

Pursuant to Article 34, paragraph (1), item e) of the Law on the Pension Reserve Fund of the Republic of Srpska (“Official Gazette of the Republic of Srpska”, No. 73/08, 50/10, 102/12, 20/18 and 111/21), Article 30, paragraph (1), item e) of the Statute of Društvo za upravljanje Penzijskim rezervnim fondom Republike Srpske a.d. Banja Luka (“Official Gazette of the RS”, No. 65/10, 62/11, 111/12 and 83/18) and Article 3 of the Rules of Procedure of the Management Board of Društvo za upravljanje Penzijskim rezervnim fondom Republike Srpske a.d. Banja Luka, the Management of the Company, at the session held on 14 December 2021 adopted the following:

**INVESTMENT POLICY AND OBJECTIVES OF THE  
PENZIJSKI REZERVNI FOND A.D. BANJA LUKA  
(PENSION RESERVE FUND OF THE REPUBLIC OF SRPSKA JOINT STOCK COMPANY  
BANJA LUKA)**

**Article 1**

The Investment Policy is an act of the Pension Reserve Fund of the Republic of Srpska a.d. Banja Luka (hereinafter: the Reserve Fund) determining as follows:

1. Investment objectives of the Reserve Fund,
2. Investment principles,
3. Investment policy revision.

**I INVESTMENT OBJECTIVES OF THE RESERVE FUND**

**Article 2**

The investment objectives of the Reserve Fund shall be to:

1. Implement the portfolio rebalancing procedure in order to optimize the structure of the Reserve Fund’s assets, aimed at optimizing risk and return in a five-year period;
2. Conduct a conservative investment policy, which implies investing the Reserve Fund’s assets in financial instruments, in accordance with the investment restrictions defined by the Law on the Pension Reserve Fund of the Republic of Srpska (“Official Gazette of the RS”, No. 73/08, 50/10 and 102/12, 20/18 and 111/21 hereinafter: the Law);
3. Invest in riskier instruments only in cases defined in Article 6 of this Investment Policy and in accordance with the Law;
4. Invest the assets of the Reserve Fund in order to increase the value of capital in the long-run and achieve current inflows, and to support the long-term financial sustainability of the mandatory pension insurance of the Republic of Srpska.

● **Portfolio rebalancing**

**Article 3**

(1) The implementation of the rebalancing procedure is a process in which it is necessary to achieve an optimal structure of the Reserve Fund’s assets, where financial instruments that maximize the ratio of assumed risk and expected return would have a share of over 50% in the value of the Reserve Fund’s portfolio.

(2) In order to optimize the structure of the Reserve Fund's assets, and on the basis of collected and publicly available information, a continuous evaluation of the value of financial instruments from the Reserve Fund's portfolio will be performed, and, in the event of a decision being made, they will be put up for sale through a transparent procedure on the domestic market. All evaluations will be accompanied by the opinion of the Investment Affairs Department, and the content, methods and procedure of evaluation, as well as methods of presentation for sale are defined by the internal acts of the Management Company.

(3) The assets of the Reserve Fund, in the amount of up to 0.10% of the net asset value at the end of the year preceding this investment policy, shall be used to cover costs in court proceedings in which the Reserve Fund appears as one of the parties, costs of convening the general meeting of shareholders of issuers from the Reserve Fund portfolio, costs of initiating bankruptcy and liquidation proceedings, as well as costs of expert commissioner, independent auditor, appraiser and notary, costs, commissions or fees directly related to acquisition or sale of Reserve Fund assets, only when initiated by the Reserve Fund and when the issuer or other participant in the procedure is unable to pay them, with the right to subsequently claim these costs from the issuer and the other party.

#### Article 4

The Management Company may decide not to sell the shares of the companies from the Reserve Fund portfolio if it estimates that this achieves the investment objectives of the Reserve Fund or in the case where the Republic of Srpska is the majority shareholder, either directly or through its funds, organizations or institutions.

- **Rebalancing policy**

#### Article 5

The rebalancing policy shall imply investing in less risky financial instruments, which include:

1. cash deposits with banks and certificates of deposit issued by banks in BiH,
2. debt securities issued or guaranteed by BiH, the Central Bank of BiH, the Republic of Srpska, the Federation of BiH and the Brčko District of BiH,
3. debt securities issued or guaranteed by local self-government units of the Republic of Srpska and debt securities issued by local self-government units and cantons of the Federation of BiH,
4. debt securities issued by foreign countries or foreign legal entities with an investment grade credit rating, determined by external credit rating institutions registered with the European Banking Agency and traded on stock exchanges or other regulated public markets in EU Member States, OECD and CEFTA.
5. Repurchase agreements (Repo agreements) with securities referred to in this Article.
6. Treasury bills (money market instrument - short-term securities) issued or guaranteed by the bank).

- **Investing in riskier instruments**

#### Article 6

Investing in riskier financial instruments shall include investments in:

1. debt securities that cumulatively meet the following conditions:

- a) have a maturity of up to 15 years and a grace period equal to a maximum of one third of the maturity,
  - b) have a yield higher than the last realized yield on government bonds of the Republic of Srpska of approximate maturity.
  - c) no more than 25% of the approved value of the issue of a debt security of one issuer may be acquired, whereby the investment must be secured by quality collectible collateral<sup>1</sup>, supported by at least 50% of funds from a private source.
2. Shares of joint stock companies on the domestic market in BiH where the following criteria are cumulatively met:
- a) the shares of the joint stock company are listed on the stock exchange market,
  - b) the joint stock company has paid a dividend at least once in the last three years,
  - c) a joint stock company that in the last three years has achieved an average return on capital equal to or greater than the average return achieved on treasury bills of the Republic of Srpska in the previous year,
  - d) the joint stock company, according to the internal rating, falls under the low risk category,
  - e) no more than 50% of the issuer's ownership share may be acquired, unless the Reserve Fund establishes a management company, pension or other investment fund in the form of a closed joint stock company.
3. The Reserve Fund, with the consent of the Supervisory Board, may, if it deems it in the interest of preserving and increasing the assets of the Reserve Fund, use the right of pre-emption when recapitalizing joint stock companies that do not meet the criteria of item 2 of this Article.
4. Units in open-end investment funds registered in BiH and EU, OECD and CEFTA member states.
5. In order to achieve appropriate dynamics of portfolio restructuring, as well as risk management, especially diversification and liquidity risk, the Reserve Fund may, with the consent of the Supervisory Board, invest in securities of foreign legal entities in EU, OECD and CEFTA member states up to 35% of the net asset value.
6. Only for the purpose of protection against risk when investing in securities of foreign legal entities, the Reserve Fund may, up to the amount of these investments, use options and futures, other financial derivatives and methods of protection (purchase of foreign currencies, opening margin accounts, etc.).
7. The Reserve Fund may invest in equity securities of closed joint stock companies based in BiH up to 2% of the net asset value, when the Reserve Fund establishes a management company, pension or other investment fund in the form of a closed joint stock company.
8. The Reserve Fund may invest in co-financing projects or other financing agreements to share investment risks in Bosnia and Herzegovina, EU Member States, OECD and CEFTA, with international financial organizations and multilateral development banks (joint ventures). The value of individual exposure in joint ventures may not exceed 5% of the net asset value.
9. The Reserve Fund may invest in private equity funds and start-up funds, which are supported by international financial organizations and multilateral development banks up to a maximum of 2% of net asset value.

## II INVESTMENT PRINCIPLES

### Article 7

When achieving the set investment goals, except in the case referred to in items 7, 8 of the previous Article, and making investment decisions, the Management Company shall be guided by the following principles:

- 1. The principle of security of the fund's assets** - the fund will invest in financial instruments defined in Article 5 of this Investment Policy, financial instruments of internal and external rating that fall into the investment category, defined by the Rulebook on Risk Management of the Management Company and other financial instruments, its VaR being with a confidence level of 95% below 5% or a  $\beta$  coefficient below 2 taking a lower value than the previous two;
- 2. The principle of portfolio diversification** - in order to disperse risk, investments will be made in financial instruments that differ according to the issuer (activity, geographical origin, size, etc.), kind and type of instrument, as well as other characteristics;
- 3. The principle of liquidity of the fund** - investment will be made in financial instruments that provide regular inflows of funds to settle all current and estimated future liabilities that the Reserve Fund has in the next year;
- 4. The principle of profitability** - the investment will be made in such a way that the structure of the fund's portfolio includes financial instruments that, taking into account the previous principles, bring the highest expected return for the assumed level of risk. The principle of profitability when investing in equity financial instruments on the domestic market in BiH implies investing in the shares of issuers in accordance with Article 6 of this Investment Policy and Objectives.

## III INVESTMENT POLICY REVISION

### Article 8

The Management Board of the Management Company shall review the Investment Policy and Objectives at least once a year, and if necessary propose their amendments.

## IV TRANSITIONAL AND FINAL PROVISIONS

### Article 9

In case of deviation from the investment restrictions referred to in the Law and this Investment Policy and Objectives, and due to circumstances that the Management Company could not foresee or could not influence, the Management Company's Management Board must immediately notify the Reserve Fund Assembly and the Supervisory Board of the Management Company and harmonize the structure of assets with investment restrictions within six months from the day of deviation.

The Investment Policy and Objectives of the Reserve Fund, which are an integral part of the Rules of Procedure, shall enter into force on the day of approval by the Reserve Fund Assembly.



# ПРЕФ

ДРУШТВО ЗА УПРАВЉАЊЕ  
ПЕНЗИЈСКИМ РЕЗЕРВНИМ ФОНДОМ  
РЕПУБЛИКЕ СРПСКЕ А.Д. БАЊА ЛУКА

*Translation from the Serbian to the English language*

• једночлано акционарско друштво •

Бана Милосављевића 8 • 78000 Бања Лука • Република Српска • Босна и Херцеговина

тел: + 387 (0)51 228 480 • факс: + 387 (0)51 228 488 • www.pref.rs.ba • info@pref.rs.ba

**УПРАВА**

---

Upon entry into force of the current Investment Policy and Objectives, the Investment Policy and Objectives approved on 7 December 2020 by the Reserve Fund Assembly shall cease to be valid.

Number: УП-57-2/21

Date: 14 December 2021

*DIRECTOR*  
*Miloš Grujić PhD*