



Pension Assurance Company “Doverie” AD

Statement of Investment Policy General Pension Fund “Doverie”

***This document represents a translation from the original Bulgarian version and is for information purposes only. In case of divergence the Bulgarian original shall prevail.**



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1. INTRODUCTION

1.1 Adoption and entry into force

This Statement of Investment Policy of General Pension Fund “Doverie” (GPF) has been adopted by decision taken by Minutes No 489 dated 10.10.2024 of the Managing board of Pension Assurance Company "Doverie" and repeals the Statement of Investment Policy of the General Pension Fund “Doverie”, adopted by decision taken by Minutes No 370 dated 19.02.2019 of the Managing board of Pension Assurance Company "Doverie" as amended and supplemented decision taken by Minutes No 377 dated 22.04.2019 of the Managing board of the Pension Assurance Company "Doverie", decision taken by Minutes No 394 dated 28.04.2020 of the Managing board of the Pension Assurance Company "Doverie" and decision taken by Minutes No 434 dated 31.10.2022 of the Managing board of the Pension Assurance Company "Doverie".

1.2 TERMS AND CONDITIONS, INTERVALS AND TERMS FOR REVIEW OF THE INVESTMENT POLICY

1.2.1 Intervals and methods for assessment of investment policy’s efficiency

The assessment of investment policy’s efficiency is done by comparing the realized return and the benchmark defined in chapter III, item 3.3, subitem 3.3.1, on a 6-month basis. In case the return of the General Pension Fund “Doverie” portfolio is lower than the indicator defined in chapter III, item 3.3, subitem 3.3.1., for two 6-month periods in a row, the investment consultant, the portfolio managers and/or the financial analysts should present to the Investment Committee a detailed analysis of the reasons for the shortfall and propose measures to be undertaken in order to achieve the investment policy objectives.

1.2.2 Procedures and criteria for Investment policy review

The Investment Committee proceeds to review of the Investment policy as regards the managing principles of the General Pension Fund “Doverie” annually or immediately after occurrence of any major changes in the market and other relevant conditions.

1.2.3 Procedures and criteria for implementation of changes in the Investment policy

Once the efficiency of the Investment policy is assessed as outlined in item 1.2.1 of this section, the investment consultants, the portfolio managers and/or the financial analysts prepare, as appropriated, substantiated proposal to the Investment Committee for amendment thereof which are subject to approval by the Investment Committee and to further adoption the Managing Board of Pension Assurance Company "Doverie".

1.2.4 This Statement of investment policy is published on internal and external site of the Company.



2. INVESTMENT POLICY AND INVESTMENT ACTIVITY FRAMEWORK

Ethical rules and other investment restrictions.

Pension Assurance Company "Doverie" AD (Company) comply with ethical rules for the investments of the General Pension Fund "Doverie" and resources of GPF "Doverie" are not invested in companies:

1. Which violate the United Nations Convention on Human and Labor Rights, Environmental Protection and Anti – corruption;
2. Whose business is the manufacture or trade in arms, except the main part of their business is not directed to this activity and a substantial part of their revenues does not derive from arms production and trade.
3. For which there are reasonable grounds to believe that the sours of their funds are of illicit origin.

Resources of GPF "Doverie" are not invested in companies which activity is:

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans.
2. Production or trade in any product or activity, except the main part of their business is not directed to this activity, related to:
 - alcoholic beverages (excluding beer and wine);
 - tobacco;
 - radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source to be trivial and/or adequately shielded
 - unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
3. Gambling, casinos and equivalent enterprises
4. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length

2.1 Levels of responsibility and the investment decision-making process

a) investment decision-making process, approval and documenting the investment decisions, including the persons responsible for the preparation of the investment proposals and the investment analysis:

The investment proposals regarding the asset investment of the General Pension Fund "Doverie", prepared pursuant to the laws regulating the supplementary pension insurance funds (SPIF) industry and within the framework of the investment policy statement of the General Pension Fund "Doverie" approved by the Managing Board for the relevant periods, are subject to review by the Investment Committee (IC) which is collective constantly active body to the Pension Assurance Company "Doverie" AD.



The investment proposals depending on the nature of the proposal should incorporate the information provided for in the Organizational Rules of the Investment Committee to the Pension Assurance Company "Doverie", accepted by the Supervisory Board of the Company, with which are defined the composition, structure, functionality and main requirement to the activity of the Investment Committee. The decisions on approval (in whole or in part) or refusal to conclude transactions in connection with the investment proposals under consideration are taken by the members of the Investment Committee according to its rules. The investments proposals regarding investment properties are subject to approval by the Investment Committee, and once passed, are subject to further approval by the Managing Board of the Pension Assurance Company "Doverie AD".

b) control over the execution, people in charge of such control and their roles and responsibilities:

Prior to the execution of any investment transaction, there is a double check procedure by the portfolio managers and/or the financial analysts regarding the compliance with all laws and regulations and internal rules of Pension Assurance Company "Doverie" AD. Further monitoring and control for the compliance of the investment portfolios structure with the investment qualitative and quantitative limits incorporated in mentioned laws and regulations is performed by the portfolio managers and the investment analysts.

Preventive and consecutive control for investments is made according to requirements of the Procedure of PAC "Doveire" for applying the VIG term of reference to international sanctions and screening for the purpose of the Law for measurement against money laundering and Law for measurement against terrorism financing. The responsibility for the mentioned preventive and consecutive control lays on the portfolio managers and/or the investment analysts of the company

Post-execution control of the investment decisions taken on the meeting of the Investment Committee is performed on the next meetings of the Investment Committee and every three months the Investment Committee report its activity to the Management Board of Pension Assurance Company "Doverie" AD. The preparation of investment proposal, decision-making and approval procedure regarding the investing the assets of the General Pension Fund "Doverie", as well as the control (preventive and consecutive) over the execution process and the people in charge of the control function are detailed in The Internal Rules and Regulations of Pension Assurance Company "Doverie" AD on Investment Decision Making and the Technical Execution Thereof.

2.2 Investment risk and return indicators, including methods and frequency of their calculation.

The indicators used for assessment of the investment results are reviewed by the Investment Committee of Pension Assurance Company "Doverie" AD once every three months.

Besides the indicators described below, Pension Assurance Company "Doverie" AD also calculates the real return according to the method of the Internal Rate of Return, outlined in Part III, item 3.3., subitem 3.3.1., hereof., that is reviewed by the Investment Committee of Pension Assurance Company "Doverie" AD once every six months.



a) return

Pension Assurance Company "Doverie" AD calculates the nominal return according to the methodology outlined in items 1 -3 of Regulation No 61 dated 27.09.2018 on the requirements regarding the advertisement and written information materials and the webpages of the pension insurance companies.

b) risk

The investment risk of the portfolio of the General Pension Fund "Doverie" is measured by the historical volatility captured in the standard deviation of the return according to the methodology outlined in items 4 - 7 of Annex No 15 to Regulation No 61 dated 27.09.2018 on the requirements regarding the advertisement and written information materials and the webpages of the pension insurance companies.

c) risk-adjusted return

Pension Assurance Company "Doverie" AD determines the risk-adjusted return of the General Pension Fund "Doverie" through the Sharp ratio, calculated according to the methodology outlined in items 8 - 9 of Annex No 15 to Regulation No 61 dated 27.09.2018 on the requirements regarding the advertisement and written information materials and the webpages of the pension insurance companies

2.3 Rules on the execution of the investment transactions, including limitation of the excessive portfolio turnover

The execution of the investment transactions is performed in line with the Internal Rules and Regulations of Pension Assurance Company "Doverie AD" for investment decision-making and their technical execution and in compliance with the rest of the internal and external regulations. Upon concluding transactions, the portfolio managers and/or the financial analysts must take good care to optimize the total trade volume and to aggregate trade packages in order to reduce the transaction costs paid to the investment firms. This way the excess portfolio turnover will be limited. Increases turnover is allowed in case risky exposures are closed and/or positive returns are realized, which exceed by far the transaction costs.

2.4 Rules on determination and monitoring of the current liquidity needs of the General Pension Fund "Doverie"

The current liquidity needs are determined on a monthly basis on the grounds of the expected cash inflows and outflows related to the investment business of General Pension Fund "Doverie", the possible changes of the legal framework, as well as the expected payments to the fund beneficiaries, pensioners and their heirs.

2.5 Measures provided for by Pension Assurance Company "Doverie" in order to prevent conflicts of interests upon investing the assets of the General Pension Fund "Doverie", the persons in charge thereof and their duties in this regard

In order to prevent conflicts of interest upon investing the assets of General Pension Fund "Doverie" the Pension Assurance Company "Doverie" adopts rules on the detection and prevention of conflicts of interest pursuant to article 123f, paragraph 4, item 6, letter 'h' of the Social Security Code (SSC), as well



rules on the personal transactions with financial instruments pursuant to article 123f, paragraph 4, item 6, letter 'f' of the SSC.

2.6 Policy followed by Pension Assurance Company “Doverie” AD upon exercise of the rights of General Pension Fund “Doverie” as owner of the securities.

Pension Assurance Company “Doverie” AD in its role as a company managing the assets of General Pension Fund “Doverie” exercises all legal and contractual rights granted to the General Pension Fund “Doverie” in its role as owner of the securities thus protecting the interests of the fund beneficiaries. Representatives of General Pension Fund “Doverie” have the right to participate in shareholder’s and bondholder’s meetings of the issuers and to vote at these meeting only in the interest of General Pension Fund “Doverie” beneficiaries taking into account both the immediate effects as well as the future effects.

2.7 Investment results – intervals of disclosure and method of presentation

Subsequent valuation of the assets and liabilities of the General Pension Fund “Doverie” is performed on a daily basis according to the approved Rules on the valuation of the assets and the liabilities of Pension Assurance Company “Doverie” AD and the supplementary pension insurance funds managed thereof, approved by the Managing board of the Pension Assurance Company “Doverie” AD. The value of one share of the General Pension Fund “Doverie” is calculated on a daily basis and is published on the webpage of the Pension Assurance Company “Doverie” AD and on the webpage of the Financial Supervision Commission.

Pension Assurance Company “Doverie” AD discloses to the public data presenting either directly or indirectly the investment results of the General Pension Fund “Doverie” pursuant to Regulation No 61 dated 27.09.2018 on the requirements regarding the advertisement and written information materials and the webpages of the pension insurance companies.

3. DEFINITION OF THE INVESTMENT OBJECTIVES

3.1 Return objectives

3.1.1 The main objective of the investment policy of General Pension Fund “Doverie” is to preserve and to increase, in real terms, the individual pension savings of the beneficiaries and the pensioners in the middle and long run through achieving the highest possible rate of return while assuming moderate risk exposure.

3.1.2 Additional objective of the investment policy of General Pension Fund “Doverie” is achieving a rate of return higher than the rate of return achieved by the main competitors of the company, in short term period, calculated on basis the information published by the FSC.

3.2 Risk objectives

The General Pension Fund “Doverie” shall achieve its investment objective by following a balanced investment portfolio and undertaking a moderate risk.

a) Time horizon restrictions:



Since the liabilities of General Pension Fund “Doverie” are long-term, the time horizon of the portfolio is relatively long – over 20 years.

b) liquidity requirements:

The long-term character of the savings in the General Pension Fund “Doverie”, the increasing number of fund members, preservation of pension fund contributions, the low average age, as well as the relatively small number of occasions leading to payment of the accumulated resources, lead to considerably higher cash inflows into the General Pension Fund “Doverie” compared to the outflows and therefore to currently low liquidity needs.

c) other limitations:

Investment returns on the portfolio of General Pension Fund “Doverie” are exempt from corporate taxes and the return distributed to member accounts is exempt from income tax.

3.3 Criteria for achievement of the investment policy objective. Comparison indicator for the investment policy results

3.3.1 The main objective upon managing the supplementary pension savings of the fund members is to preserve and to increase their purchasing power in a long run. The indicator for preserving the purchasing power of the savings managed by the General Pension Fund „Doverie” is considered the Real Return in percentage points of the assets managed by the fund using the method of the internal rate of return (money weighted rate of return). The calculation for the period under review is done on a monthly basis. The aim is to reach a positive real rate of return of 0,25% on an annual basis averaged over the previous 5-year period.

Calculating the Real Rate of Return is done as follows:

n – number of months in the period under review

A_0 – net assets of the fund at the beginning of the period;

A_n - net assets of the fund at the end of the period;

I_0 – CPI for the month before the first month of the period under review;

I_i – CPI of month i , where $1 \leq i \leq n-1$

I_n – CPI of the last month of the period under review;

F_i – Net cash inflow for month i , where $F_i = G_i - M_i - N_i$, for $i: 1 \leq i \leq n-1$;

G_i – gross amount of member contributions for month i , including transferred contribution from other pension funds;

M_i – paid amount to members for month i , including transferred contributions to other pension funds;

N_i – charged and paid fees to Pension Assurance Company “Doverie” AD for the contributions in month i ;

$F_0 = A_0$ and



$$F_n = -A_n + G_n - M_n - N_n$$

R_r – annual average real rate of return for the period, based on the following equation:

$$0 = \sum_{i=0}^n \frac{F_i * \left(\frac{I_n}{I_i}\right)}{\left(1 + R_r\right)^{\left(\frac{d_i}{365}\right)}}$$

where d_i is the number of days from the beginning of the period under review till the last day of month i of the period, where $d_0 = 0$.

3.3.2 Like a criterion for achievement of the additional objective upon managing the supplementary pension savings of the fund members are used the indicators in chapter II, item 2.2, par. a – c, that are compared with the same indicators of main competitors of the company

4. DESCRIPTION OF THE INVESTMENT POLICY TO ACHIEVE THE INVESTMENT OBJECTIVES

4.1 Investment policy rationale - determinant factors and circumstances:

The Statement of Investment Policy is consistent with the specifics and requirements for doing supplementary pension insurance business in Bulgaria.

The complexities of the portfolio management of the General Pension Fund „Doverie” increase the importance of elaborating a well-defined and effective investment policy that clearly defines the investment objectives and constraints.

4.2 Specific requirements regarding asset classes characteristics

The Managing board of the Pension Assurance Company “Doverie” AD approves a list of the specific characteristics of the asset classes in which the General Pension Fund “Doverie” invests – Annex No 1 to this policy being integral part thereof.

4.3 Types of investments:

a) legally approved investment instruments, and quantitative limitations by classes and types of assets

The Managing board of the Pension Assurance Company “Doverie” AD approves a list of the legally allowed investment instruments, and the quantity limitations by classes and types of assets which apply to the investments of the General Pension Fund “Doverie” - Annex No 2 to this policy being integral part thereof

b) geographical regions and market allocation in compliance with the legal constraints



The portfolio allocation by geographical regions and markets is a part of the diversification policy of the General Pension Fund “Doverie”, aiming to achieve an optimal ratio between risk and return. Its implementation is regulated by Regulation No 29 on the minimum level of bank credit ratings and the definition of the countries, the international financial organizations, the markets and their indexes pursuant to article 176 of the Social Insurance Code. Depending on the market environment and development prospects, investment can be allocated to each of the legally approved geographical regions and markets.

c) sector diversification

Considering the economic cycles and the general and systematic risks the General Pension Fund “Doverie” strives to invest its funds in the economic sectors that are expected to generate highest rates of return. Due to the dynamic market environment, sector limitations or restrictions do not apply. The major economic sectors are:

- Energy
- Materials
- Industry
- Consumer Staples
- Consumer Discretionary
- Health Care
- Financials
- IT
- Telecommunication
- Utilities

4.4 Investment restrictions and limitations to be observed upon investment of the funds of the General Pension Fund “Doverie”

The investment restrictions and limitations that apply to the investments of the General Pension Fund “Doverie” are legally determined and summarized in Annex No 2 to this Statement of Investment Policy.

The assets of the General Pension Fund “Doverie” may not be invested in:

1. Financial instruments issued by the Pension Assurance Company “Doverie” AD or its related parties;
2. Financial instruments issued by fund’s custodian bank or by parties in close relationship with the bank;
3. Deposits in a bank which is related party to the Pension Assurance Company “Doverie” AD;
4. Shares and/or interest in a collective investment scheme under article 176, paragraph 1, item 12 of the Social Security Code and in an alternative investment fund article 176,



paragraph 1, item 13 of the Social Security Code, managed by a party related to the Pension Assurance Company "Doverie" AD;

5. Financial instruments that are not fully paid up.

4.5 Target strategic allocation of fund's asset, minimum and maximum deviation limits

The target strategic asset allocation of the portfolio of the General Pension Fund "Doverie" weights the individual asset classes that, considering the return and volatility expectations for each one of them, would be most appropriate for achieving the fund's investment objective. The asset class allocation provides diversification and optimizes the risk/return ratio. The selection of each specific financial instrument depends on the market conditions, its unique characteristics, and the expected contribution of the relevant instrument to the structure, risk, and return of the investment portfolio.

Deviations from the strategic target asset allocation at any time may come as a result of the proactive portfolio management in the context of the market environment and the attractiveness of the different classes of investment instruments, of significant deviations in the market prices of the investment portfolio and/or of the change in the cash funds of the General Pension Fund "Doverie" as a result of significant cash inflows or outflows related to its operations.

The target strategic asset allocation and the minimum and maximum deviation limits are outlined in Appendix №3, which is an integral part of the Investment Policy Statement.

4.6 Diversification of the portfolio by classes of asset

The instruments General Pension Fund "Doverie" invests in are selected so that the investment portfolio is diversified and protected to the maximal extent against adverse price fluctuations on the financial markets and significant exposures to individual market sector, geographical region, economic sector, a single company, or securities issue.

4.7 Specific investment strategies and styles

The investment portfolio of General Pension Fund "Doverie" is actively managed, as its structure is subject to changes depending on the market environment and the relative attractiveness of the different types of asset classes. Due to markets dynamics no style restrictions or limitations apply.

4.8 Investments in collective investment schemes and alternative investment funds

The main purpose of investing in collective investment schemes (CIS) is to achieve higher degree of diversification and to improve the liquidity while optimizing the costs of the General Pension Fund "Doverie". In CIS selection process, a set of criteria is considered, including: portfolio diversification, risks related to the specific investment goal, historical performance relative to the benchmark specific for the relevant CIS, credit and reputation risk of the company managing the CIS, liquidity, and CIS management costs.

4.9 Investments in investment properties



The main purpose of investing in investment properties is to achieve higher degree of diversification and growth of fund's investment results. The proposals for transactions with investment properties and arguments thereon are prepared by a person with the required knowledge, background and qualification regarding the investments in and the management of real estate properties

4.10 Repo and reverse repo transactions

Should the capital markets environment is favorable, Pension Assurance Company "Doverie" AD intends to enter into repo transactions using the funds of the General Pension Fund "Doverie" in case of fast liquidity needs, and into reverse repo transactions, respectively, with a view to increase fund's return. The counterparty under a repo transaction may only be a bank or investment firm, holding an owner's equity of at least 1 500 000 levs, that is licensed to do business pursuant to the laws of the member – state or otherwise is subject to supervision by a competent body of another state – party to the Convention on the Organization for economic cooperation and development

4.11 Maximum amount of the fund's liquidity resources as a percentage of its assets

Pension Assurance Company "Doverie" AD analyzes the liquidity needs of General Pension Fund "Doverie" based on the historical cash inflows and outflows and monthly forecast of the cash flows related to its business. Based on such analysis the Company sets a minimal and maximal threshold of the cash and cash equivalents in the portfolio of the General Pension Fund "Doverie".

Fluctuations between the minimal and maximal threshold for cash and cash equivalents outlined in Annex No 3 to the Statement of Investment Policy, is permissible at any time and can come as a result of the active portfolio management in the context of the market environment and the relative attractiveness of the different classes of financial instruments as at the specific time.

5. INVESTMENT RISK AND RISK MANAGEMENT

5.1 Identification of the investment risks

Pension Assurance Company "Doverie" AD identifies, measures and monitors all investment risks, associated with the company business and the various types of securities in the portfolios of the General Pension Fund "Doverie" managed thereof, namely:

- 1) Market risk** - the risk to generate losses due to adverse changes in the prices of the securities, market interest rates, exchange rates and other. The major types of market risk are:
 - a) Interest rate risk** - the risk of decrease of the investment value of a given security due to change in the level of the interest rates.
 - b) Exchange rate risk** - the risk of decrease of the investment value of a given security or deposit, denominated in a currency, different from Lev and Euro, due to exchange rate fluctuations between that currency and the Lev or the Euro.



- c) Price risk, associated with the investments in shares or other equity securities - the risk of decrease of the investment value of a given security in case of adverse changes in the levels of the market prices.
- d) Price risk, associated with the investments in investment property - the risk of decrease of the investment value of investment property due to adverse changes in the levels of the market prices.
- 2) Credit risk** is generally the risk of decrease of the investment value of a given security due to unexpected credit events, related to the issuers of financial instruments, the counterparty to exchange and over-the-counter transactions, as well as unexpected events occurred in the countries in which they operate. Pension Assurance Company "Doverie" AD identifies three main types of credit risk:
- a) Counterparty risk - the risk of non-performance of the counterparty's obligation on over-the-counter transactions, such as forward exchange contracts, interest swap contracts, trade in over-the-counter options etc.
- b) Settlement risk - the risk for the General Pension Fund "Doverie" arising out from the possibility not to receive cash or financial instruments from counterparty on the settlement date, after the Fund had fulfilled its obligations on certain transactions.
- c) Investment credit risk - the risk of decrease of the investment value of certain debt securities due to a credit event with the issuer of this instrument. Credit event shall include filing for bankruptcy, insolvency, significant change in the capital structure, credit rating downgrade etc.
- 3) Concentration risk** – the risk of loss due to inadequate diversification of exposures to the same issuer, companies of the same group and person being in close relations with them, to the same industry of geographic region.
- 4) Liquidity risk** - the risk of losses caused by urgent sales of assets at unfavorable market conditions to meet unexpected short-term liabilities or the inability to buy/sell certain asset due to lack of supply/demand.
- 5) Legal and regulatory risk**, related to amendments of the laws regulating the investment activity that may lead to compulsory sales of assets or to changes in the assessment methods thus resulting in decrease of investment's value.
- 6) Political risk**, arising out from political turmoil in the country of the investment, resulting in worse market and investment environment and relevant decrease of investment's value.
- 7) Risks, relevant to the hedging instruments**
- a) Market risk of the hedging instruments is the risk of change of the hedging instruments value, resulting from changes in the interest rates, the prices of the underlying securities, indices or foreign exchange rates. The market risk of the hedging instruments is considered on a portfolio basis, taking into account the investment position being hedged.
- b) Credit risk is the risk of potential failure of the counterparty to a hedging transaction to fulfill their obligation on the settlement date of the forward exchange contract or the interest rate swap contract or the over-the-counter traded option;



c) Liquidity risk is the risk for the General Pension Fund “Doverie” to be unable to take or to liquidate a hedging position, without significant adverse impact on the value of the hedging instrument.

d) Basis risk in futures contracts - it occurs when the characteristics of the futures contract being hedged differ from those of the position being hedged. Basis risk is the uncertainty whether or not the spread between the spot price and the futures price will increase or decrease during the period of the hedging contract.

e) Risk related to the possibility for the hedging instrument to stop performing its intended purpose to reduce the investment risk associated with the relevant asset.

8) Other risks relevant to investments

a) The risk of decrease of the investment value, due to adversely influence of factors from ecological, social and management character, origin from the issuers activities (ESG risks).

b) Risk for compulsory sale of investment property, owned by the fund, due to insufficient return of the investment property in comparison to the normative level, according to article 180 c, paragraph 2 of the Social Security Code

5.2 Methods of Risk assessment of the portfolio and the risk for the individual portfolio assets

1) Pension Assurance Company “Doverie” AD measures the interest rate risk of the assets through the duration method, which is the main measure for interest rate sensitivity of a particular security. The Company shall use the method of the modified duration to measure the interest rate risk, related to each security, based on an interest rate, such as bonds, interest rate swaps, futures, based on interest rates and futures, based on bonds.

2) Pension Assurance Company “Doverie” AD measures the exchange rate risk of the assets through quantifying the net exposure to each currency, different from Lev and Euro, as a percent of the total assets of the General Pension Fund “Doverie”.

3) Pension Assurance Company “Doverie” AD measures the price risk, associated with the investments in shares through one of the quantitative methods, applicable for the relevant securities market:

a) Historical volatility, measured by standard deviation;

b) β -coefficient to the indexes of the relevant market;

c) In case of impossibility to apply the methods detailed in items a) and b), Pension Assurance Company “Doverie” AD shall use standard deviation of the chosen index of the regulated market on which the particular shares are traded as a substitute in the complete analysis of the portfolios.

4) Pension Assurance Company “Doverie” AD measures the price risk, associated with the investments in real estate property by monitoring key parameters and trends on the real estate market in Bulgaria in all its segments. For the purpose of risk assessment, the General Pension Fund “Doverie” takes into account the specifics of each property it has invested in, analyzing the following factors:

a) type of the investment property;

b) stage of the life cycle of the property;

c) location of the property;

d) economic situation in the subsector, in which the property falls.



5) Pension Assurance Company “Doverie” AD measures the credit risk of a counterparty on a daily basis by calculating the value of the unrealized profit from the concluded forward exchange contract, interest rate swap contract or over-the-counter traded options. The value of the unrealized profit equals the market value of the contract, if positive. In determining the value of the unrealized profit, the fees and commissions paid on the conclusion of such transactions shall not be taken into account. Where the General Pension Fund “Doverie” holds hedging instruments on several transactions with one and the same counterparty, the value of the risk of default by the counterparty to these transactions equals the difference between unrealized profits and losses from all such transactions, provided that:

- a)** the transactions are concluded on the basis of a netting agreement with the counterparty;
- b)** the netting agreement under item a) provides for that in case of default, bankruptcy or liquidation of the counterparty to the transaction only one liability (in case of net negative market value) or one receivable (in case of net positive market value) of the General Pension Fund “Doverie” shall be assessed, whereby the receivables and liabilities subject of the netting agreement shall be deemed settled.
- c)** the insolvency of the counterparty is a ground for termination of the contract.

6) Pension Assurance Company “Doverie” AD measures the settlement risk by calculating the value of all unsettled transactions with the same counterparty as a percent of the assets. The transactions concluded under DVP settlement method (delivery versus payment) and on markets with functioning clearing mechanism, shall not be taken into account.

7) For the purpose of the investment credit risk assessment and management and taking investment decisions the Pension Assurance Company “Doverie” AD does not rely solely and automatically on credit ratings assigned by credit rating agencies under article 3, paragraph 1, letter b) of Regulation (EU) 1060/2009 of the European Parliament and of the Council of 16 September 2009 on the credit rating agencies (JO, L 302/1 of 17 November 2009).

Pension Assurance Company “Doverie” AD performs a qualitative and quantitative credit analysis based on:

- a)** The credit risk of the government securities is measured through data analysis at macro level (GDP, inflation, unemployment, Debt/GDP ratio etc.) of the relevant country;
- b)** The credit risk of the corporate, covered and municipal securities is measured by taking into account the trends for issuers’ development, the reports of trustee banks of the bondholders, the status of the collateral etc. The financial status of those issuers is analyzed and the credit risk is assessed on a quarterly basis using in-house assessment methods;
- c)** The credit risk of the banks where General Pension Fund “Doverie” holds deposits is measured using some key financial measures for bank activities, accessible by public sources of information, that are analysed every quarter;
- d)** The credit risk of the repo transactions is measured on the grounds of analysis of counterparty’s financial position, the buffers in the repo transaction (margin call, hair cut etc.), as well as the quality of the underlying collateral subject to the repo transaction.



8) Pension Assurance Company “Doverie” AD manages the concentration risk of the General Pension Fund “Doverie” by the related weights of investments to one and the same issuer; to the companies of the same group and to the persons closely related to them; to the same industry or country;

9) Pension Assurance Company “Doverie” AD measures and analyzes the liquidity risk of the General Pension Fund “Doverie” on the base of the historical data for the cash inflows and outflows and the monthly forecast for the operating cash flows. Based on this analysis Pension Assurance Company “Doverie” AD sets a minimum threshold of cash and cash equivalents in the portfolio of General Pension Fund “Doverie”. The liquidity risk of specific securities and the other investments of General Pension Fund “Doverie” are also analyzed by monitoring the number of transactions and the volume of the traded securities.

10) Pension Assurance Company “Doverie” AD measures the legal and regulatory risk related to the investments of the General Pension Fund “Doverie” based on the analysis of the impact such legal amendments would have over the fund’s investments.

11) Pension Assurance Company “Doverie” AD measures the political risk by monitoring and analyzing the political situation in issuer’s country or the country where is situated issuer’s registered office or the prevailing part of its activities.

12) Pension Assurance Company “Doverie” AD measures the market and credit risk of the hedging instruments by means of the following methods:

a) potential change of the value of the interest rate futures contracts – it is measured through the modified duration of the underlying asset (cheapest-to-deliver bond) on the maturity date of the futures contract;

b) The market risk of the futures, based on stock indices is measured through:

aa) historical volatility, measured by standard deviation:

bb) β of the futures contract.

c) the effect of the change of the price of the underlying asset on the value of the option is measured by "delta".

d) the effect of the change of the interest rates on the value of the interest rate swap contracts is measured through the duration of the swap contract.

e) the market risk of the forward exchange contracts is measured through the historical volatility of the basic exchange rate measured by the standard deviation.

f) the credit risk of the forward exchange contracts is measured through the value of the contract for General Pension Fund “Doverie”, in case it is positive.

g) the credit risk of the interest rate swaps is measured by the value of the contract for General Pension Fund “Doverie”, in case it is positive.

h) the credit risk of the over-the-counter traded options is measured through the option value, in case it is positive.



i) the hedging instruments (futures and options), traded on a regulated market are not exposed to credit risk because of the clearing house participation and the daily clearance of the margin accounts.

j) the liquidity risk of the futures and options traded on the stock exchange is analyzed by monitoring of the number of transactions and traded contracts. The liquidity risk of the forward exchange contracts, the interest rate futures contracts and the over-the-counter traded options is analyzed on the grounds of the possibility for the General Pension Fund "Doverie" to borrow or to close those hedging transactions and the impact this would have on the value of the hedging instrument.

k) The basic risk of the futures contracts is measured by means of the spread between the spot price and the futures price.

13) Pension Assurance Company "Doverie" AD measures and evaluate ESG risks for decrease of the investment value in financial instruments in cases, when there are available public accessible data for awarded ESG-ratings or other data from international acknowledged companies, specialised in the evaluation of the impact of ecological, social and management factors on financial stability of different countries or companies.

14) Pension Assurance Company "Doverie" AD evaluate the risk for compulsory sale of investment property in the fund's portfolio by comparison the net return of the investment property for 5 years period and one half of the fund's return for the same period, as the evaluation depend on level of the deviation.

5.3 Risk profile of the portfolio and risk tolerance

Pension Assurance Company "Doverie" AD maintains a moderate level of risk of the portfolio of the General Pension Fund "Doverie", corresponding to its investment objectives of risk and return and a balanced risk profile.

5.4 Rules and procedures for monitoring, evaluation, and control of the investment risk, including techniques and strategies for risk management

1) The system for management of the risk related to the investments of General Pension Fund "Doverie" includes:

a) Consultative counsel for risk management – advisory body to the Managing board charged with rights and duties determined by its rules of operation approved by the Managing board of Pension Assurance Company "Doverie" AD.

b) Risk Management Department

c) The other organizational units and functions that have specific duties and roles in the risk management system related to the investments of the Pension Assurance Company "Doverie" AD and the funds managed thereof are:

aa) the Internal Control Department;

bb) the internal auditor.



- 2)** The Risk Management Department identifies, measures, monitors and takes part in the management of the exposure of General Pension Fund “Doverie” to the risks, detailed in Part V, item 1 both individually and at a portfolio level and coordinates and reports this exposure according to the requirements of the Social Insurance Code, the Statement of Investment Policy of the General Pension Fund “Doverie”, the Internal rules on the procedures for monitoring, measuring and management of the risk related to the investments of the Pension Assurance Company “Doverie” AD and the funds managed thereof and the market conditions.
- 3)** The Risk Management Department assists the Managing board of Pension Assurance Company “Doverie” AD and the Investment Committee in the course of determination of the acceptable level of the risk upon investing the resources of General Pension Fund “Doverie”, takes part in the elaboration of the investment policy and other in-house documents that have material impact on the risk exposure of the General Pension Fund “Doverie” or prepares opinions thereupon.
- 4)** The Risk Management Department keeps a Risk register.
- 5)** The Risk Management Department prepares risk evaluation analyses and reports on risk assessment, proposals for internal limits and restrictions, limit thresholds with regard to the different risks in the course of the risk management and proposes measures for risk mitigation. The department prepares and proposes lists with counterparties for Investment Committee’s approval.
- 6)** The Risk Management Department issues written recommendations on the prevention or limitation of risks manifestation and the remedy of the effects of occurred adverse events and analyzes the efficiency of the undertaken steps regarding the risk management and monitors the implementation of those recommendations.
- 7)** When the Risk Management Department makes an assessment that a certain market risk is above the tolerance level for this type of risk, corresponding to the risk level acceptable for the General Pension Fund “Doverie”, it reports to the Investment Committee and the Managing board of the Pension Assurance Company “Doverie” AD. Following the report by the Risk Management Department and upon instructions by the Executive director supervising the Asset management, financial-accounting reporting and analysis Department the portfolio managers or the financial analysts prepare written proposal for mitigation of the relevant risk, including by means of hedging transaction(s), in line with the requirements of Regulation No 34 dated 04.10.2006 on the terms and conditions for conclusion transactions for mitigation of the investment risks related to the assets of supplementary pension insurance fund and on the requirements and limitations applicable to such transactions.
- 8)** The Risk Management Department prepares reports on the risk and risk management on a monthly basis addressed to the Managing board and the Investment Committee.
- 9)** The Risk Management Department presents to the Investment Committee analyses on the impact of the hedging transactions on the risk profile of General Pension Fund “Doverie” portfolio and sees for the efficiency of the hedging transactions and reports the results to the Investment Committee on a monthly basis.
- 10)** In order to manage the price risk related to the investments in real estate properties, a monitoring report on the properties is prepared and presented to the Investment Committee of the Pension



Assurance Company "Doverie" AD at least once a year regarding the investments in real estate properties. The report analyzes the current situation, the effectiveness, the market trends and the inherent risks, associated with the investments of the General Pension Fund "Doverie" in real estate properties.

11) In case of identified violations of the investment limits and restrictions, outlined in the Internal rules on the procedures for monitoring, measuring and management of the risk related to the investments of the Pension Assurance Company "Doverie" AD and the funds managed thereof or those in this Statement of Investment Policy or those in the Social Security Code, the Risk Management Department reports the violation to the Managing board, the head of the Internal Control Department, the Internal auditor and the Investment Committee and explains the reason for the occurrence thereof. The Risk Management Department prepares, depending on the violations, proposal for remedy of such violation, which is approved by the Chairperson of the Managing board and/or the Executive director supervising the Asset management, financial-accounting reporting and analysis Department of the Pension Assurance Company "Doverie" AD.

12) The organization of the operations and the levels of responsibility regarding the management of the risk related to the investments of the General Pension Fund "Doverie" are regulated by Internal rules on the procedures for monitoring, measuring and management of the risk related to the investments of the Pension Assurance Company "Doverie" AD and the funds managed thereof and by the Organizational Rules of the Investment Committee to the Pension Assurance Company "Doverie" AD that are purposed to provide for the daily monitoring, assessment and management of the risk triggering factors having adverse effect on the value of the assets in the portfolio of the Pension Assurance Company "Doverie" AD.

5.5 Hedging transactions - purposes of use, types of transactions, risks to be hedged, amount of the risk exposure. Degree of hedging of the investment risks, associated with fund's investments

1) Hedging transactions - purpose of usage and types of transactions

Pension Assurance Company "Doverie" AD may enter into hedging transactions under article 179b, paragraph 1 of the Social Insurance Code for and on behalf of the General Pension Fund "Doverie" only for the purpose of reducing the investment risks, related to fund's assets.

2) Risk, subject to hedging

The risks outlined in Part V, item 1, subitem 1) and 2) may be mitigated by means of hedging transactions.

3) Size of the risk exposure

The size of the risk exposure subject to hedging is determined by the Risk Management Department, after a detailed analysis of the portfolio, taking into account all the factors associated with the existing market situation.

4) Degree of hedging of the investment risks



The degree of hedging of a specific investment risk is determined on the basis of analysis of the exposure of the General Pension Fund “Doverie” to that risk, the existing market situation and the potential quantitative impact of a particular hedging transaction, respectively non-hedged risk exposure.

6. CONTACT

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Annex 1

Specific Requirements Regarding Asset Classes Characteristics

1. Government bonds - debt securities issued or guaranteed by a state.
2. Corporate bonds - debt securities issued and guaranteed by a legal entity.
3. Municipal bonds – debt securities issued and guaranteed by a municipality
4. Common stocks - securities representing the right of corporate equity ownership.
5. Common stocks rights – securities that give stockholders the right to subscribe new shares issued by a public company should there be a resolution to increase the capital of that company/
6. Common stocks warrants – securities that entitle the holder to buy a proportionate quantity of stock at a fixed price up until a specific deadline.
7. Collective investment schemes – the collective investment scheme is an undertaking, organized as an investment firm, common contractual fund or share trust, which invests in securities, money market instruments, and other liquid financial assets, raised through public offering of units or shares.
8. Special investment purpose companies - investment companies securitizing real estate properties or receivables.
9. Deposits – cash funds placed for safekeeping in credit institutions and subject to return to the depositor following predefined terms and conditions.
10. Investment property is an investment property within the meaning of the International Accounting Standard (IAS) 40.
11. Alternative investment funds – shares and/or units of alternative investment funds, managed by an entity, authorized in accordance to Directive 2011/61/EU of the European parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (JO, L 174/1 dated 1 July 2011).



Annex 2

Acceptable financial Instruments

Instrument	Limits	Notes
1. Debt securities, issued or guaranteed by:		
1.1. member - states, the liabilities of which represent a debt of the governments or the central banks thereof	No limits	Up to 20% of the outstanding amount of the bond issue
1.2. the European Central Bank or by the European Investment Bank;	No limits	Up to 20% of the outstanding amount of the bond issue
1.3. another state, indicated in an ordinance of the Commission, the liabilities of which represent a debt of the government or the central banks thereof, admitted to trading on the regulated markets in a member - state or admitted to trading on an official market of a stock exchange, or other organized market in a third state, operating regularly and recognized and open to the public	No limits	a) No limits for securities with an investment credit rating from a single issuer b) Up to 5% of securities without an investment credit rating from a single issuer c) Up to 20% of the outstanding amount of the bond issue
1.4. state, other than those referred to in item 1.3, the liabilities of which represent a debt of the government or the central banks thereof, admitted to trading on regulated markets in a member - state	Up to 10%	a) Up to 5% of the securities of a single issuer b) Up to 20% of the outstanding amount of the bond issue
1.5. international financial organizations with investment grade credit	Up to 10%	a) Up to 5% of the securities of a single issuer b) Up to 20% of the outstanding amount of the bond issue
2. Securities traded on regulated markets		
2.1. Corporate Bonds	Up to 30%	a) Up to 5% of the securities (bonds and stock) of a single issuer b) Up to 20% of the outstanding amount of the bond issue
2.2. Shares, Preferred Shares, Rights and Warrants	Up to 25%	a) Up to 5% for securities (bonds and equity) of a single issuer b) cannot acquire more than 7% of the shares of a single issuer



3. Municipal Bonds	Up to 15%	a) Up to 5% of the securities of a single issuer b) Up to 5% of the assets in bonds not traded on a regulated market c) Up to 20% of the outstanding amount of the bond issue
4. Bank deposits	Up to 25%	a) in banks with minimal credit rating; b) Up to 5% in a single bank
5. Infrastructure Bonds	Up to 10%	a) Up to 5% of the securities of a single issuer b) Up to 20% of the outstanding amount of the bond issue
6. Investment Properties	Up to 5%	
7. Shares and Rights of SIPV	Up to 5%	a) Up to 5% of the securities (bonds and equity) of a single issuer b) cannot acquire more than 7% of the shares of a single issuer c) Up to 1% in SIPV, which securitize receivables
8. Secured corporate bonds to be listed within 6 months	Up to 1%	Up to 20% of the outstanding amount of the bond issue
9. Collective investment schemes	Up to 20%	a) Up to 5% in CIS managed by one and the same asset management company b) Up to 15% of the shares/units of a single CIS
10. Shares and/or units of Alternative Investment Funds	Up to 1%	a) Managed by an entity, authorized in accordance to Directive 2011/61/EU of the European parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (JO, L 174/1 dated 1 July 2011) b) Up to 7% of the shares/units of a single Alternative Investment Fund
11. Equity from IPO	Up to 2%	a) To be listed within 12 months b) cannot acquire more than 7% of the shares of a single issuer
12. Bonds from IPO	Up to 2%	a) To be listed within 12 months b) Up to 20% of the outstanding amount of the bond issue
13. Repurchase agreements and reverse repo agreements	Up to 5%	Up to 6 months
14. Assets denominated in currency other than BGN or EUR	Up to 20%	Excluding the assets which are hedged against currency risk
15. Total amount of the investments of the General Pension Fund "Doverie" in financial instruments issued by companies of the same group and the parties they are in close relations with	Up to 10%	
16. Covered bonds	Up to 2%	Up to 20% of the outstanding amount of the bond issue



Annex 3

Target Strategic Asset Allocation, Minimum and Maximum Deviation Limits

General Pension Fund "Doverie"			
Instruments	Minimum	Target Asset Allocation	Maximum
Cash and equivalents	1.00%	10.00%	30.00%
Under item 4 of Annex 2	0.00%	0.00%	25.00%
Under item 1.1, item 1.2 и item 1.3 of Annex 2	15.00%	45.00%	75.00%
Under item 1.4. of Annex 2	0.00%	3.00%	10.00%
Under item 1.5 of Annex 2	0.00%	2.00%	10.00%
Under item 2.1 of Annex 2	5.00%	10.00%	30.00%
Under item 8 of Annex 2	0.00%	0.00%	1.00%
Under item 3 of Annex 2	0.00%	0.00%	15.00%
Under item 5 of Annex 2	0.00%	0.00%	10.00%
Under item 2.2 of Annex 2	5.00%	15.00%	25.00%
Under item 7 of Annex 2	0.00%	1.00%	5.00%
Under item 6 of Annex 2	0.00%	2.00%	5.00%
Under item 11 of Annex 2	0.00%	0.00%	2.00%
Under item 12 of Annex 2	0.00%	0.00%	2.00%
Under item 9 of Annex 2	3.00%	11.50%	20.00%
Under item 10 of Annex 2	0.00%	0.50%	1.00%
Under item 13 of Annex 2	0.00%	0.00%	5.00%
Under item 16 of Annex 2	0.00%	0.00%	2.00%