

Investment policy 2021

**Approved by the Decree of the
President of the Republic of Azerbaijan
dated December 30, 2020**

The main utilization directions (program) of the assets and investment policy of the State Oil Fund of the Republic of Azerbaijan for the year 2021

1. Main directions of expenditures of the assets of the State Oil Fund of the Republic of Azerbaijan (hereinafter – SOFAZ)

1.1. Upper limit of transfers to 2021 state budget of the Republic of Azerbaijan;

1.2. Financing of the “State Program on increasing international competitiveness of the higher education system in the Republic of Azerbaijan for 2019-2023”.

2. Investment Policy of SOFAZ for 2021

2.1. The objective of the Investment Policy of SOFAZ

In 2021 – 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 for 2021 is forecasted at USD 41.1 billion.

2.2.2. The currency composition of the investment portfolio

USD is the base currency of the investment portfolio.

Provided that at least 90% of the total value of investment portfolio can be be invested in assets denominated in the currencies of countries with a credit rating of no less than “A” (by Standard and Poor’s, Fitch) and “A2” (by Moody’s), the currency composition of SOFAZ’s investment portfolio shall be as follows:

1. 65 % in assets denominated in USD;
2. 20 % in assets denominated in EUR;
3. 5 % in assets denominated in GBP; and
4. up to 10 % 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:

1. Debt obligations and money market instruments sub-portfolio (excluding investments in non-rated debt funds) – 50% of the investment portfolio along with maximum lower deviation of 5%;
2. Equity sub-portfolio – up to 25% of the investment portfolio (including up to 5% with maximum upper deviation of 2% in private equity funds and non-rated debt funds, as well as, co-investments in private equity);
3. Real estate sub-portfolio – up to 10% of the investment portfolio along with maximum upper deviation of 2% (including direct real estate, real estate funds and non-rated real estate debt funds);
4. Gold sub-portfolio – up to 15% 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 sub-portfolio is “ICE BofA Fixed Income Indices” for corresponding currencies.

2. The benchmark for the equity sub-portfolio is “MSCI Stock Market Indexes”.

3. According to section 4.2 of the “Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan” approved by No. 511 dated 19 June 2001 (hereinafter – the Rules), benchmark for the gold sub-portfolio is not applied.

2.3. Risk management requirements of the investment portfolio

2.3.1. Interest rate risk

The duration of the debt obligations and money market instruments sub-portfolio is determined by SOFAZ depending on the current situation of the global financial markets and should not exceed weighted average duration of the correspondent benchmark.

2.3.2. Credit risk

1. The maximum average weight of a single security or an issuer (excluding depository banks and sovereign debt obligations of the countries included in the benchmark) in the investment portfolio should not exceed 15% of the total value of the investment portfolio.

2. Assets included in the SOFAZ’s 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 limit on allocations to non-investment grade debt obligations and deposits, set in section 3.3 subsection 8 of the Rules.

2.3.3. Liquidity requirements

Liquidity of the SOFAZ’s assets should be at a sufficient level to ensure full and timely execution of planned cash 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 it falls below the minimum liquidity level, 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) should not be below the investment grade; otherwise, the external manager should have either at least 5 years of successful asset management experience, or expertise in managing assets valued at not 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.
3. Investment mandate of the external manager(s) involved in the management of the assets of SOFAZ should be reflected in agreements signed between SOFAZ and the respective manager(s).