



## **DECLARATION OF INVESTMENT POLICY PRINCIPLES**

**FUND**

<b>HOTEL INDUSTRY EMPLOYEES PROVIDENT FUND</b>
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### ***Introduction and Purpose***

*This document is the Declaration of Investment Policy Principles (the “Declaration”) of the above Fund (the “Fund”). The Declaration has been formed and implemented by the Management Committee of the Fund on \_\_\_\_\_.*

*The purpose of this Declaration is to determine the investment policy and the investment objectives of the Fund in line with the European Directive 2003/41/EC (the “Directive”) as it has been incorporated as a Law of the Republic of Cyprus (Law 146 (I), 2006) on the 17<sup>th</sup> November, 2006.*

*The Declaration includes the main investment principles for the Fund and the Management Committee is committed to respect them as an integral part of governance for the Fund.*



### **Primary Investment Objective, Investment Goals and Investment Principles**

*The primary investment objective of the Fund is:*

<b>Primary Investment Objective</b>
<i>To invest wisely in order to meet the reasonable expectations of the Members, assuming an acceptable level of risk.</i>

*Driven by the continuous achievement of the primary investment objective, the Management Committee has established the following investment targets:*

<b>Investment Targets</b>
<i>Total Replacement Level being close to 70% for the majority of Members. The Management Committee recognizes that such objective may not be achieved by all Members of the Fund as the age / service of each Member may vary significantly and the Fund follows a uniform investment policy for all its Members.</i>
<i>Targeted investment return of 5.0% per year in order to comply with the targeted replacement level based on the most recent review of the investment strategy of 2011.</i>
<i>In line with the above objectives, the Management Committee:</i> <ul style="list-style-type: none"> <li>▪ <i>accepts the level of volatility of the expected return of 4.3% per year</i></li> <li>▪ <i>accepts, with probability of 1 out of 20, that the annual Value at Risk ("Value at Risk") is approximately € 20,6 million</i></li> </ul>

*The main investment objective and investment target set forward are the following:*

<b>Investment Principles</b>
<i>To define and implement an investment policy that meets the provisions of Law 146 (I), 2006 and is consistent with the principles included in the Declaration of Investment Policy Principles of the Fund.</i>
<i>To implement an investment policy taking into account the characteristics of all Members of the Fund, which are given below:</i> <p><b>Currency:</b> Euro</p> <p><b>Maturity Fund:</b> Relatively mature</p> <p><b>Age average:</b> 44 (simple), 48 (weighted by size of account)</p> <p><b>Targeted Investment Horizon:</b> Medium term (10 years)</p> <p><b>Investment Risk:</b> Low</p> <p><b>Need for Liquidity:</b> High</p>



## Strategy

The Management Committee has determined the investment policy of the Fund after taking advice from experts. The most recent review of the strategic allocation of the Fund is dated 14<sup>th</sup> November 2011 and constitutes the basis for the design of the current investment policy. For studying purposes of the strategic allocation of the Fund, measured and evaluated were the risks faced by the Fund and more specifically the Value at Risk ("VaR") as well as the risk of not achieving the set goals. These issues have been resolved in the latest review on the strategy of the Fund carried out on 14<sup>th</sup> November 2011.

The long-term investment policy of Managers is included in the strategic investment allocation of the Reserve Fund, as described below:

<b>Type of Investment</b>	<b>Targeted Allocation, %</b>	<b>Allowable limits, %</b>
Shares	10	5 – 15
Bonds	22	16 – 28
Deposits	25	20 – 40
Loans of Members	20	15 – 25
Immovable Property	15	10 – 20
Hedge Funds	3	0 – 5
Infrastructure Projects	5	0 – 10
<b>TOTAL</b>	<b>100</b>	
Expected Return	5,0% per year	
Return Volatility	4,3% per year	
Value at Risk (VaR) 5% level	€ 20,6 million	

The table below illustrates the targeted allocation for each type of investment for consistency purposes with the Directive:

<b>Type of Investment</b>	<b>Targeted Allocation, %</b>	<b>Maximum allowable limit <sup>1</sup></b>
Expressed in foreign currency	0 – 30%	30% <sup>1</sup>
Total equity and non-government bonds	30%	70%
Non traded in organized markets	15%	40%

<sup>1</sup> A 10% threshold is fixed for foreign currency Investments in each foreign currency by virtue of the law provisions



## **Procedure**

### ■ *Frequency of review of the Strategic Allocation of Asset*

*The Management Committee is committed, as an important part of its duties towards the Members to control the investment risk, to review its investment objectives and investment policy every three years or sooner if needed, for example in case of a significant change in the characteristics of the Fund (e.g. due to restructuring of the Company)*

### ■ *Frequency of review of the Declaration of Investment Policy Principles*

*According to the Law, the Management Committee is committed to review the Declaration at least every three years or sooner if needed. The Declaration must be reviewed without delay following any significant change in the investment policy of the Fund.*

### ■ *Professional Advice and Responsibility*

*The Management Committee has the ultimate responsibility for all investment decisions making. In case the Management Committee does not have the resources, the experience or expertise to make decisions, a formal advice shall be asked from experts.*

*The Management Committee meets regularly to consider matters relating to investments of the Fund. More specifically:*

- *It receives and reviews reports on the investment performance of the Fund*
- *It takes advice on the implementation of the investment programme*
- *It communicates with various external investment advisors and managers*
- *It monitors and evaluates the Fund returns*



## **Risk Management and Measurement**

### ■ *Dispersion*

*The Management Committee recognizes as a principle, that the prudent management of the Fund Asset implies adequate dispersion to the various investment classes and within them. The Management Committee is committed to consider a good many investment options to this end. Additionally, it is committed that any type of investment would receive sufficient dispersion by geographic area, industry sector, type of investment, issuer and other investment criteria wherever possible.*

### ■ *Investment Restrictions*

*For risk controlling purposes, the Management Committee is committed to respect the allowable limits for investments as defined by the Directive. It has also set allowable limits on the strategic asset allocation of the Fund for each type of investment (see table above). More precisely, the Management Committee is committed not to invest more than 10% in companies or capitals of the Group which owns the Sponsoring Company.*

### ■ *Regular Asset Allocation / Restoration of asset allocation*

*Capital Managers are allowed to invest the assets of the Fund within the limits of the above strategy. In cases where restoration within the strategy is needed due to market valuation or regular actions, the Management Committee approval is required.*

*In cases where allocation of assets of the Fund deviates from the permitted levels of investment strategy, the Management Committee is committed to bring the investment policy within the permitted limits. Such moves should be made in such a manner so that the Fund's assets are not adversely affected from any violent changes of securities transactions.*

*In each case, the Management Committee is committed to bring the investment policy of the Fund within the strategic limits within a reasonable time, taking into account factors such as:*

*(a) the particular characteristics of each investment category,*

*(b) the current market conditions,*

*(c) to what extent has the defined investment profile of the Fund been influenced/ changed and the approach/ tolerance towards the investment risk, and*

*d) the future outflows/ inflows of capitals from/ to the Fund.*

*Additionally, where observed a tendency of approaching the maximum or minimum rates/ limits of the range of variation for each investment category, the Management Committee shall take timely corrective actions in order to avoid any excess.*

### ■ *Use of Methods for exchange risk coverage*

*In order to cover the exchange risk in global bonds and hedge funds, the Fund has opted to invest in the Investment Grade with a Global Investment Grade Credit Fund Hedged to Euro and in hedge funds with a Fund of Hedge Funds Hedged to Euro.*

*No hedging methods shall be used to cover the currency risk on the shares, since such risk is not considered to be significant for the Fund. This is due to the maximum limit of 15% in the allocation of equities, a percentage of which is domestic or other European equities as well as to the fundamental reasons for non-coverage of exchange risk by long-term investments in equities.*

### ■ *Use of derivatives*

*According to the Law the use of derivatives is allowed only to control or reduce the investment risk. Any investments in hedge funds with a view to improving the overall connection between investment risk and portfolio performance may be exempted from this provision.*



■ *Guidelines for investment purposes*

*For each investment authorization entrusted by the Management Committee, a series of formal Investment Objectives should be agreed with the Fund Manager. These objectives focus on risk controlling by setting prudential investment limits, investment principles of management and transparent reporting procedures.*

■ *Investment Return Analysis*

*The Management Committee has established a formal evaluation cycle of the investment return of the Fund as an additional measure of controlling the investment risk. The reports to be provided on the investment return shall include:*

- Quarterly, annually and long-term investment returns for each Fund Manager and asset class*
- Commentary on the achievement of investment objectives given to each Fund Manager or on any kind of investment as well as on the overall investment objective of the Fund*
- Explanation of the reasons that led to the above investment returns*
- Confirmation of compliance with the guidelines for investment purposes as defined above. In case of offence, the reason together with the proposed remedies should be given in writing.*
- Quantitative methods of risk measurement, such as return indicators in relation to the risk, measurement of changes in return and risk of minimum potential returns.*



### **Parties Involved and their Role**

*The involved parties that have been hired by the Management Committee are:*

<b>Involved Parties</b>	<b>Remuneration</b>
<p><b>Consultant:</b> Aon Hewitt SA</p> <p><b>Role:</b> To assist the Management Committee in the development and implementation of the Fund's investment policy. This includes:</p> <ul style="list-style-type: none"> <li>- Development of investment strategy</li> <li>- Monitoring of fund Managers</li> <li>- Attendance of educational seminars on investment</li> <li>- Support of the Management Committee</li> <li>- Ensure compliance with the Law</li> </ul>	<p>Yearly pre-agreed remuneration</p>
<p><b>Fund Managers:</b></p> <p><i>Global Equities:</i></p> <ul style="list-style-type: none"> <li>- Argus</li> <li>- Schroders</li> <li>- Veritas</li> </ul> <p><i>Global Corporate Bonds:</i></p> <ul style="list-style-type: none"> <li>- PIMCO</li> </ul> <p><i>Bond Mutual Funds of Ultimate Goal:</i></p> <ul style="list-style-type: none"> <li>- PIMCO</li> <li>- GAM</li> <li>- Insight</li> </ul> <p><i>Infrastructure Projects:</i></p> <ul style="list-style-type: none"> <li>- RARE</li> </ul> <p><i>Hedge Funds:</i></p> <ul style="list-style-type: none"> <li>- Blackstone</li> <li>- Prisma</li> </ul>	<p>% on the asset under management</p>



***Annex – Communication***

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