Investment policy 2020

Approved by the Decree of the

President of the Republic of Azerbaijan

dated December 29, 2019

The main utilization directions (program) of the assets and investment policy of the State Oil Fund of the Republic of Azerbaijan for the year 2020

1. **Main directions of expenditures of the assets of the State Oil Fund of the Republic of Azerbaijan**

1.1 Financing the improvement of social condition of refugees and IDPs;

1.2 Upper bound of transfers to 2020 State Budget of the Republic of Azerbaijan

1.3 Financing of the "State Program for increasing international competitiveness of the higher education system of the Republic of Azerbaijan in 2019-2023"

2. **Investment Policy of the State Oil Fund of the Republic of Azerbaijan for the year 2020**

2.1 The objective of the Investment Policy of the State Oil Fund of the Republic of Azerbaijan

In 2020, the State Oil Fund of the Republic of Azerbaijan (hereinafter – SOFAZ) will implement an investment policy aimed at maximizing returns while minimizing the probability of substantial losses.

2.2 Investment portfolio of SOFAZ

2.2.1 Forecasted size of the investment portfolio of SOFAZ

The total value (weighted average size) of the investment portfolio of SOFAZ in 2020 is forecasted at AZN 71.2 billion.

2.2.2 The currency composition of the investment portfolio

USD is the base currency of the investment portfolio. Currency composition of the investment portfolio is as follows, subject to the requirement of at least 90% allocation to currencies of countries with credit ratings of no less than “A” (by Standard and Poor’s, Fitch) and “A2” (by Moody’s):

1. 65% invested in assets denominated in USD;

2. 20% invested in assets denominated in EUR;

3. 5% invested in assets denominated in GBP.

4. 10% of the investment portfolio can be invested in assets denominated in other currencies.

2.2.3 Sub-portfolios of the investment portfolio

Investment portfolio of SOFAZ consists of the following sub-portfolios (hereinafter - Portfolios):

1. Debt obligations and money market instruments Portfolio – 55% of the investment portfolio along with maximum lower deviation of 5% (up to 5% can be invested in non-rated fixed income debt funds);

2. Equity Portfolio – up to 25% of the investment portfolio (up to 5% can be invested in private equity funds);

3. Real estate Portfolio – up to 10% of the investment portfolio along with maximum upper deviation of 2%;

4. Gold Portfolio – up to 10% of the investment portfolio along with maximum upper deviation of 3%.

2.2.4 Benchmark of the investment portfolio

1. The benchmark for the debt obligations and money market instruments Portfolio (excluding assets denominated in Euro) is the 6 (six) month LIBOR (interest rate published by the British Bankers’ Association) for corresponding currencies.

2. The benchmark for the EURO denominated assets in the debt obligations and money market instruments Portfolio is 6 (six) month EURIBOR.

3. The benchmark for the currencies without any corresponding LIBOR can be a widely used 6 (six) months interest rate that banks charge each other for interbank money market deposits.

4. The benchmark for the equity Portfolio is MSCI Stock Market Indexes.

2.3 Risk management requirements

2.3.1 Interest rate risk

The target duration of the debt obligations and money market instruments Portfolio is determined by SOFAZ depending on the current situation of the global financial markets and should not exceed 48 months.

2.3.2 Credit risk

1. Assets included in the investment portfolio as a result of investments made for implementation of projects in accordance with the Acts of the President of the Republic of Azerbaijan are not subject to 5% upper bound on allocations to non-investment grade debt obligations and deposits, set in section 3.3, subsection 8 of the "Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan" approved by the Decree of the President of the Republic of Azerbaijan №511 dated June 19, 2001.

2. The maximum average weight of a specific security or an issuer (excluding depository banks) in the investment portfolio should not exceed 15% of the total value of the investment portfolio.

2.3.3 Liquidity requirements

Liquidity of the SOFAZ's assets should be at a reasonable level in order to ensure accurate and timely execution of planned money and other transfers related to budgetary expenditures of SOFAZ. For that reason, a part of assets equivalent to not less than USD 100 million (minimum liquidity level) should be kept in cash or cash equivalents. If minimum liquidity level is reached, it should be restored within 7 (seven) business days.

2.3.4 Requirements with respect to external managers

1. Credit rating assigned to the external manager or its parent company by the international credit rating agencies (Standard and Poor's, Fitch, or Moody's) must not be below investment grade; otherwise, the manager must have either at least 5 years of successful asset management experience, or expertise in managing assets valued at no less than USD 1 (one) billion.

2. The maximum allocation to external managers should not exceed 60% of the total value of the investment portfolio. The maximum allocation to one external manager should not exceed 5% of the total value of the investment portfolio. Assets of SOFAZ allocated to the World Bank Treasury to be managed within the RAMP program should not exceed USD 500 million.

3. Investment mandate of the external manager(s) involved in the management of the assets of SOFAZ should be reflected in the investment management agreements signed between SOFAZ and the respective manager(s).