



Slovenská asociácia správcovských spoločností

SLOVAKIA 2009 COUNTRY REPORT

1. Economic and Financial Background

Table 1: Key Economic and Financial Indicators			
	2007	2008	End II.Q 2009
Population (million)*	5.4	5.41	5.41
GDP (EUR billion)	42.54	50.48	22.59
Real GDP growth (%)	10.4	6.4	-5.5
Inflation rate (%)	2.5	3.5	0.7
Unemployment rate (%)	11.0	9.6	11.3
Stock market capitalisation (EUR billion)	4.74	3.88	-
Stock market capitalisation (% of GDP)	11.14	7.69	-
Bond market capitalisation (EUR billion)	13.38	16.72	-
Bond market capitalisation (% of GDP)	31.45	33.12	-
Household gross savings ratio (%)	10.6	9.17	-
Household financial wealth (EUR billion)	-	-	-
Average per capita financial wealth (EUR)	-	-	-

2. Key Trends in the Global Market

Table 2: Net Assets by the Fund Industry in Slovakia (EUR billion)					
	2005	2006	2007	2008	End II.Q 2009
Home-domiciled UCITS	3.264	3.002	3.819	3.107	2.953
Home-domiciled non-UCITS	0.030	0.060	0.150	0.170	0.169
Funds domiciled abroad and promoted by national providers	0.55	0.782	0.802	0.509	0.568
Total AuM	3.844	3.844	4.771	3.787	3.69

	2005	2006	2007	2008	I.-II.Q 2009
Home-domiciled UCITS	1,043.9	32.6	590.7	-869.0	-205.0
Home-domiciled non-UCITS	n.a.	14.6	104.2	1.8	2.5
Foreign domiciled funds promoted by national providers in your country	228.3	57.1	67.0	-46.3	19.6
Total net sales	1,272.2	104.3	761.9	-975.7	-182.9

From the previous period (VI 2008- VI 2009) investment fund market in Slovakia experienced striking change of its every year's dynamic growth. Net assets by the fund industry descended by 30,2%, while the most significant decrease was recorded by funds domiciled abroad and promoted by national providers (- 32,7%). Decrease happened due to the redemptions as well as drop in value mainly of equity assets in portfolios. Net assets of home domiciled non UCITS funds decreased by 1,2% because of a continuous growth of investments in special funds of real estates.

At the end of Jun 2009 SASS reported information about 75 open-ended domestic funds and 489 funds domiciled abroad. However domestic funds still managing more than 80% of asset invested into open-ended funds. Individual investors trust more nationally domiciled companies, which are owned by traditional banks operating in Slovakia. The top 3 domestic fund management companies share more than 73% of NAV of the whole market of investment funds.

For the past 12 months (VI 2008 – VI 2009) there were negative net sales in the open-ended funds market in Slovakia of -1418,1 mil. EUR, which formed 26,8% of the Net assets at the end of June 2008. The positive Net sales were not achieved in any categories of funds within the monitored term.

The reason for these changes was the global financial and economic crisis, which fully manifested in the sector of collective investment mainly in the second half of the year. In addition, the last four months of the last year the Slovak banks were keen contesting for the deposits from households before Euro implementation on January 1st 2009. This fact influenced the negative trend in the money market funds, which had to face substantial redemptions from September 2008 and until November 2008.

3. Key Trends in the UCITS Market

	2005	2006	2007	2008	End II.Q 2009
Equity	0.240	0.172	0.183	0.090	0.098
Bond	1.190	0.623	0.529	0.400	0.382
Balanced	0.211	0.224	0.404	0.307	0.296
Money market	1.392	1.380	1.888	1.622	1.610
Fund-of-funds	0.148	0.564	0.557	0.347	0.319
Other	0.083	0.039	0.258	0.341	0.248
Total	3.264	3.002	3.819	3.107	2.953
of which					
➤ Guaranteed	0.083	0.039	0.258	0.341	0.248

Table 5: Net Sales of UCITS by Fund Type (EUR million)					
	2005	2006	2007	2008	I.-II.Q 2009
Equity	116.8	113.0	21.2	-5.0	5.7
Bond	554.1	-561.1	-119.9	-142.9	-9.1
Balanced	97.3	88.7	-15.6	-93.0	-21.9
Money market	365.1	-126.6	412.9	-504.6	-47.8
Fund-of-funds	138.9	482.1	85.3	-181.6	-31.5
Other	-	36.5	206.8	58.2	-100.4
Total	1,272.2	32.6	590.7	-869.0	-205.0
of which					
➤ Guaranteed	0	36.5	206.8	58.2	-100.4

In monitored period (VI 2008 – VI 2009) we have recorded decrease of Net assets in all categories of funds. The biggest decrease in Net Assets was recorded in Fund of funds (-36%). The ratio between Equity funds and Funds of funds on one side and Bond funds and Money market funds on the other side ran even deeper due to the credit crisis with disadvantage for more risky investments. This actually indicates the persisting conservative profile of the Slovak investor if compared to a European average.

Likewise the Net Sales were negative last year in all categories except the other funds. The greatest reductions were in Money market funds.

4. Key Trends in Other Nationally Regulated Funds

Table 6: Assets of Other Nationally Regulated Funds (EUR billion)					
	2005	2006	2007	2008	End II.Q2009
Real estate	-	0.0001	0.100	0.119	0.117
➤ Open-ended		0.0001	0.100	0.119	0.117
Alternative management					
Special funds		0.016	0.023	0.023	0.023
Other *	0.030	0.044	0.027	0.028	0.029
Total	0.030	0.060	0.150	0.170	0.169

* Closed-ended funds

Table 7: Net Sales of other nationally regulated funds (EUR millions)					
	2005	2006	2007	2008	I.-II. Q 2009
Real estate	-	0.1	98.2	1.85	2.52
➤ Open-ended	-	0.1	98.2	1.85	2.52
Alternative management					
Special funds	-	14.5	6	0	0
Other	-	0	0	0	0
Total	-	14.6	104.2	1.85	1.62

Slovak market of non-UCITS funds consisted of 41 retail closed-ended mutual funds, one special open-ended fund for institutional investors and four special open-ended real estate funds. The market share of the non-UCITS funds raised up to 5,4% of the Assets under management of the home domiciled companies.

The special real estate funds create 77% of the Net assets of the non-UCITS funds. These special real estate funds reached this portion after two years of their existence, as they were established in accordance with the new Act of Collective Investment from December 2006. In Special funds and in the closed-end funds we noticed a stagnation of NAV with zero Net sales.

5. Trends in the Number of Funds

Table 8: Number of Funds					
	2005	2006	2007	2008	End II. Q 2009
Home-domiciled UCITS					
➤ Funds	50	61	72	78	75 -
Home-domiciled non-UCITS	51	46	46	46	46
Foreign funds registered for sales					
➤ By national promoters **	278	319	440	379	489
Average fund size (median) *					
➤ Equity		3.4	4.4	4.9	7.2
➤ Bond		18.5	14.1	8.1	6.7
➤ Balanced		10.6	14.4	7.4	6.2
➤ Money market		49.6	43.8	28.1	92.9
➤ Real estate		0.1	23.8	27.3	36.2
➤ Special		15.73	22.7	23.0	23.1

* mil. EUR Home-domiciled

** only funds reported by SASS

The number of UCITS funds has changed slightly. There are 75 domestic and nearly 489 abroad domiciled open-ended funds registered by foreign promoters.

By the end of the June 2009, on the market home-domiciled UCITS funds there were 9 Equity funds, 8 Bond funds, 17 Balanced funds, 13 Money market funds, 20 Funds of Funds and 8 Others (Guaranteed) funds.

Through the process of monitored term three funds were launched: 1 Balanced fund, 1 Fund of Funds and 1 Other (Guaranteed) fund.

2 Equity funds and 5 Bond funds were merged in 2008 into other funds. The increase in mergers in Bond Funds was caused by the termination of the Slovak national currency and by adoption of new Euro currency, due to which the investment strategies focused on Slovak koruna, lost their relevance.

6. Regulatory and taxation issues

6.1 Regulatory developments:

Through the process of monitored term (VI 2008 – VI 2009) there were adopted legal norms which had a direct or indirect impact on fund management:

- Amendment of the Act on Collective Investment and following decrees by National Bank of Slovakia (NBS)
- Decree of NBS on dual display of some prices, payments and other amounts in the field of financial market and the services of financial institutions
- Decree of NBS to regulate the required elements of an application for prior approval pursuant to Art. 70 para. 1 of the Securities Act
- Decree of NBS establishing the method of proving the fulfillment of conditions for granting a license to provide investment services
- Amendment of the Act on Securities and Investment Services (The Securities Act)
- Amendment of the Decree of NBS concerning own funds of banks and capital requirements for banks and on own funds of investment firms and capital requirements for investment firms
- Amendment of the Decree of Ministry of Finance of the Slovak Republic on configuration and designation of financial statement's items and billing procedures for mutual funds.
- Decree of NBS on the submission of statements by entities providing under investment funds for statistical purposes.

Problems raised by financial crisis were dealt with in a Decree of NBS on property involvement related to financial derivatives.

At the end of 2008 a legislation work on a new and substantially modified Decree of NBS on the method of valuating securities, money market instruments, and derivatives held in a mutual fund was launched.

6.2 Pensions:

Pension funds (Pension funds management companies and supplementary pension funds management companies) are associated in Association of Pension Funds Management Companies and Association of Additional Pension Insurance Companies. Development in the legislation regarding this area, unless it is related to mutual funds, SASS follows only marginally.

6.3 Tax rules:

The amendment of the National Act on Income tax, which was approved at the end of 2006, introduced deduction taxing on redeem of trust units only in home-domiciled UCITS funds since April 2008. Surprisingly, this taxation unbalance between home-domiciled and foreign-domiciled UCITS funds has caused no changes in ratio of net sales or NAV between both categories of UCITS funds.

7. Investment management governance

The governance of management of fund management companies is carried out by the local authority – National bank of Slovakia, according to the Act on collective investment. Members of Slovak Association of Asset Management Companies are providing very comprehensive information on daily, weekly basis. All information are open for everybody via newspapers and web pages.

SASS and some of our members have acceded to a Corporate Governance Codex which was issued by Central European Corporate Governance Association.

8. Fund Standards and Distribution

8.1. Standards (fund classification, fund processing, risk disclosure, etc.)

In order to compliance the investment tools valuation rules (self-regulation) there was a process of comparing the debt securities pricing, as well as the structured products of bond type in portfolios of home-domiciled funds.

Keeping advertising and promotion rules by members of the Association was continuously controlled by the Ethic Committee of the Association

8.2 Distribution (distribution of foreign funds, financial advice, disclosure of fees, etc.)

Asset management companies as well as banks and distribution companies customized their processes in accordance with MiFID. We did not notice any problematic consequences of MiFID implementation on fund distribution and any impact on distribution of third-party funds. We value MiFID's influence on a certain equalization of standards of sale and marketing of investment funds and structured products according to the Level playing field.

The persisting problem is a rapid expansion of sale of unit-linked life-insurance products, because the MiFID does not apply to these sales.

SASS recorded offer reduction or intermission of distribution of investment funds by some companies involved in investment services mediation due to higher risk during the financial crisis.

9. Other activities of the association

The Association's lobbying activities in 2008 and 2009 focused mainly on participation of amendment of acts and decrees mentioned in paragraph 7.1.

The Association also issues regular daily, weekly and monthly reports on national investment funds industry.

Association organized big open conference Asset management in Slovakia 2008 for professionals from asset management and brokerage companies and several press conferences covering latest trends in the market of collective investment.