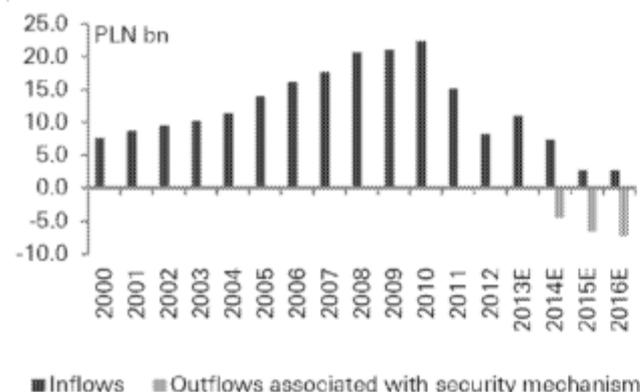




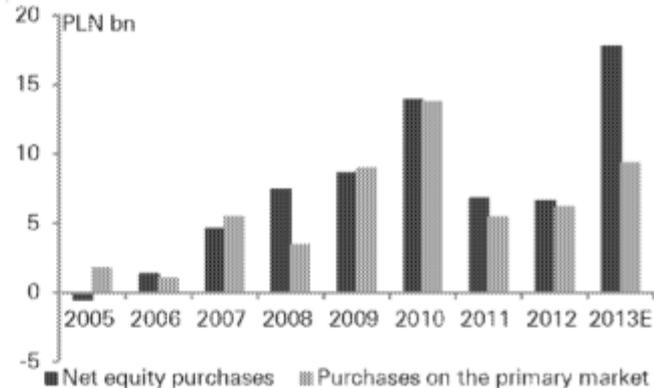
Poland – still defensive in GEM context

Figure 72: Pension funds – Balance of flow assuming that 25% of participants will decide to stay



Source: Deutsche Bank (Tomasz Krulowski, Marcin Jabczynski, Tatiana Kapustina, Igor Semenov, Natalia Smirnova), KNF

Figure 73: Pension funds' net equity purchases – Primary versus secondary market



Source: Deutsche Bank (Tomasz Krulowski, Marcin Jabczynski, Tatiana Kapustina, Igor Semenov, Natalia Smirnova), KNF

Poland has been one of the few emerging equity markets to deliver a positive total return in dollar terms over 2013 at the time of writing, despite the partial nationalisation of the pension fund industry, which has absorbed the majority of investors' attention over recent months.

DB analysts Tomasz Krulowski and Marcin Jabczynski, believe that changes in pension fund regulations will have a more visible impact over the longer term, but not necessarily in 2014 as both pension fund members and managers weigh up what policy to adopt towards the domestic equity market. Meanwhile, retail flows into domestic equity mutual funds have picked up by a significant amount over the course of 2013 (Figure 72 and Figure 73).

Poland still appears to be relatively low risk, low reward compared to the rest of GEM, given that financial flows from the EU are likely to meet the domestic funding deficit, while the equity market still yields just below 4%. Our main fundamental reservation concerns the potential for the government to meddle further in the management of some of the state controlled companies which comprise the overwhelming majority of MSCI Poland, as was the case recently with utility PGE.

We remain overweight in Polish equities on the back of our continued caution towards GEM as a whole, but would anticipate single digit positive absolute returns at best. The major macro risk is political, namely that if by the end of the year Civic Platform is still trailing Law and Justice in the opinion polls, investors will begin to worry about the imposition of Hungarian type policies after the parliamentary elections in mid-2015.