



The Declaration of Investment Policy Principles is the most important document of the Management Committee of any Provident Fund. The Management committee of the Hotel Employees Provident Fund approved and adopted the Declaration of Investment Policy Principles during its meeting which was held on 11<sup>th</sup> February 2010.

## **DECLARATION OF INVESTMENT POLICY PRINCIPLES (DIPP)**

**FUND**

HOTEL EMPLOYEES PROVIDENT FUND
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### ***Introduction and Purpose***

*This document constitutes the Declaration of Investment Policy Principles (the "Declaration") of the aforementioned Fund (the "Fund"). The Declaration has been formed and applied by the management Committee of the Fund on the 11.02.2010.*

*The purpose of this Declaration is to specify the investment policy and the investment targets of the Fund in relation to the European Directive 2003/41/EC (the "Directive"), as this was integrated into Law of the Republic of Cyprus (Law 146(I), 2006) on the 17<sup>th</sup> November 2006.*

*The Declaration contains the main investment principles for the Fund and the Management Committee undertakes to follow them as an integral part of the governance of the fund.*



### **Main Investment Purpose, Investment Targets and Investment Principles**

The main investment purpose of the Fund is:

<b>Main Investment Purpose</b>
<i>To invest with prudence so as to respond to the reasonable expectations of its Members by undertaking a risk at an acceptable level.</i>

Having as criterion the achievement at all times of the main investment purpose, the Management Committee has set the following investment targets:

<b>Investment Targets</b>
<i>Overall Replacement Level to more or less 70% for the majority of the members. The Management Committee realizes that this target may not be achieved by all the members of the Fund, given that the age/years of service of each member may significantly differ and the Fund follows an integrated investment policy for all its Members.</i>
<i>Targeted Investment return up to 5,0% per annum to be consistent with the targeted replacement level based on the most recent study on the investment strategy held in 2009.</i>
<i>In relation to the above targets, the Management Committee:</i> <ul style="list-style-type: none"><li>▪ <i>Accepts a variability level for the expected return up to 4,5% per annum.</i></li><li>▪ <i>Accepts 1 out of 20 chances that the Value at Risk may come up to around €18,9millions.</i></li></ul>

The main investment purpose and the investment targets which were specified, aim at the following:

<b>Investment Principles</b>
<i>To specify and apply an investment policy to satisfy the provisions of the Law 146(I), 2006 and to comply with the principles contained in the Declaration of Investment Policy Principles of the Fund.</i>
<i>To implement an investment policy taking into account the data of all members of the Fund, which are listed below:</i> <b>Currency :</b> Euro <b>Maturity of Fund:</b> Relatively mature <b>Average Age:</b> 44 (simple), 48 (weighted according to the size of the account) <b>Targeted Investment Horizon:</b> : medium-term (12 years) <b>Investment Risk:</b> Low <b>Necessity of Liquidity :</b> High



## Strategy

The Management Committee has already specified the investment policy of the Fund after ensuring the advice of experts in the field. The most recent presentation on the strategic allocation of the Fund was made on the 6<sup>th</sup> April 2009 and it constitutes the basis for the formation of the current investment policy. In regard of the study for the strategic allocation of the Fund, the risks encountered by the Fund, and more specific the Value at Risk and the risk of not achieving the targets set, were calculated and evaluated. These matters have been analyzed during the most recent presentation concerning the strategy of the Fund on the 6<sup>th</sup> April 2009.

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

<b>investment class</b>	<b>Target allocation, %</b>	<b>Permitted limits, %</b>
Shares	15	Up to 15%
Bonds	15	Up to 15%
Deposits	40	Up to 40%
Loans to members	15	
Immovable Property	15	Up to 15%
<b>TOTAL</b>	<b>100</b>	
Expected return	5,0% per annum	
Variability of return	4,5% per annum	
Value at Risk 5% level	€ 18.9 millions	

The table below shows the targeted allocation for each investment class for the purposes of harmonization with the Directive:

<b>Investment class</b>	<b>Target Allocation</b>	<b>Maximum permitted limit<sup>1</sup></b>
In foreign currency	0 – 30%	30% <sup>1</sup>
Total in shares and non-government bonds	30%	70%
Non-negotiable in regulated markets	15%	40%

<sup>1</sup> In accordance with legislation, the investments in foreign currency bear a maximum limit of 10% for each foreign currency.



### **Procedure**

- Frequency of revising the Strategic Allocation of Assets  
The Management Committee undertakes, as it considers this to be a very important part of its responsibility towards the members to control the investment risk, to reexamine its investment targets and investment policy every three years or earlier if necessary, for instance in case of the occurrence of a significant change to the characteristics of the Fund (i.e. due to reformation of the Company).
  
- Frequency of revising the Declaration of Investment Policy Principles  
*In accordance with the Law, the Management Committee undertakes to revise the said Declaration at least every three years or earlier if necessary. The Declaration must be revised without any delay right after the occurrence of any significant change to the investment policy of the Fund.*
  
- *Professional Advice and Responsibility*  
*The Management Committee has full responsibility in respect of every final investment decision made. In case that the Management Committee does not dispose the resources, neither the experience nor the expertise to make any such decision, it must ensure an official advice by the experts in the field.*
  
- *The Management Committee convenes regularly to examine matters which concern the investments of the Fund. More specific:*
  - *To receive and revise reports on investment returns of the Fund.*
  - *To receive advice in respect of the implementation of the investment plan.*
  - *To communicate with several external investment consultants and managers.*
  - *To monitor and evaluate the performance of the fund.*



### **Management and Calculation of Risks**

■ *Dispersion*

*The Management Committee recognizes as principle that the prudent management of the assets of the Fund requires the adequate dispersion to various investment classes and even within each class. The Management Committee undertakes to examine a wide range of investment selections before investing. Also, it undertakes to ensure an adequate dispersion within each class of investment according to geographical location, industrial field, type of investment, issuer and other investment criteria, where this is feasible.*

■ *Investment Restrictions*

*For the purpose of monitoring the risk, the Management Committee undertakes to apply the permitted limits for each investment class as those are specified by the Directive. It has specified also permitted limits concerning the strategic allocation of the assets of the Fund applicable for each class of investment (see table above). More specific, the Management Committee undertakes not to invest more than 10% in businesses or assets of the Group to which the Sponsoring undertaking belongs.*

■ *Regular Asset Allocation / restoration of asset allocation*

*The Asset Managers are allowed to invest the assets of the Fund only up to the limits set in the above strategy. Whenever the need appears to return within the scope of the strategy as a result of market assessments or tactical movements, the approval of the Management Committee is first required.*

■ *Use of Foreign exchange hedging*

*For the foreign exchange hedging, in respect of the global bonds, the Fund has chosen to invest to Global Bonds hedged to Euro.*

*The Foreign exchange hedging will not be used for shares as this risk is not considered significant for the Fund. This is due to the maximum limit of 15% which was set for the allocation to shares, of which a certain percentage is in local shares or other European shares and due also to the fundamental reasons for not applying foreign exchange hedging to long-term placements in shares.*

■ *Use of derivatives*

*In accordance with the Law, the use of derivatives is permitted only for the purpose of controlling or reducing the investment risk. Investments in hedge funds for the purpose of improving the overall relation between investment risk and return of the portfolio may be excluded from this provision.*

■ *Guidelines for investment purposes*

*For each authorization to invest which is given by the Management Committee, a series of official Investment Targets must be agreed with the Asset Manager. Such targets must focus on the risk control by setting prudent investment limits, management investment principles and transparent information procedures.*



■ *Analysis of the Return on Investment*

*The Management Committee has specified an official circle for the evaluation of the Return on investment of the Fund as an additional measure for the purpose of controlling the investment risk. The reports on the return on investment to be provided must contain:*

- Investment returns per quarter, per year and long-term for each Asset Manager and each investment class.*
- Comment on the achievement of the investment targets assigned to each Asset Manager or for each investment class as well on the overall investment purpose of the Fund.*
- Explanation as regards to the reasons which led to the above investment returns.*
- Confirmation that the guidelines for the purposes of investments as specified above have been followed. In case that a deviation was made, the reason for this must be assigned in writing as well as the intended corrective measures.*
- Quantitative ways of calculating the risk, such as return indexes in connection with the risk, calculation of the return fluctuation and of the risk of having any minimum returns.*



**Concerned parties and their role**

The concerned parties employed by the Management Committee are:

<b>Concerned Parties</b>	<b>Remuneration</b>
<p><b>Consultant:</b> Hewitt Associates  <b>Role:</b> To provide assistance to the Management Committee in order to draw up and implement the Investment Policy of the Fund. This contains:</p> <ul style="list-style-type: none"> <li>- Drawing up of the investment strategy</li> <li>- Monitoring of the Asset Managers</li> <li>- Training seminars on investment issues</li> <li>- Provision of support to the Management Committee</li> <li>- Ensuring compliance with the Law</li> </ul>	<p>Annual pre-agreed remuneration</p>
<p><b>Asset Managers:</b>  Local Shares: :</p> <ul style="list-style-type: none"> <li>- Argus</li> <li>- Ethniki Xrimatistiriaki</li> <li>- Eurobank</li> </ul> <p>Global shares:</p> <ul style="list-style-type: none"> <li>- Schroders</li> <li>- Edinburgh Partners</li> </ul> <p>Global Bonds:</p> <ul style="list-style-type: none"> <li>- BlackRock</li> </ul>	<p>% on the assets under management</p>



***Appendix – Contact Details***

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