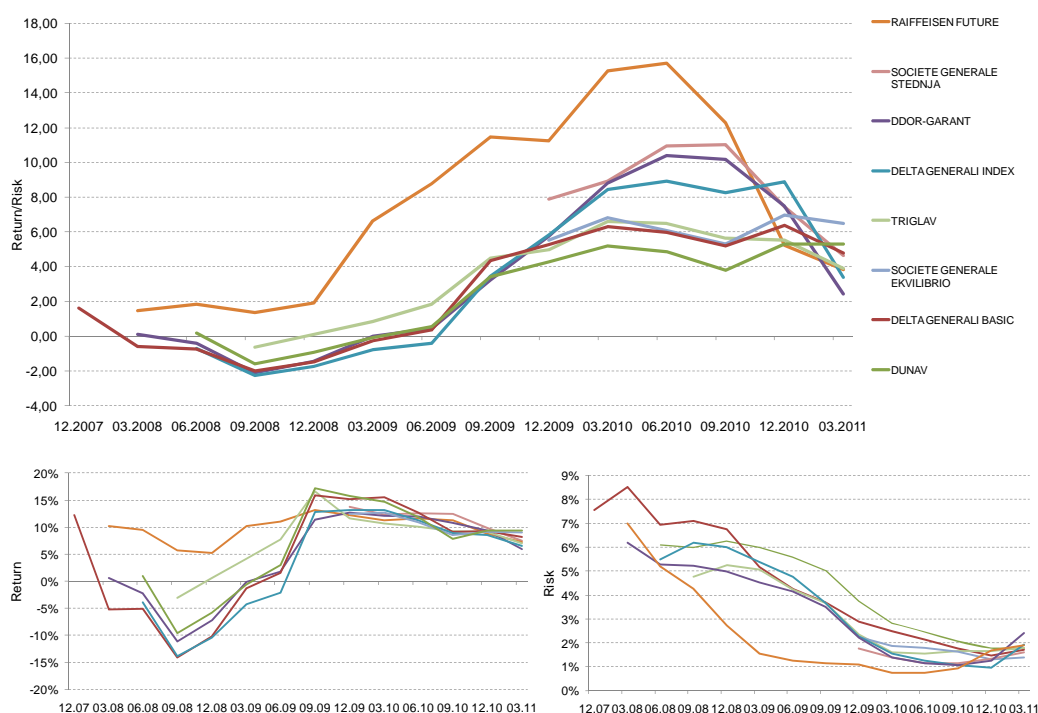
The return/risk ratio measures the performance of investment and risk management systems. A fund with a higher ratio posts better results. Individual components of the ratio are equally important as two funds may have different component values and the same ratio (higher return and higher risk). The choice

¹¹ The return/risk ratio is calculated by dividing the return for a particular period by the value of risk for the same period.

between such two funds depends on member's risk tolerance. Assuming the same ratio value, choosing a fund with higher return implies higher risk, i.e. worse performance in times of market turbulences. Management companies prescribe in their policies investment limitations and possible fund riskiness.

The return/risk ratio has its limitations. First, the period it covers is short and data series are insufficient. Furthermore, given the circumstances of fund operation (the crisis, volatile environment, plummeting stock exchange shares), the results achieved are not adequate for establishing future values. The most conservative funds, i.e. those taking the lowest risk, posted the highest return. Besides, due to poor BSE liquidity and undeveloped secondary T-bill trading, the investment unit volatility may be underestimated.

Chart 10: Risk to return ratio in the VPF market, chronologically



4. CONCLUSION

In 2010 and early 2011, long-term dinar and FX T-bills were issued, as well as 2026-maturity government coupon bonds. At the same time, shares of two large companies – NIS a.d. Novi Sad and Nikola Tesla Airport were listed on the BSE Prime Market. First municipal bonds are about to be issued as well.

The appearance of new financial instruments, notably long-term, is highly significant for VPFs as it enables more efficient assets and risk management, including greater investment diversification in line with each company's investment plan.

Tax reliefs increase each year in accordance with rising retail prices. At the onset of VPF operation, the relief equalled 10% of average wage or RSD 3,000. The amount set for 2011 is RSD 4,343 – employers are exempt from the household income tax and mandatory social insurance contributions, while natural persons do not have to pay the household income tax provided contributions are made via wage garnishment.

There is ample room for further development of Pillar III in Serbia. As the economy recovers and the standard of living improves, contributions into private pension funds will rise as well. Clear signals about the need to save for old age, sent to citizens by economic policy creators, are likely to bolster the sector development. Further, awareness raising and education about VPFs will certainly enhance citizens' interest in securing additional retirement income. Besides, more weight should be lent to private pensions in the dialogue between employers and employees, enabling employers to display greater social care for their staff.