

Investment Policy 2016

The main utilization directions (program) of the assets of the State Oil Fund of the Republic of Azerbaijan for the year 2016

1. Main directions of expenditures of the Oil Fund's assets

- 1.1. Financing the improvement of social condition of refugees and IDPs;
- 1.2. Transfer to 2016 State Budget of the Republic of Azerbaijan;
- 1.3. Financing the reconstruction project of the Samur-Absheron irrigation system;
- 1.4. Financing new "Baku-Tbilisi-Kars railway" construction project;
- 1.5. Financing the "State Programme on the Education of Azerbaijani Youth abroad in the years 2007-2015";
- 1.6. Financing the share of the Republic of Azerbaijan in Southern Gas Corridor projects.

2. Investment Policy of the State Oil Fund of the Republic of Azerbaijan

2.1. The objective of the Investment Policy of SOFAZ

In 2016 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 2016 is forecasted at 51.3 billion AZN. The total value of the Portfolio is determined by reevaluation of the assets in the Portfolio on a monthly basis. These assets are denominated in foreign currency and exclude the assets converted and transferred to AZN accounts in line with the approved budget expenditures of SOFAZ.

2.2.2. The currency composition of the investment Portfolio

USD is the base currency of the Portfolio. The currency composition of the Portfolio is as follows:

1. 50% invested in assets denominated in USD;
2. 35% invested in assets denominated in EUR;
3. 5% invested in assets denominated in GBP.
4. 10% of the Portfolio can be invested in assets denominated in the currencies indicated in Section 2.2.1 of "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.

2.2.3. Sub-portfolios of the Investment Portfolio

Investment Portfolio of SOFAZ (hereinafter - Portfolio) consists of following sub-portfolios:

1. Debt obligations and money market instruments portfolio – 70% of the Portfolio along with maximum lower deviation of 5 %;
2. Equity portfolio – up to 15% of the Portfolio;
3. Real estate portfolio – up to 10% of the Portfolio along with maximum upper deviation of 2%;
4. Gold portfolio – up to 5% of the Portfolio along with maximum upper deviation of 3%.

2.2.4. Benchmark of the Portfolio

1. The benchmark for the debt obligations and money market instruments portfolio (excluding assets denominated in Euro) is the 3 (three) 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 3 (three) month EURIBOR.
3. The benchmark for the currencies without any corresponding LIBOR can be a widely used 3 (three) months interest rate that banks charge each other for money interbank deposits.
4. The benchmark for the equity portfolio is MSCI World Index.

2.3. Risk management requirements

2.3.1. Interest rate risk

The target duration 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

The credit ratings of the securities of SOFAZ have to be in accordance with the requirements set in 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. The maximum average weight of one specific security or one issuer (excluding depository banks) in the Portfolio should not exceed 15% of the total value of the Portfolio.

2.3.3. Liquidity requirements

Liquidity of the Oil Fund'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) calendar days.

2.3.4. Requirements with respect to external managers

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

2. Investment policy (investment mandate) of the external manager(s) involved in the management of the assets of SOFAZ is reflected in the investment management agreements signed between SOFAZ and the respective manager(s).