Annex 1
to the minutes of the Meeting N47 of the
Investment Board of the Pension Agency

Investment Policy Document

Endorsed with the resolution of
the Investment Board of the Pension Agency
meeting N47 of August 4, 2023

Contents

Purpose

1. The Investment Policy establishes the framework set by the Investment Board of the Pension Agency for the governance and investment of the Pension Assets in the best interests of the participants of the pension saving scheme.

2. The Investment Board adopts the Investment Policy in accordance with the corresponding investment mandate defined by the Law of Georgia on Funded Pensions, therefore this policy document shall be read in conjunction with the relevant legislation and regulations of the National Bank of Georgia or their legal successors.

3. This Policy document will be reviewed at least annually and updated as needed in line with the developments on Georgian capital markets and the level of organizational maturity of the Pension Agency.

Terms and Definitions

4. **Affiliated Person** – in relation to any person:

    a. a shareholder holding more than ten (10%) percent of the voting rights of such person or, although holding a smaller percentage than ten (10%) percent, can influence, directly or indirectly, the decisions made by such entity;

    b. any entity in which a shareholder (directly or indirectly) holds more than twenty-five (25%) percent of shares with the voting rights and which at the same time holds (directly or indirectly) more than twenty-five (25%) percent of shares with the voting rights of such person;

    c. an investment or administrative decision maker or a member of the supervisory body.

5. **Asset Management Company** – legal entity, fiduciary, licensed to manage assets by the National Bank of Georgia or by the respective regulatory body of another state and accepted by the National Bank of Georgia that manages part of the Pension Assets based on an asset management agreement, or an entity created or founded by the international organizations of which Georgia is a member state for the purposes of asset management and/or for providing investment advice and which shall not be subject to licensing by a regulatory body of a particular state;

6. **Benchmark Portfolio –** resulting portfolio from the Strategic Asset Allocation process which:

    a) represents the Investment Board's long-term asset allocation strategy taking into account Risk Appetite, investment objectives and Investment Horizon and which can be changed in accordance with the changes in these parameters and

    b) is used to evaluate the performance and risk of the actual Investment Portfolio and the respective value-added activities conducted by the Investment Office;

7. **Chief Investment Officer (CIO)** – Senior Investment Officer, as defined in the Law;

8. **Chief Investment Risk Officer** – Senior Investment Risk Officer, as defined in the Charter of the Pension Agency approved by the Government of Georgia by decree N421 dated August 15, 2018;

9. **Investment Office** – Investment Service, as defined in the Law;

10. **Fiduciary** – a person (or entity) responsible to Participants for the Pension Assets as defined by the Law to the extent that:

    a. exercises any discretionary authority or control with respect to the management of the Pension Assets except in the case of regulatory requests by the National Bank of Georgia;

    b. provides investment advice to the Pension Agency under a respective agreement;

    c. registers the transactions and processes the information related to the transactions, record keeping, or maintenance of records for Participants;

11. **Investment Board** – the Board within the Pension Agency, which defines the Investment Policy and renders other duties in accordance with legislation;

12. **Investment Portfolio** – actual investment portfolio, a set of investment instruments, in which the composition of instruments depends on the investment period, the investment objectives and risk tolerance defined under the Policy;

13. **Investment Horizon** - a period of time during which the Pension Agency and/or an Asset Management Company (Companies) plan(s) to place an investment in assets of a certain class or in an Investment Portfolio, taking into account risk tolerance determined in accordance with an asset placement strategy, and a desired investment objective;

14. **Participant** – a natural person who makes pension contributions and/or in favour of whom pension contributions are made in the funded pension scheme of the Pension Agency;

15. **Pension Assets** – a unity of assets registered in an individual retirement account;

16. **Law** – Law of Georgia on Funded Pensions;

17. **Policy** – Investment Policy Document of the Pension Agency as defined in the Law;

18. **Portfolio Completion** - set of activities to move the Investment Portfolio allocations closer to desired deviations from Benchmark Portfolio within permitted deviation range;

19. **Risk Appetite** – the aggregate level of risk and types of risk the Pension Agency is willing to assume to achieve its strategic and investment objectives;

20. **Risk Limits** – quantitative measures based on forward looking assumptions that allocate the Pension Agency's aggregate Risk Appetite to investment and operational lines, legal entities as relevant, specific risk categories (including Active Risk Budget), concentrations and as appropriate, other levels;

21. **Active Risk Budget** – the maximum acceptable variance of the Investment Portfolio from the Benchmark Portfolio as measured by the annualized standard deviation of the difference in the expected return of the Investment Portfolio from that of the Benchmark Portfolio;

22. **Strategic Asset Allocation (SAA)** – asset placement strategy, as defined in the Law, an investment strategy that involves a targeted indicator for the placement of different classes of assets in an Investment Portfolio, a basis for determining the indicators, and permissible limits of deviation from a targeted indicator, which depend on the risk tolerance of the Pension Agency and/or an Asset Management Company (Companies), an investment period and investment objectives and which may change over time in accordance with the change of said parameters;

23. **Specialized Depository** – a Fiduciary that is a legal entity licensed by the National Bank of Georgia or the respective regulator of a foreign country and recognized by the National Bank of Georgia, to provide specialized depository services to the Pension Agency;

24. **Supervisory Board** – the Board of the Pension Agency consisting of the Minister of Finance, the Minister of Economy and Sustainable Development of Georgia, the Minister of IDPs from Occupied Territories of Georgia, Labor, Health and Social Affairs of Georgia and the Chairperson of the Investment Board of the Pension Agency, and each member of which occupies the position of a member of the Supervisory Board based on his/her own position;

Investment Mandate

25. The Law and corresponding normative acts of the National Bank of Georgia (NBG) define the investment mandate and provide the directions to the Investment Board about the performance of the investment functions. In summary, the Investment Policy shall comply with the following:

a. **Article 27 (8th, 12th and 13th paragraphs) of the Law requires that:**

The investments of Pension Assets shall be carried out through three Investment Portfolios with different risk and expected return:

Low-Risk Portfolio (Investment Horizon at least 5 years)	**Limit**
Cash, cash equivalents and deposits (including bank CDs)	Up to 75%
Fixed Income Securities	Up to 100%
Equity	Up to 20%
Foreign Currency Denominated Assets	Up to 20%
Medium-Risk Portfolio (Investment Horizon more than Low-Risk Portfolio)	**Limit**
Cash, cash equivalents and deposits (including bank CDs)	Up to 50%
Fixed Income Securities	Up to 75%
Equity	From 20% Up to 40%
Other Assets	Up to 10%
Foreign Currency Denominated Assets	Up to 40%
High-Risk Portfolio (Investment Horizon more than Medium-Risk Portfolio)	**Limit**
Cash, cash equivalents and deposits (including bank CDs)	Up to 25%
Fixed Income Securities	Up to 50%

Equity	From 40% Up to 60%
Other Assets	Up to 10%
Foreign Currency Denominated Assets	Up to 60%

b. Article 27 (2nd paragraph) of the Law requires that:

to follow principles of prudent investment as follows:

a. maximization of real returns (taking into account inflation) in the long-term through appropriate investment of Pension Assets;

b. diversification of investments;

c. security of Pension Assets over long-term investment period;

d. maintenance of adequate liquidity.

c. Article 27 (7th paragraph) of the Law requires that:

The Policy shall clearly articulate at least the following:

a. investment goals;

b. strategic asset allocation (SAA) and allowable deviation from SAA for individual asset classes, related asset class and overall policy benchmarks;

c. an overall risk profile and the matrix of tolerance to individual risks, with an indication of an investment horizon of its validity;

d. procedures for making investment decisions, including criteria for selection, monitoring, assessment and termination of agreements with Asset Management Companies, Specialized Depository and other investments related service providers in accordance with the Law of Georgia on Funded Pensions. The investments of each Investment Portfolio shall be planned with a rational that with a high probability (95% and more probability) positive real returns (taking inflation into consideration) are expected by the end of the Investment Horizon.

d. Article 27 (15th paragraph) of the Law requires that:

> "The Investment Board shall, for each asset management company (if any), approve a detailed investment guideline for each type of investment portfolio, which shall include at least a targeted indicator of return (threshold), the limit of deviation of risks to the threshold with respect to the targeted indicator, permissible and prohibited investments, credit risks, an investment horizon, rating thresholds, in accordance with the investment policy document and this Law."

e. Article 27 (21st, 22nd and 23rd paragraphs) of the Law requires that:

a. Investments of more than 5 % of pension assets into the securities (excluding monetary funds and bank deposits) issued by a single issuer shall not be allowed.

b. Holding of more than 10% of the securities of a single issuer in circulation shall not be allowed.

c. Above restrictions shall not extend to the securities issued by the Government of Georgia, NBG or by the international financial institutions that are recognized by the National Bank or the Government of Georgia with a minimum (or equal) credit ratings of AA- (or equivalent).

f. Paragraph 10 of Article 38 of the Law states that:

"Within 5 years of the entry into force of this Law, the limit for the investment of pension assets (except for financial resources and bank deposits) in the securities issued by one issuer referred to in Article 27(21) shall be 15%."

g. Article 30, paragraph 3 of the Law requires that:

"An investment made in an open-end fund instrument shall not exceed 40% of the Pension Assets at the end of each reporting year"

h. National Bank of Georgia's №258/04 regulation dated November 30, 2018 (and/or its successor/s) require that:

Financial instruments listed under Eligible Assets section should have a credit rating from at least one global rating agency (Standard & Poor's, Moody's, Fitch Ratings, Scope Ratings) and at the time of purchase comply with rating requirements defined in the Decree N 258/04 of the President of the National Bank of Georgia dated November 30, 2018 (and/or its successor/s):

a. Minimum rating for the resident entity or the financial instruments issued by the resident entity is defined as one notch below a sovereign credit rating of Georgia. Weight of such financial instruments in the Investment Portfolio shall not exceed 10% of the Pension Assets.

b. Minimum rating for the non-resident entity or the financial instruments issued by a non-resident entity (including those issued by financial institutions) is defined as BBB-/Baa3 or equivalent.

c. Cash and Deposits can only be held in at least A-/A3 or equivalent rated non-resident financial institution, or in a licensed domestic commercial bank with a credit rating from at least one global rating agency (Standard & Poor's, Moody's, Fitch Ratings, Scope Ratings).

Eligible Assets

26. The Pension Assets, in line with the Law, may be invested in the following domestic currency denominated financial instruments:

    a. cash and deposits held in Georgian banks licensed by the NBG ;
    b. certificates of deposits issued by Georgian banks licensed by the NBG;
    c. securities issued by Georgian government and Georgian municipalities;
    d. debt securities issued by International Financial Institutions;
    e. private or publicly listed corporate debt securities, that are registered with the NBG;
    f. shares of enterprises publicly listed on the Georgian Stock Exchange or any other regulated stock exchange, provided that they are continuously supervised by a relevant regulator;
    g. open-ended funds registered in Georgia and regulated by the NBG;
    h. Repurchase Agreements as permitted by the NBG;
    i. other Financial and non-financial assets might be eligible with the NBG's prior written consent.

27. The Pension Assets, in line with the Law, may be invested in the following foreign currency denominated financial instruments:

    a. cash and deposits held in Georgian banks licensed by the NBG;
    b. certificates of deposits issued by Georgian banks licensed by the NBG;
    c. government securities;
    d. Debt securities issued by International Financial Institutions and/or development finance institutions as defined by the NBG.
    e. securities issued by the State, a self-governing unit or a state agency, provided that they are properly secured (guaranteed) by a respective state;
    f. corporate debt securities, that are private or publicly listed and registered with respective regulator;
    g. shares of enterprises or global depository receipts, which are registered by a relevant regulator of the capital market of the state and are placed through a public offer, and trade in which is carried out on a stock exchange, provided that they are continuously supervised by a relevant regulator;
    h. open-ended funds;
    i. other financial and non-financial assets might be eligible with the NBG's prior permission;

28. The Pension Assets must not be invested in:

    a. medium and high-risk portfolios until 6th of August, 2023;

b. assets, the alienation of which is not permitted by law;

c. real estate and other tangible assets;

d. assets that are owned by an Asset Management Company, Supervisory Board Member, Investment Board Member or any person or entity affiliated with them;

e. options, futures, forwards and other derivatives, except for portfolio hedging purposes, i.e. to reduce risks and at the same time do not increase open positions;

f. securities issued by Asset Management Company or affiliated entity;

g. in other financial instruments and/or non-financial instruments determined by the NBG.

29. Pension Assets cannot be sold to:

    a. Asset Management Company that provides services in relation to these Pension Assets, or any person affiliated to such Asset Management Company;

    b. Supervisory Board Member and Investment Board Member or any other person affiliated with them;

Strategic Objectives

30. The main objective for the investment activities is to achieve high real returns on Participants' savings, while making financially sound and well diversified investments in a transparent and reasonable manner, respecting operational, compliance, reputational concerns. Within this context and in line with the Law, the following strategic objectives are established:

    a. **Investment Objective** – Investments shall be planned in such a way to expect positive real return with 95% confidence level over the investment horizon. The Investment Board expects, but there is no guarantee, that at least 2% annual positive real return will be achieved over the Investment Horizon. The Investment Portfolio management process shall be subject to a "prudent person standard" such that investment of Pension Assets is undertaken with care, the skill of expert, prudence and due diligence;

    b. **Liquidity Objective** – the investment process must be planned in a way to ensure that the Investment Portfolio meets its immediate cash flow obligations even under plausible but severe market dislocations.

Strategic Asset Allocation

31. The long-term Strategic Asset Allocation is the fundamental pillar for the investment process that maximizes the likelihood that the Investment Portfolio will provide maximum return over the Investment Horizon, while respecting the corresponding Risk Appetite as well as legal and regulatory constraints.

32. The Benchmark Portfolio has the following construction principles:

    a. it includes only asset classes rather than individual securities;

b. its risk and return attributes are consistent with the Policy's strategic objectives;

c. it can be accessed at low cost, so exposures are readily available;

d. it reflects the current development stage of Georgian capital markets.

33. The Benchmark Portfolio composition and the Strategic Asset Allocation will be periodically reviewed and are likely to change, if there are changes in:

a. investment objectives, Investment Horizon or Risk Appetite;

b. investment constraints set by the Law and NBG's regulations;

c. assumptions about the long-term equilibrium risk-return balances;

d. available investment asset classes on Georgian capital markets.

34. The "**Strategic Asset Allocation Framework**" provided in Annex 1 is an integral part of this policy document which describes the Strategic Asset Allocation process in more details.

35. The Benchmark Portfolios for the low-risk, medium-risk and high-risk Investment Portfolios, with the asset class target weights and permitted deviations are defined as follows:

a. Benchmark Portfolio for the low-risk Investment Portfolio:

Asset Classes	**Target Weights**	**Asset Class Permitted Deviations**
Georgian Treasuries	20%	+/- 10 percentage point
GEL Deposits/CDs	60%	+/- 10 percentage point
Foreign Equities	20%	- 10 percentage point

b. Benchmark Portfolio for the medium-risk Investment Portfolio

Asset Classes	**Target Weights**	**Asset Class Permitted Deviations**
Georgian Treasuries	20%	+/- 10 percentage point
GEL Deposits/CDs	45%	+/- 5 percentage point
Foreign Equities	35%	+/- 5 percentage point

c. Benchmark Portfolio for the high-risk Investment Portfolio

Asset Classes	**Target Weights**	**Asset Class Permitted Deviations**

Georgian Treasuries	20%	+/- 10 percentage point
GEL Deposits/CDs	25%	- 10 percentage point
Foreign Equities	55%	+/- 5 percentage point

36. To evaluate performance and risk of the Benchmark Portfolios for the low-risk, medium-risk and high-risk investment portfolios, the following indices shall be used:

Asset Class	**Index**
Georgian Treasuries	All Georgian treasury securities outstanding
GEL Deposits/CDs	Discount (zero-coupon) deposits/CDs up to 5 years maturity
Foreign Equities	Equally weighted index of: • Vanguard FTSE Pacific ETF (ticker VPL) • Vanguard FTSE Europe ETF (ticker VGK) • SPDR S&P500 ETF (ticker SPY) • iShares MSCI Emerging Markets ETF (ticker EEM)

For the avoidance of any doubt, the Investment Office is not required to strictly replicate the Benchmark Portfolios at all times. The Investment Office is allowed to deviate from the Benchmark Portfolio within the permitted deviation ranges defined in paragraph 35 of this Policy, including hedging the risk exposure of the Benchmark Portfolio.

37. The Benchmark Portfolios as defined in Paragraph 35 of this Policy will be used to evaluate the performance and risk of respective investment portfolios.

38. . For the purposes of this Policy the investment horizon is defined as 5 years for low-risk portfolio, 10 years for medium-risk portfolio and 15 years for high-risk portfolio. For the avoidance of doubt, Investment Horizon is not thought to be understood as a limit on maximum duration or maturity for the individual investments in the Investment Portfolio.

Investment Portfolio Construction

39. Investment Portfolio construction involves establishing asset class allocation targets and ranges and managing those asset class allocations within their desired ranges. The performance objective is to achieve positive relative returns versus Benchmark Portfolio over rolling Investment Horizon periods.

40. The actual composition of the Pension Assets at any one point in time is the Investment Portfolio, exposures of which may deviate from the Benchmark Portfolio target weights due to market trends or CIO's investment views. Such deviations shall be within the permitted ranges of the asset classes as per Paragraph 35 of this Policy and the Risk Limits established by the Investment Board. The objective of the Investment Portfolio is to dynamically reflect changes in the market conditions and to capture the pricing asymmetries in the risk and return balances.

41. In the actual Investment Portfolio, the Chief Investment Officer seeks to add value to the Benchmark Portfolio by changing weights on the asset classes in two ways:

a. **Strategic Tilting** (within permitted Benchmark Portfolio ranges) – a value-adding strategy which alters the Investment Portfolio's exposures to certain asset classes, but within the permitted Benchmark Portfolio asset composition ranges, including equities, bonds and currencies. Essentially, strategic tilting increases exposure to cheap assets and decreases exposure to expensive assets based on price and long-term valuation signals;

b. **Active Return Strategies** (outside Benchmark Portfolio) – accessing risk premia and skill-based returns not available in the Benchmark Portfolio by actively allocating within the eligible asset classes (paragraphs 26 and 27 of this Policy) within the Active Risk Budget, at sole discretion of the Chief Investment Officer.

42. The investment activities mentioned in paragraph 41 of this Policy involve active risk relative to the Benchmark Portfolio. In order to ensure that this risk is consistent with the Policy's strategic objectives the Investment Board constraints investment activities by setting the total Active Risk Budget. The Investment Office is obliged to follow strict active risk allocation process, meaning Investment Office is not allowed to exceed the Risk Limits (except for as described in paragraphs 43, 44 and 45), to ensure that investment opportunities are continuously assessed against the Active Risk Budget envisaged by the Policy.

43. Asset class allocations shall be managed to seek compliance with the Risk Limits. Allocations may temporarily deviate from the Risk Limits due to extreme market conditions. If an asset class allocation exceeds the Risk Limits, Investment Office shall return the asset allocation within the Risk Limits in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity. In exceptional market circumstances the actual Investment Portfolio can temporarily exceed the Risk Limits, however such deviations are short-term in nature and they must be approved by the Investment Board if they exceed the Active Risk Budget.

44. Rebalancing latitude is important and can significantly affect the performance of the Investment Portfolio. Blind adherence to narrow ranges increases transaction costs without an adequate increase in performance. The rebalancing range that is too wide may cause undesired changes in the asset allocation. Every investment decision must be compliant with the limits imposed by the legislation at the time of the investment. However, in case the Investment Portfolio exposures become incompliant with the limits imposed by the legislation and this is not a result of a new investment decision, the Investment Office will be given a grace period to allow the Investment Portfolio to return to the allowed limit ranges without mandatory rebalancing. If the Investment Portfolio exposures do not return to the allowed ranges within six months, portfolio rebalancing will be required.

45. After 5 years from adopting the Law, exposures in the low-risk, medium-risk and high-risk Investment Portfolios resulting from participants' allocation in respective investment portfolios in accordance with the Article 27, Paragraph 4 of the Law, the will not be compliant with the limits established by the Law; However, as long as this violation of the limits will not be resulting from new investment decisions, the Investment Board and the Investment Office will be given 6 months from the date of participants' allocation to respective portfolios, to bring the

exposures of the low-risk, medium-risk and high-risk investment portfolios in compliance with the limits of the Law.

46. The "**Investment Portfolio Construction Framework**" which consists of the detailed description of the decision-making process for the Investment Portfolio construction and the rebalancing process, becomes part of the Investment Policy Document once approved by the Investment Board. The "Investment Portfolio Construction Framework" must at least include the following:

    a. description of the Strategic Tilting, in which exposures will differ from the Benchmark Portfolio to reflect divergence of market prices from the fundamental value of assets, with a goal to achieve higher expected returns than the Benchmark Portfolio;

    b. description of the Active Return Strategies, which will cover expected return and risk analysis for investment opportunities;

    c. the Portfolio Completion instructions, which will cover the calculation methodology for the rebalancing process, acceptable divergences from limits (both relative deviations versus the Benchmark Portfolio as well as absolute amount deviations).

Risk Management

47. Risk taking is an integral part of investment activities. The Investment Board will utilize the risk management function with the objective to create value for Participants by establishing adequate risk management practices and increasing the probability of successful outcomes in operational and investment decision-making processes. The Investment Board acknowledges that risk cannot be eliminated, but it must be clearly understood in order to achieve the right balance between the risks taken and expected returns.

48. The risk management activities shall be managed so as to:
    a. Provide an integrated process for overall investment risk management and consideration of all operational risks affecting investment activities;
    b. Identify, measure, and communicate investment risks across the Investment Portfolio and within each asset class;
    c. Monitor investment returns as well as risk to determine if risks taken are adequately compensated; and
    d. Ensure appropriate organizational independence of investment risk measurement systems and functions from investment decision-making functions.

49. The Chief Investment Officer elaborates and the Investment Board endorses the organizational structure of the Investment Office, which ensures the adequate internal control mechanisms and guarantees functional and hierarchical separation of conflicting activities.

50. The Chief Investment Risk Officer elaborates and the Investment Board endorses the organizational structure of the Investment Risk Monitoring office.

51. The Investment Board gives qualitative and quantitative consideration to the risks when deciding Investment Policy, Strategic Asset Allocation, the structure and choice of Asset

Management Company(s), the terms of their agreements and other aspects of the ongoing management of the Pension Assets.

52. The Pension Agency faces the following major risk categories:
    a. Investment Risk - the probability of negative deviation from expected returns, which itself is the consequence of market risk, inflation risk, credit risk, counterparty risk, liquidity risk and valuation risk;
    b. Operational Risk - the probability of loss resulting from the inadequate or failed internal processes, people and systems or from external events.
    c. Legal, Regulatory and Compliance Risk - the probability of loss resulting from (1) non-compliance with regulatory and/or statutory responsibilities, (2) adverse interpretation of and/or unenforceability of contractual provisions and/or (3) changes in laws, regulations and internal policies;
    d. Reputational Risk - the probability of loss or underperformance resulting from damaged reputation or credibility.

53. The Pension Agency operates along the “three lines of defense” to ensure that there is clarity and transparency in risk ownership and accountability. The Charter of the Pension Agency establishes the organizational arrangements through which the Investment Board, Supervisory Board and the management establish and make decisions about the Pension Agency’s risk strategy and risk management approach. The Investment Office as the first line of defense is responsible to manage and report the risks originating from the investment process. The Chief Investment Risk Officer, as the second line of defense, is responsible to measure, evaluate, monitor and report the actual risk profile of the Investment Portfolio against Pension Agency’s Risk Appetite and Risk Limits. These risk reports shall clearly articulate the resulting active risk exposures, they shall be signed by the Chief Investment Risk Officer and duly shared with the Investment Board, the CIO, the Director and the NBG.

54. The “**Portfolio Risk Management Framework”**, which shall clearly articulate and record the processes though which investment Risk Appetite and corresponding Risk Limits are established, becomes part of the Investment Policy Document once approved by the Investment Board. The document shall also include investment risk classification, investment risk measurement methodologies, investment risk treatment and internal control mechanisms, and processes through which investment risk is monitored and reported. The document shall also define the methodology of and conditions for periodic stress test and scenario analysis.

55. The Investment Board defines Risk Appetite and Risk Limits as highlighted in the Policy and expects that these limits will not be breached by the Investment Office (unless explicitly stated otherwise or as described in paragraphs 43, 44 and 45 of this Policy).

56. The recommendations provided by the Chief Investment Risk Officer are not binding on the Chief Investment Officer. Any “red flags” contained in the risk reports should be escalated immediately to the Investment Board. The final decision on investment activities always rests with the Investment Board to ensure its independence, as set forth in the Law.

57. The table below provides existing Risk Limits which will be revised immediately after the approval of the Portfolio Risk Management Framework.

Metric	Risk Limit	Measurement	Maximum Limits	Reporting
Investment horizon downside risk	5% probability that the Investment Portfolio over the Investment Horizon will not have the positive real return (taking into account inflation)	As measured by expected return distribution of Investment Portfolio (taking into account inflation)		Reported to the Investment Board Monthly by Investment Office and Chief Investment Risk Officer
Active Risk Budget	the Active Risk of the actual Investment Portfolio must be determined in the **'Portfolio Risk Management Framework'**	As measured by tracking error between the expected returns of actual Investment Portfolio and Benchmark Portfolio		Reported to the Investment Board Monthly by Investment Office and Chief Investment Risk Officer
Sector Concentration	Due to the high volatility and sensitivity towards macro shocks, the Board sets limits for particular sectors as needed	As measured by the maximum percentage of NAV	to be determined in the Portfolio Risk Management Framework.	Reported to the Investment Board Monthly by Investment Office and Chief Investment Risk Officer
Securities Concentration	In accordance with the Law and regulations, concentration limits are set out for every other securities except the securities issued by Government of Georgia, NBG, IFIs with minimum credit rating of AA-	As measured by the maximum percentage of NAV, Pension Assets, or as otherwise required by the regulation	<u>Single Issuer or a holding group:</u> (a) 5% of Pension Assets and (b) 10% of all publicly issued securities in circulation (does not apply to cash and bank deposits) <u>Single Issue:</u> 20% of a single security in circulation	Reported to the Investment Board Monthly by Investment Office and Chief Investment Risk Officer
Term Deposits and Certificates of Deposit Concentration	To avoid over-concentration to a single commercial bank by investments in Certificates of Deposits and Term Deposits	As measured by the percentage of the bank's total equity (based on the most recent NBG's pillar three quarterly report)	30% of the bank's total equity, assessed at the time of investment	Reported to the Investment Board by Investment Office and Chief Investment Risk Officer
Liquidity	the Pension Agency must be able to meet its cash-	The proportion of highly liquid assets		Reported to the Investment Board

	flow obligations as they fall due even during severe market conditions; Specific limits must be determined in **'Portfolio Risk Management Framework'**	that shall be maintained by the Investment Office will be measured by the liquidity risk management models, which include short-term crash tests applied to the Investment Portfolio		Monthly by Investment Office and Chief Investment Risk Officer
Credit Risk	Securities in which Pension Assets will be invested shall have minimal credit rating as defined in the Investment Mandate section (paragraph 25) of the Policy. In addition, Cash and Deposits can only be held in at least B- (or equivalent) rated domestic commercial banks or at least A-/A3 (or equivalent) rated non-domestic financial institutions	As rated by at least one global rating agency (Standard and Poors, Moody's, Fitch Ratings, Scope Ratings) at the time of purchase		Reported to the Investment Board Monthly by Investment Office and Chief Investment Risk Officer
Counterparty Risk	Counterparty risk limits will be determined in the **'Portfolio Risk Management Framework'**			Reported to the Investment Board Monthly by Investment Office and Chief Investment Risk Officer

Investment Valuation

58. The Investment Portfolio assets are to be invested, administered and managed in a prudent manner for the sole benefit of all Participants in accordance with the Legislation.

59. As required by the Law and National Bank of Georgia's regulation №258/04 dated November 30, 2018 the financial statements of the Pension Agency shall be prepared on a 'fair value' basis considering the International Financial Reporting Standards (IFRS) and the Chartered Financial Analyst Institute's (CFA Institute) portfolio valuation principles and GIPS standards. The 'fair value' is defined as the price that would be received to sell an asset in transaction between market participants at the valuation date.

60. As of the valuation date the total Pension Assets are defined as the sum of all assets nominally owned by the Pension Agency and the Net Asset Value (NAV) of Pension Assets is defined as the difference between the total Pension Assets and the total pension liabilities as defined by article 4 of the NBG regulation N258/04dated November 30, 2018.

61. Notwithstanding Paragraph 59 of this Policy, the Investment Portfolio assets that are bank deposits and certificates of deposits shall be accounted at amortized cost (nominal value plus accrued interest as of the valuation date, minus any impairments). The Business Model and Solely Payments of Principal and Interest ("SPPI") tests required under IFRS 9 shall be performed at least annually in order to measure value of the financial instruments using amortized cost.

62. The Investment Portfolio assets denominated in foreign currency shall be valued using the official exchange rates established by the National Bank of Georgia as of the valuation date.

63. The fair value of financial securities can be obtained through a variety of approaches, which may utilize information from various sources. The Investment Board considers data accuracy, reliability, integration and comprehensive coverage when determining pricing source hierarchy and this hierarchy of inputs, in descending order, is set out below. The inputs used in estimating the 'fair value' of investments will be of the highest level from the hierarchy as possible.

    a. **Level 1:** the quoted prices in active markets for the same assets;
    b. **Level 2:** other market observable inputs (i.e. other than quoted prices);
    c. **Level 3:** non-market observable inputs.

64. Investments with quoted market prices includes any investment that is listed and actively traded on regulated exchange or on alternative trading platforms, examples include but are not limited to equities, fixed income instruments, futures and options.

65. If a financial security is not actively traded, then the security shall be valued based on other market-observable inputs in accordance with the IFRS, where other market-observable inputs includes but are not limited to: interest rates, credit spread and pricing for other actively traded comparable investments. With these valuations risk-based approach will be adopted to ensure that investments are being valued appropriately. For these types of investments, 'fair value' for

an investment asset shall be obtained from alternative source and the source shall be communicated to the Specialized Depository. These instructions can take two forms:

a. **Internal Pricing Method** - the Investment Office instructs detailed valuation methods based on its internally developed models directly to the Specialized Depository;

b. **Specified Pricing Method** - the Investment Office directs the Specialized Depository to specific third-party pricing source, such as brokers, counterparties or other independent valuers;

66. Non-market-observable inputs (Level 3 inputs) represent the least significant and reliable factor in determining fair value due to their subjectivity. The use of this category shall be minimized as much as possible for the publicly listed financial instruments.

67. The 'fair value' of an investment in open-end fund licensed by the National Bank of Georgia or other respective regulators will be valued based on the last price per unit of the investment based on the fair value of the underlying net assets of the vehicle.

68. The 'fair value' of Over-the-Counter (OTC) derivative instruments (used only for the hedging purposes) shall be obtained either from the Internal Pricing Method or the Specified Pricing Method.

69. In case Level 1 and Level 2 cannot be used, the third-party independent valuers (pricing vendors) can be selected, prioritized and reviewed for the most appropriate and accurate valuations. The third-party independent valuers must be approved by the Investment Board and assessed in a number of areas including, but not limited to qualifications, experience, capacity, international reputation, independence, etc.

70. The Net Asset Value of the Pension Agency's assets shall be calculated for each working day and the results shall be duly shared with the Specialized Depository which is responsible to check compliance of calculations with the Law, the National Bank of Georgia's regulations, Investment Policy Document and the Pension Agency's internal documents.

71. All inputs used to calculate fair values will be updated as frequently as practical, allowing for any restriction in the availability of data and any other constraints. The minimum frequency of updating inputs used in valuation for the main categories of investments is maintained in the table below (please note that, regardless of the valuation frequency, in case of any evidence of a significant change in the 'fair value' of an investment it will be immediately investigated):

Fair Value Hierarchy	**Minimum Frequency**
Level 1	Each Working Day
Level 2	Monthly
Level 3	Quarterly

72. The detailed description of approaches used in valuation of Pension Assets, frequency of updating inputs used in valuation and principles of using third-party independent vendor for valuation is given in the “**Investment Valuation Framework**”, which is prepared by the Chief Investment Officer, endorsed by the Investment Board and approved by the National Bank of Georgia with order N22/04 dated March 11, 2022.

73. The valuation methodology shall be developed further on a continuous basis and updated as and when needed, when the capital market develops, the range of investments widens.

Specialized Depository

74. The Investment Board selects a Specialized Depository to provide a Specialized Depository services to the Pension Agency. Specialized Depository will provide Specialized Depository services for all Pension Assets. Procedure for selection of the Specialized Depository is defined in the rules (procedures) of the activities of the Investment Board approved by the NBG.

75. Specific terms of the Specialized Depository services shall be defined in the agreement between the Agency and the Specialized Depository. In general, the SD shall:

    a. ensure proper registration and safekeeping of Pension Assets;

    b. keep records and store all documents, information and records related to the services provided, and reconcile its own records with the Agency / the Asset Management Company;

    c. monitor the NAV calculation to ensure that it complies with the requirements of the Investment Policy Document, the rules/methodologies set by the Pension Agency and the Law;

    d. provide the Agency / the Asset Management Company with timely information of all Corporate Actions related to Pension Assets and carry out cash management and monitoring related to corporate actions;

    e. perform reporting obligations as envisaged by the agreement and legislation;

    f. ensure that all Pension assets are properly registered in the name of the Pension Agency and that these assets are not alienated or transferred without the knowledge of the Specialized Depository;

    g. reconcile its own records with the Pension Agency and the Asset Management Company on a daily basis

76. The CIO shall present an assessment of the Specialized Depository's performance to the Investment Board annually.

Asset Management Companies

77. The Investment Board may select Asset Management Companies to invest certain Pension Assets. The selection process and minimum criteria should comply with all applicable legislation, including the Law and NBG President's decree No257/04 dated November 30, 2018.

78. The Investment Board will maintain and adhere to an asset manager search and selection approach that focuses on using its own judgment with objective sources and tools, to assess any potential asset manager in terms of their:

    a. competence to execute on the specific mandate and implement the investment opportunity. This naturally focusses on the capabilities they bring to investing and is assessed in the investment due diligence process;

    b. broader suitability as a partner for the Pension Agency, including the Investment Board's view of their general conduct; their attitude and experience with investing (including responsible investment); and their willingness and ability to share knowledge to support the investment activities, processes and tools.

79. Appropriate due diligence in relation to corporate governance risks should be undertaken before any investment acquisition or third parties are engaged. The appropriate level of due diligence will vary depending on the circumstances and the Investment Board should use their judgment on a case by case basis. The approach should be proportionate to the risk and the size of the organization. Where it will be deemed appropriate, some high-risk transactions, industries, legal jurisdictions or countries will be restricted. Detailed procedure for selection of the Asset Management Company is defined in the "Rule of Activities of the Investment Board" approved by President of the National Bank of Georgia with order N236/04 dated December 25, 2020.

80. All arrangements with third parties should be subject to clear written terms. Where appropriate this should include specific provisions requiring them to comply with minimum standards and procedures in relation to preventing fraud, bribery, corruption and money laundering.

Responsible Investment Framework

81. Pension Agency is committed to encouraging companies and organizations to adopt policies and practices that enhance their long-term financial performance, including responsible corporate and organizational behaviour with respect to environmental, social and governance ("ESG") factors. Pension Agency believes that companies that manage ESG factors effectively are more likely to create value over the long term, recognizing that the materiality of ESG factors varies across industries and geographies.

82. Pension Agency encourages responsible behaviour in the entities underlying our investments. Pension Agency engages with companies, either directly or in collaboration with like-minded investors, as an effective means through which investors can influence positive change and enhance long-term financial performance. In general, Pension Agency believes that corporate engagement, and integration of ESG factors into the evaluation and management of both public and private investments, usually better conform with Pension Agency's investment objectives than excluding companies through screening criteria.

83. The Investment Board and the Investment Office are committed to integrate ESG" issues into the investment decision making process since they strongly believe that they are material to long-term returns. In addition, the investment activities will be carried out in a way to support Georgian capital market development in general.

84. As long-term owner and lender to corporations in Georgia and around the world, it is Pension Agency's duty to protect those assets through the pursuit of good governance and operational accountability. Therefore, the Investment Board shall develop **an ESG Policy**, which shall be considered in the course of the investment activities. The ESG Policy shall be reviewed by the Investment Board annually.

Responsibilities

85. The Chief Investment Officer must carry out duties and obligations stated both under this Policy and under the Law.

86. The Chief Investment Officer must provide the Investment Board with recommendations required for enabling the Investment Board to keep this Policy current and relevant to the activities being undertaken.

87. The Chief Investment Officer must invest the Pension Assets in compliance with the provisions of the legislation and this Policy.

88. The Chief Investment Officer is responsible for achieving adequate risk-return balance. The CIO must manage risks the Investment Office takes and retains.

89. The Chief Investment Officer must report any breaches of this Policy and other constraints imposed by the Regulator or applicable laws to the Investment Board.

90. The Chief Investment Officer elaborates Strategic Asset Allocation Framework, Investment Portfolio Construction Framework, Portfolio Risk Management Framework and Investment Valuation Framework and submits them to the Investment Board for endorsement.

91. The Investment Office must conduct reliable, efficient and well-documented operational processes related to the investment activities.

92. The Investment Office is subject to the “prudent person standard” and it holds the Pension Assets as Fiduciary solely for the benefit and in the interests of the enrolled Participants and their heirs.

93. The Chief Investment Risk Officer oversees the compliance of the Pension Agency’s investment activities in relation to the Investment Policy Document based on the calculation methodologies approved by the Investment Board.

94. The Chief Investment Risk Officer assesses effectiveness of methodologies and procedures of the Investment Office and has a direct reporting line to the Investment Board.

Reporting

95. Comprehensive reporting is critical as it enables all stakeholders including the Investment Board, Supervisory Board and the NBG to assess reasons behind the performance, asset allocation, strategies and the fund as a whole. The following reports and information must be produced on a regular basis:

Report/information	Description	Frequency	Responsibility
Monthly Portfolio Performance	Performance of Investment Portfolios	Monthly	CIO
Monthly Statement of Compliance	Statement of Compliance	Monthly	Chief Investment Risk Officer

In addition to the above internal reports, the following public reports will be produced on a regular basis:

Report/information	Description	Frequency	Responsibility
Portfolio Performance	Performance of Investment Portfolios in terms of risk and return, aggregate data	Monthly	CIO

Annex 1. Strategic Asset Allocation Framework

Article 1. Background

1. Strategic Asset Allocation is a qualitative and quantitative exercise used to determine an optimal long-term investment strategy that achieves desired strategic objectives while respecting limitations on investments determined by the applicable legislation or established by the Investment Board.

2. Qualitative judgement can include but is not limited to the decisions related to benchmark grade asset classes, optimization techniques and stress testing scenarios; Some examples of quantitative processes are: determination of expected return and risk of asset classes, projection of necessary liquidity, portfolio optimization, Monte-Carlo simulations.

3. The SAA is managed by the Investment Board while the Investment Office and the other structural units of the Agency within their competences provide necessary support in the process.

4. The SAA exercise shall be performed for each Investment Portfolio.

5. This framework describes the SAA process and is an integral part of and shall be considered in conjunction with the Investment Policy Document.

Article 2. The SAA Process

1. The SAA is a multi-step process that involves qualitative and quantitative judgement regarding:

   a. Strategic objectives that the SAA needs to respond to;

   b. Risk appetite and Investment Horizon

   c. Eligible Asset classes and capital market assumptions for those asset classes

   d. Portfolio optimization

   e. Evaluation of the SAA and results interpretation

2. The SAA can be done in iterations, where process returns to the previous step(s) to challenge validity of inputs/outputs of the previous steps.

Article 3. Strategic objectives

1. The strategic objectives shall be compliant with the Investment Policy Document and the Law.

2. The strategic objectives shall correspond to the nature of the Investment Portfolio and may differ from one Investment Portfolio to the other.

3. For the liquidity objective, all expected inflows and outflows in the Investment Portfolio shall be considered as a baseline liquidity scenario. Additionally, stress scenarios shall be elaborated and considered to plan for necessary liquidity.

4. Other strategic objectives can be defined by the Investment Board as relevant for the particular Investment Portfolio.

Article 4. Risk Appetite and Investment Horizon

1. Risk Appetite shall be the aggregate level of risk the Investment Board is willing to assume in order to achieve strategic objectives and it shall be compliant with the Law.

2. Investment Horizon of each portfolio shall be in line with the strategic objectives of those portfolios. Different portfolios may have different Investment Horizons.

Article 5. Eligible Asset classes and capital market assumptions

1. Criteria for the benchmark grade asset classes are defined in the Investment Policy Document.

2. For each asset class, the Investment Board determines specific index (or indices) which is a tradable instrument (list of instruments, if necessary) or index (indices), that will be used to perform quantitative analysis for the SAA.

3. For each asset class represented by index (indices), capital market assumptions shall be determined, that at least includes determination of expected return, risk and correlation between the indices.

4. Capital market assumptions can be made using historical data, forward looking expectations or combination of both approaches.

5. Valuation methodology of each index (indices) shall be in line with this Policy and legislation.

Article 6. Portfolio Optimization

1. To determine the optimal Benchmark Portfolio(s), optimization technique directed by the IB shall be used, with inputs determined in the previous step (at least the capital market assumptions – expected return, risk and correlations).

2. Output of the optimization process is the efficient frontier, a set of portfolios that maximizes expected return for a given level of risk.

3. For each portfolio on the efficient frontier at least the following information shall be disclosed: annual expected return, annual standard deviation, Sharpe ratio, expected real return over the investment horizon with 95% confidence level. Assumption on the risk free rate shall be short-term government securities.

4. Scenario analysis/simulations can be performed on all portfolios on the efficient frontier or selected portfolios.

Article 7. Evaluation of the SAA results

1. When evaluating the SAA results, the Investment Board considers at least the following portfolios on the efficient frontier, that are within the risk appetite: minimum variance portfolio, highest expected return portfolio, highest Sharpe ratio portfolio. Other portfolios may be considered as well.

2. The Investment Board checks feasibility of each portfolio to make sure it is possible to implement in practice.

3. The Investment Board shall choose the Benchmark that best fits the strategic objectives of the respective Investment Portfolio.

4. Once the Benchmark Portfolio is selected, the Investment Board determines asset class target deviations by analyzing the portfolios with similar risk and return characteristics.

Article 8. Requirements towards the Data used in the SAA process

1. All data used in the SAA process shall comply with the requirements established hereunder:

    a. Data availability and reliability shall be considered for all data used in the SAA process.

    b. Relevant history of data shall be used for judgement and calculations. If there are apparent structural changes to the markets during the time period of observation, the Investment Office/Pension Agency with permission from the IB shall either disregard irrelevant history or make necessary calibration of data to use consistently over the long time intervals.

    c. If necessary, historical data can be estimated or modified in cases when data is unavailable, or reliability of data is questionable. However, data estimation/modification shall be kept at minimum possible level and estimated/modified data shall always be clearly disclosed.

    d. When performing historical analysis, consistent time periods shall be used for all asset classes to determine capital market assumptions like expected return, risk and correlation of those asset classes.

Article 9. Recordkeeping

1. The SAA exercise shall be properly documented and stored for any future reference, including the specific methodology for every SAA exercise.