

## Pension Fund Treasury Management Custodian Cash Balances Arrangements

A number of questions are set and answered within this note, and the questions are grouped into four sections:

1. Background
2. Risk Management
3. Interest
4. Ratings

### 1. Background

The Pension Fund's Global Custodian is Northern Trust. Details of the Fund's cash balances held at the Custodian as at 11 March 2019 are set out below.

11-Mar-19		
	£m	%
Sterling	96.5	66.0
Dollar	41.2	28.2
Euro	7.3	5.0
Other	1.1	0.8
	<u>146.1</u>	<u>100%</u>

#### How is this cash managed?

**Sterling:** Sterling cash balances are swept into the (sterling) Northern Trust GLF and the BNP Paribas Insticash Fund.

**Dollar:** Dollar balances are swept into the (dollar) Northern Trust GLF and the BNP Paribas Insticash Fund.

**Euro:** The Fund is also able to utilise the Euro GLF sweep, however due to its adoption of negative interest rates in May 2015 this facility is not currently in use.

As a consequence, the Fund's cash is placed in a total of four separate sub funds.

#### How are GLFs constituted?

The GLFs are established as Investment Companies qualifying under the terms of the European Undertakings for Collective Investments in Transferable Securities (UCITS) Regulations/Directives. The BNP Paribas GLF is incorporated in Luxembourg and Northern Trust Global Fund is incorporated in Ireland.

What are the objectives?

The investment objective of the funds is to maximise current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing in a range of high quality fixed and adjustable rate instruments.

Are the GLFs actively managed?

Yes.

How do the GLFs invest?

The Funds allow for investment in Tier I securities issued or guaranteed by EU or OECD governments, agencies or instrumentality's, commercial banks and corporations.

The most commonly used are listed below:

*Government backed securities:* debt instruments issued by Governments

*Corporate paper:* short term obligations with maturities ranging from overnight to 180 days issued by banks, corporations and other borrowers.

*Certificates of deposit:* debt instruments issued by banks that pay interest – periodically or at maturity – and principal at maturity.

*Time deposits:* A deposit in an interest paying account that requires the money to remain on account for a specific length of time.

## **2. Risk management**

What investment restrictions are placed on the Funds?

A soft limit of no more than 10% in any single security, although there are circumstances in which higher holdings are permitted.

Each sub fund typically has at least 50 separate investments.

Are the sub funds separated?

Yes, each sub fund has a separate portfolio of assets. In other words the Fund's custodian cash in the three major currencies is spread across five separate sub funds, each typically with at least 50 underlying investments.

In the worst case scenario, what is the maximum loss the Pension Fund could incur?

In the event that one of the underlying investments in one of the sub funds failed, then the maximum loss suffered by the Essex Pension Fund would be its proportionate share of that underlying investment.

Does that value of the GLF form part of the balance sheet of BNP Paribas (the bank) or Northern Trust (the bank)?

No. The pension funds cash placed in the GLF will be reflected in the balance sheet of the sub fund.

How are the Essex Fund's mandates distributed between the two GLFs as at 11 March 2019?

	<b>BNP Paribas GLF</b>	<b>Northern Trust GLF</b>
	<b>£m</b>	<b>£m</b>
Aviva	54.0*	-
Baillie Gifford	-	-
Stewart Investors	-	24.1
Hamilton Lane	11.2	-
Marathon	-	12.2
Longview	-	0.6
Cash Account	-	30.3
<b>Total</b>	<b>65.2</b>	<b>67.2</b>

\*A £40m property purchase has been agreed the purchase is still pending

Is there a maximum amount allowed in one GLF?

Yes. The Pension Fund Treasury Management Strategy states:

- Northern GLF - £80m (no change on an operational basis)
- Northern GLF - £150m (on a temporary basis to facilitate the redeployment of assets)
- BNP Paribas GLF - £60m (no change on an operational basis)
- BNP Paribas GLF - £150m (on a temporary basis to facilitate the redeployment of assets)

What notice period is required to withdraw funds?

Each Fund has a daily cut off time for dealing. To withdraw Funds on the same day would require notice prior to the cut off deadline.

### 3. Interest

What interest rate is payable?

Net annualised interest rates (i.e. net of fees) based on year ended 28 January 2019 on the four sub funds used are set out in the table below. If the GLFs were not used, the cash balance (referred to as "idle cash") would attract interest from the Custodian.

	BNP Paribas GLF	Northern Trust GLF
Sterling	0.5%	0.48%
US Dollar	2.0%	2.01%

#### 4. Ratings

##### How are the GLFs rated?

In summary all are AAA rated.

##### **BNP Paribas**

The Funds have obtained and will seek to maintain the following:

AAAm by Standard and Poor's

##### **Northern Trust**

The Funds have obtained and will seek to maintain the following:

AAAf S1+ by Standard and Poor's

Aaa-mf by Moody's

##### What is the definition of the ratings?

Standard & Poor's AAA rating: *"An obligation rated 'AAA' has the highest rating assigned by Standard & Poor. The obligor's capacity to meet its financial commitment on the obligation is extremely strong".*

Standard & Poor's Short Term rating (A-1): *"An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by Standard & Poor's. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is extremely strong".*

Moody's Aaa-mf rating: *"Money market funds rated Aaa-mf have very strong ability to meet the dual objectives of providing liquidity and preserving capital".*

Fitch AAA/mmf rating: *"Denote extremely strong capacity to achieve money market fund's investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk. This capacity is strongly protected from foreseeable events".*

**Investment Team**  
**March 2019**

## **NORTHERN TRUST GLOBAL FUNDS PLC**

### **INVESTMENT RESTRICTIONS**

The investment restrictions applying to each Fund of the Company under the Regulations are set out below. These are, however, subject to the qualifications and exemptions contained in the Regulations and in the Central Rules. Any additional investment restrictions for other Funds will be formulated by the Directors at the time of the creation of such Fund with the prior approval of the Central Bank and detailed in the relevant Supplement.

Where a Fund inadvertently breaches the limitations set out below, due to unforeseen events arising following the purchase of the securities, the Investment Manager will sell such securities as soon as practicable taking into account the best interests of the Shareholders.

The Directors may from time to time impose such further investment restrictions as shall be compatible with or in the interest of the Shareholders.

#### **1. Permitted Investments**

Investments of a Fund other than an Authorised Money Market Fund are confined to:

- 1.1. Transferable securities and Money Market Instruments which are either admitted to official listing on a stock exchange in an EU Member State or non-EU Member State or which are dealt on a market which is regulated, operates regularly, is recognised and open to the public in an EU Member State or non-EU Member State;
- 1.2. Recently issued transferable securities which will be admitted to official listing on a stock exchange or other market (as described above) within a year;
- 1.3. Money Market Instruments other than those dealt on a regulated market;
- 1.4. Units of UCITS;
- 1.5. Units of AIFs;
- 1.6. Deposits with credit institutions; and
- 1.7. FDIs.

#### **2. Investment Restrictions**

- 2.1. A Fund other than an Authorised Money Market Fund may invest no more than 10% of net assets in transferable securities and Money Market Instruments other than those referred to in paragraph 1.

2.2. A Fund other than an Authorised Money Market Fund may invest no more than 10% of net assets in recently issued transferable securities which will be admitted to official listing on a stock exchange or other market (as described in paragraph 1.1) within a year. This restriction will not apply in relation to investment by the Fund in certain US securities known as Rule 144A securities provided that:

2.2.1. the securities are issued with an undertaking to register with the US Securities and Exchanges Commission within one year of issue; and

2.2.2. the securities are not illiquid securities i.e. they may be realised by the relevant Fund within seven days at the price, or approximately at the price, at which they are valued by the Fund.

2.3. A Fund other than an Authorised Money Market Fund may invest no more than 10% of net assets in transferable securities or Money Market Instruments issued by the same body provided that the total value of transferable securities and Money Market Instruments held in the issuing bodies in each of which it invests more than 5% is less than 40%.

2.4. The limit of 10% (in 2.3) is raised to 25% in the case of bonds that are issued by a credit institution which has its registered office in an EU Member State and is subject by law to special public supervision designed to protect bond-holders. If a Fund invests more than 5% of its net assets in these bonds issued by one issuer, the total value of these investments may not exceed 80% of the Net Asset Value of the Fund.

2.5. The limit of 10% (in 2.3) is raised to 35% if the transferable securities or Money Market Instruments are issued or guaranteed by an EU Member State or its local authorities or by a non-EU Member State or public international body of which one or more EU Member States are members.

2.6. The transferable securities and Money Market Instruments referred to in 2.4. and 2.5 shall not be taken into account for the purpose of applying the limit of 40% referred to in 2.3.

2.7. A Fund other than an Authorised Money Market Fund may not invest more than 20% of net assets in deposits made with the same credit institution.

Deposits with any one credit institution, other than credit institutions authorised in the EEA or credit institutions authorised within a signatory state (other than an EEA Member State) to the Basle Capital Convergence Agreement of July 1988 (Switzerland, Canada, Japan, US) or credit institutions located in Jersey, Guernsey, the Isle of Man, Australia or New Zealand held as ancillary liquidity, must not exceed 10% of net assets.

This limit may be raised to 20% in the case of deposits made with the Depositary.

2.8. The risk exposure of a Fund other than an Authorised Money Market Fund to a counterparty to an OTC derivative may not exceed 5% of net assets.

This limit is raised to 10% in the case of credit institutions authorised in the EEA; credit institutions authorised within a signatory state (other than an EEA member state) to the Basle Capital Convergence Agreement of July, 1988 or a credit institution authorised in Jersey, Guernsey, the Isle of Man, Australia or New Zealand.

2.9. Notwithstanding paragraphs 2.3, 2.7 and 2.8 above, a combination of two or more of the following issued by, or made or undertaken with, the same body may not exceed 20% of net assets:

2.9.1. investments in transferable securities or Money Market Instruments;

2.9.2. deposits; and/or

2.9.3. counterparty risk exposures arising from OTC derivatives transactions.

2.10. The limits referred to in 2.3, 2.4, 2.5, 2.7, 2.8 and 2.9 above may not be combined, so that exposure to a single body shall not exceed 35% of net assets.

2.11. Group companies are regarded as a single issuer for the purposes of 2.3, 2.4, 2.5, 2.7, 2.8 and 2.9. However, a limit of 20% of net assets may be applied to investment in transferable securities and Money Market Instruments within the same group.

2.12. A Fund other than an Authorised Money Market Fund may invest up to 100% of net assets in different transferable securities and Money Market Instruments issued or guaranteed by any EU Member State, its local authorities, non-EU Member States or public international bodies of which one or more EU Member States are members or any of the following:

OECD Member States

Government of Brazil (provided the relevant issues are investment grade)

Government of India (provided the relevant issues are investment grade)

Government of Singapore

European Investment Bank

European Bank for Reconstruction & Development

International Finance Corporation

International Monetary Fund

Euratom

The Asian Development Bank, Council of Europe

Eurofima

African Development Bank

The World Bank

The International Bank for Reconstruction & Development

The Inter American Development Bank

European Union, European Central Bank

Federal National Mortgage Association

Federal Home Loan Mortgage Corporation

Government National Mortgage Association  
Student Loan Marketing Association  
Federal Home Loan Bank  
Federal Farm Credit Bank  
Tennessee Valley Authority and Straight-A Funding LLC

The Fund must hold securities from at least 6 different issues, with securities from any one issue not exceeding 30% of net assets.

### **3. Investment in Collective Investment Schemes ("CIS")**

3.1. A Fund other than an Authorised Money Market Fund may not invest more than 10% of net assets in any one CIS.

3.2. Investment in AIFs may not, in aggregate, exceed 30% of net assets.

3.3. Any CIS in which a Fund invests must be prohibited from investing more than 10% of net assets in other open-ended CIS.

3.4. When a Fund invests in the units of other CIS that are managed, directly or by delegation, by the Fund's management company or by any other company with which the Fund's management company is linked by common management or control, or by a substantial direct or indirect holding, that management company or other company may not charge subscription, conversion or redemption fees on account of the Fund's investment in the units of such other CIS.

3.5. Where a commission (including a rebated commission) is received by the Fund's investment adviser by virtue of an investment in the units of another CIS, this commission must be paid into the property of the Fund.

### **4. Index Tracking UCITS**

4.1. A Fund other than an Authorised Money Market Fund may invest up to 20% of net assets in shares and/or debt securities issued by the same body where the investment policy of the Fund is to replicate an index which satisfies the criteria set out in the Central Bank Rules and is recognised by the Central Bank.

4.2. The limit in 4.1 may be raised to 35%, and applied to a single issuer, where this is justified by exceptional market conditions.

### **5. General Provisions**

5.1. An investment company, or management company acting in connection with all of the CIS it manages, may not acquire any shares carrying voting rights which would enable it to exercise significant influence over the management of an issuing body.



5.2. A Fund may acquire no more than:

5.2.1. 10% of the non-voting shares of any single issuing body;

5.2.2. 10% of the debt securities of any single issuing body;

5.2.3. 25% of the units of any single CIS;

5.2.4. 10% of the Money Market Instruments of any single issuing body.

The limits laid down in 5.2.2, 5.2.3 and 5.2.4 above may be disregarded at the time of acquisition if at that time the gross amount of the debt securities or of the Money Market Instruments, or the net amount of the securities in issue cannot be calculated.

5.3. 5.1 and 5.2 shall not be applicable to:

5.3.1. transferable securities and Money Market Instruments issued or guaranteed by an EU Member State or its local authorities;

5.3.2. transferable securities and Money Market Instruments issued or guaranteed by a non-EU Member State;

5.3.3. transferable securities and Money Market Instruments issued by public international bodies of which one or more EU Member States are members;

5.3.4. shares held by a Fund other than an Authorised Money Market Fund in the capital of a company incorporated in a non-EU Member State which invests its assets mainly in the securities of issuing bodies having their registered offices in that state, where under the legislation of that state such a holding represents the only way in which the Fund other than an Authorised Money Market Fund can invest in the securities of issuing bodies of that state. This waiver is applicable only if in its investment policies the company from the non-EU Member State complies with the limits laid down in 2.3 to 2.11, 3.1, 3.2, 5.1, 5.2, 5.4, 5.5 and 5.6 and provided that where these limits are exceeded, paragraphs 5.5 and 5.6 below are observed;

5.3.5. shares held by a Fund other than an Authorised Money Market Fund in the capital of subsidiary companies carrying on only the business of management, advice or marketing in the country where the subsidiary is located, in regard to the repurchase of shares at Shareholders' request exclusively on their behalf.

5.4. Other than an Authorised Money Market Fund a Fund need not comply with the investment restrictions herein when exercising subscription rights attaching to transferable securities or Money Market Instruments which form part of their assets.

5.5. The Central Bank may allow recently authorised Funds other than an Authorised Money Market Fund to derogate from the provisions of 2.3 to 2.12, 3.1, 3.2 4.1 and 4.2 for six

months following the date of their authorisation, provided they observe the principle of risk spreading.

5.6. If the limits laid down herein are exceeded for reasons beyond the control of the Company, or as a result of the exercise of subscription rights, the Company must adopt as a priority objective for its sales transactions the remedying of that situation, taking due account of the interests of its Shareholders.

5.7. Neither the Company nor a Fund, may carry out uncovered sales of:

5.7.1. transferable securities;

5.7.2. Money Market Instruments;

5.7.3. units of CIS; or

5.7.4. FDIs.

5.8. A Fund other than an Authorised Money Market Fund may hold ancillary liquid assets.

## **6. FDIs**

The below additional investment restrictions in respect of FDI shall apply in respect of all Funds.

6.1. The Fund's global exposure relating to FDI must not exceed its total Net Asset Value (this provision may not be applicable to Funds that calculate their global exposure using the value at risk methodology as disclosed in the relevant Supplement).

6.2. Position exposure to the underlying assets of FDIs, including embedded FDIs in transferable securities or Money Market Instruments, when combined where relevant with positions resulting from direct investments, may not exceed the investment limits set out in the Central Bank Rules. (This provision does not apply in the case of index based FDIs provided the underlying index is one which meets with the criteria set out in the Central Bank Rules.)

6.3. A Fund may invest in FDIs dealt in OTC derivatives provided that the counterparties to OTC transactions are institutions subject to prudential supervision and belonging to categories approved by the Central Bank.

6.4. Investment in FDIs is subject to the conditions and limits laid down by the Central Bank

***Northern Trust Global Cash Fund Prospectus – 30 November 2018***

## **BNP PARIBAS INSTICASH – GLOBAL LIQUIDITY FUND**

### **INVESTMENT RESTRICTIONS**

For the purpose of this Appendix 1, the following definitions apply:

“Member State”: Means member state of the European Union. The states that are contracting parties to the Agreement creating the European Economic Area other than the Member States of the European Union, within the limits set forth by this Agreement and related acts are considered as equivalent to Member States of the European Union.

“Third Country”: Means a country other than a Member State.

1. A sub-fund’s investments shall comprise only one or more of the following:

a) transferable securities and money market instruments admitted to or dealt in on a regulated market as defined by Directive 2004/39;

b) transferable securities and money market instruments dealt in on another regulated market in a Member State, which operates regularly and is recognised and open to the public;

c) transferable securities and money market instruments admitted to official listing on a stock exchange in a country which is not a European Union Member State or dealt in on another regulated market in a country which is not a European Union Member State which operates regularly and is recognised and open to the public;

d) recently issued transferable securities and money market instruments, provided that:

(i) the terms of issue include an undertaking that an application will be made for admission to official listing on a stock exchange or to another regulated market which operates regularly and is recognised and open to the public; and

(ii) the admission is secured within one year of the issue;

e) units or shares in UCITS authorised according to Directive 2009/65 and/or other UCIs within the meaning of Article 1(2)(a) and (b) of the Directive 2009/65, whether or not established in a Member State, provided that:

(i) such other UCIs are authorised under laws which provide that they are subject to supervision considered by the CSSF to be equivalent to that laid down in EU legislation, and that cooperation between authorities is sufficiently ensured;

(ii) the level of protection to unitholders or shareholders in these other UCIs is equivalent to that provided for unitholders or shareholders in a UCITS, and in

particular that the rules on assets segregation, borrowings, lending, and uncovered sales of transferable securities and money market instruments are equivalent to the requirements of Directive 2009/65;

- (iii) the business of these other UCIs is reported in semi-annual interim and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period; and
- (iv) no more than 10% of the assets of the UCITS or of the other UCIs whose acquisition is contemplated, can, according to their management regulations or articles of association, be invested in aggregate in units or shares of other UCITS or other UCIs;

f) deposits with credit institution which are repayable on demand or have the right to be withdrawn and maturing in no more than 12 months, provided that the credit institution has its registered office in a Member State or, if the credit institution has its registered office in a Third Country, provided that it is subject to prudential rules considered by the CSSF as equivalent to those laid down in EU legislation;

g) financial derivative instruments, including equivalent cash-settled instruments, dealt in on a regulated market referred to in points a), b) and c) above or financial derivative instruments dealt in over-the-counter (OTC) derivatives, provided that:

- (i) the underlying of the derivative consists of instruments covered by this paragraph<sup>1</sup>., financial indices, interest rates, foreign exchange rates or currencies, in which the corresponding sub-fund may invest according to its investment objectives as stated in the Company's Articles of Association.
- (ii) the counterparties to OTC derivatives transactions are institutions subject to prudential supervision and belonging to the categories approved by the CSSF, and
- (iii) the OTC derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time and at their fair value at the Company's initiative;

h) money market instruments other than those dealt in on a regulated market, which fall under Article 1 of the Law, if the issue or issuer of such instruments is itself regulated for the purpose of protecting investors and savings, provided that they are:

- (i) issued or guaranteed by a central, regional or local authority, by a central bank of a Member State, the European Central Bank, the European Union or the European Investment Bank, a Third Country or, in the case of a Federal State, by one of the members making up the federation or, by a public international body to which one or more European Union Member States belong;
- (ii) issued by a company any securities of which are dealt in on regulated markets referred to in Section 1. paragraph a), b) or c) above;
- (iii) issued or guaranteed by an establishment subject to prudential supervision, in accordance with criteria defined by EU law, or by an establishment which is subject to and complies with prudential rules considered by the CSSF to be at least as stringent as those laid down by EU legislation; or
- (iv) issued by other bodies belonging to the categories approved by the CSSF provided that the investments in such instruments are subject to investor protection equivalent to that laid down in points (i), (ii) or (iii) first, second or third sub-clauses immediately preceding, and provided that the issuer is a company whose capital and reserves amount to at least EUR 10 000 000 and which presents and publishes its annual accounts in accordance with the Directive 78/660, is an entity which, within a group of companies which includes one or several listed companies, is dedicated to the financing of the group or is an entity which is dedicated to the financing of securitisation vehicles which benefit from a banking liquidity line.

2. A sub-fund shall not, however:

a) invest more than 10% of its assets in transferable securities, or money market instruments other than those referred to in Section 1.; or

b) acquire either precious metal or certificates representing them.

A sub-fund may hold ancillary liquid assets.

3. The Company may acquire movables and immovable property indispensable for the direct performance of its activity.

4.

a) A sub-fund shall not invest no more than:

- (i) 10% of its assets in transferable securities or money market instruments issued by the same body; or
- (ii) 20% of its assets in deposits made with the same body.

The risk exposure to a counterparty of a sub-fund in an OTC derivative transaction shall not exceed either:

- (i) 10% of its assets when the counterparty is a credit institution referred to Section 1. paragraph f); or
- (ii) 5% of its assets, in other cases.

b) The total value of the transferable securities and the money market instruments held by a sub-fund in the issuing bodies in each of which it invests more than 5% of its assets shall not exceed 40% of the value of its assets. That limitation shall not apply to deposits or OTC derivative transactions made with financial institutions subject prudential supervision. Notwithstanding the individual limits laid down in paragraph a), a sub-fund shall not combine, where this would lead to investment of more than 20% of its assets in a single body, any of the following:

- (i) investments in transferable securities or money market instruments issued by that body;
- (ii) deposits made with that body; or
- (iii) exposure arising from OTC derivatives transactions undertaken with that body.

c) The 10% limit laid down in the paragraph a) point (i) may be raised to a maximum of 35% if the transferable securities or money market instruments are issued or guaranteed by a Member State, by its local authorities, by a Third Country or by public international body to which one or more Member States belong.

d) The 10% limit laid down in the paragraph a) point (i) may be raised to a maximum of 25% where bonds are issued by a credit institution which has its registered office in a Member State and is subject by law to special supervision designed to protect bond-holders. In particular, sums deriving from the issue of those bonds shall be invested in accordance with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

Where a sub-fund invests more than 5% of its assets in the bonds referred to in paragraph a) which are issued by a single issuer, the total value of these investments shall not exceed 80% of the value of the assets of the sub-fund.

e) The transferable securities and money market instruments referred to in paragraphs c) and d) shall not be taken into account for the purpose of applying the limit of 40% referred to in paragraph b).

The limits provided in paragraph a), b), c) and d) shall not be combined, and thus investments in transferable securities or money market instruments issued by the same body or in deposits or derivative instruments made with this body carried out in accordance with paragraph a), b), c) and d) shall not exceed in total 35% of the assets of the sub-fund. Companies which are grouped together into a consolidated accounting entity as defined by Directive 83/349 or in accordance with recognised international accounting rules are considered as a single entity for the calculation of the limits stipulated in this Section 4.

A single sub-fund may invest a cumulative total of up to 20% of its assets in the transferable securities and money market instruments of a single group.

5. Without prejudice to the limits laid down in Section 8., the limits laid down in Section 4. are raised to a maximum of 20% for investments in shares or debt securities issued by the same body, when the aim of the sub-fund's investment policy is to replicate the composition of a certain stock or debt securities index which is recognised by the CSSF, on the following basis:

- (i) its composition is sufficiently diversified;
- (ii) the index represents an adequate benchmark for the market to which it refers;  
and
- (iii) it is published in an appropriate manner.

This limit of 20% shall be raised to a maximum 35% where that proves to be justified by exceptional market conditions (such as, but not limited to, disruptive market conditions or extremely volatile markets) in particular in regulated markets where certain transferable securities or money market instruments are highly dominant. The investment up to that limit shall be permitted only for a single issuer.

6. As an exception to Section 4., in accordance with the principle of risk-spreading, a sub-fund shall invest up to 100% of its assets in different transferable securities and money market instruments issued or guaranteed by a Member State, one or more of its local authorities, a Third Country part of the OECD, Brazil, Russia, Singapore and South Africa, or a public international body to which one or more Member States belong. Such a sub-fund shall hold securities from at least six different issues, but securities from any single issue shall not account for more than 30% of its total assets.

7.

a) A sub-fund may acquire the units or shares in UCITS or other UCIs referred to in Section 1. paragraph e), provided that no more than 20% of its assets are invested in units or shares of a single UCITS or other UCI. For the purposes of the application of this investment limit, each sub-fund in a multi-sub-fund UCI, as defined by Article 181 of the Law, is considered as a separate issuer, provided that the principle of segregation of the commitments of the different sub-funds with regard to third parties is assured.

b) Investments made in units or shares of UCIs other than UCITS shall not exceed, in aggregate, 30% of the assets of a sub-fund. Where a sub-fund has acquired units or shares of another UCITS or UCIs, the assets of the respective UCITS or other UCIs are not combined for the purposes of the limits laid down in Section 4.

c) Due to the fact that the Company may invest in UCI units, or shares, the investor is exposed to a risk of fees doubling (for example, the management fees of the UCI in which the Company is invested).

A sub-fund may not invest in a UCITS, or other UCI (underlying), with a management fee exceeding 3% per annum.

Where a sub-fund invests in the units or shares of other UCITS or UCIs that are managed, directly or by delegation, by the same management company or by any other company with which the management company is linked by common management or control, or by a substantial direct or indirect holding, the sub-fund will not incur any entry or exit costs for the units or shares of these underlying assets.

The maximum annual management fee payable directly by the sub-fund is defined in Book II.

8.

a) The Company shall not acquire any shares carrying voting rights which would enable it to exercise significant influence over the management of an issuing body.

b) A sub-fund may acquire no more than:

- (i) 10% of the non- voting shares of a single issuing body;
- (ii) 10% of debt securities of a single issuing body;
- (iii) 25% of units or shares of a single sub-fund of UCITS or other UCI within the meaning of Article 2 Paragraph 2 of the Law; or
- (iv) 10% of the money market instruments of a single issuing body.

The limits laid down in points (ii), (iii) and (iv) may be disregarded at the time of acquisition if, at that time, the gross amount of debt securities or of the money market instruments, or the net amount of the securities issued, cannot be calculated.

c) Paragraph a) and b) above do not apply with regard to:

- (i) transferable securities and money market instruments issued or guaranteed by a Member State or its local authorities;



- (ii) transferable securities and money market instruments issued or guaranteed by a country which is not a European Union Member State;
- (iii) transferable securities and money market instruments issued by a public international body to which one or more European Union Member State belong;
- (iv) shares held by the Company in the capital of a company incorporated in a Third Country not member of the European Union investing its assets mainly in securities of issuing bodies having their registered offices in that country, where under the legislation of that country, such a holding represents the only way in which the Company can invest in the securities of issuing of that country. This derogation shall apply only if in its investment policy the company from the Third Country not member of the European Union complies with the limits laid down in Sections 3, 6 and 7 paragraph a) and b). Where the limits set in Sections 4. and 7. are exceeded, Section 9. shall apply *mutatis mutandis*;

9. The sub-funds are not required to comply with the limits laid down in this Appendix when exercising subscription rights attaching to transferable securities or money market instruments which form part of their assets.

While ensuring observance of the principle of risks spreading, recently authorised sub-funds are allowed to derogate from Section 4, 5, 6 and 7 for six months following the date of their authorisation.

If these limits are exceeded for reasons beyond the control of the sub-fund or as a result of the exercise of subscription rights, the sub-fund shall adopt as a priority objective for its sales transactions the remedying of that situation, taking due account of the interests of its shareholders.

10. A sub-fund can acquire currencies through back-to-back loans.

A sub-fund may borrow the following, provided that such borrowing:

- a) is made on a temporary and represent a maximum of 10% of its assets;
- b) allow the acquisition of immovable property indispensable to the direct exercise of its activities and represent a maximum of 10% of its assets.

If a sub-fund is authorised to borrow under points a) and b), these loans must not exceed 15% of its total assets.

11. Without prejudice to the application of Sections 1., 2. and Appendix 2, a sub-fund shall not grant loans or act as a guarantor on behalf of third parties.

This shall not prevent a sub-fund from acquiring transferable securities, money market instruments or other financial instruments referred to in Section 1. paragraph e), g) and h), which are not fully paid.

12. A sub-fund shall not carry out uncovered sales of transferable securities, money market instruments or other financial instruments referred to in Section 1. paragraph e), g) and h).

13. By way of derogation of the above restriction, a sub-fund designed as “the Feeder” may invest:

a) at least 85% of its assets in units, or shares of another UCITS or another sub-fund of UCITS (the “Master”);

b) up to 15% of its assets in one or more of the following:

- ancillary liquid assets,
- financial derivative instruments, which may be used only for hedging purpose, in accordance with Section 1. paragraph g) and Appendix 2;
- movable and immovable property which is essential for the direct pursuit of its business.

14. A sub-fund may acquire shares of one or more other sub-funds of the Company (the target sub-fund), provided that:

- the target sub-fund does not, in turn, invest in the sub-fund;
- the proportion of assets that each target sub-fund invests in other target sub-funds of the Company does not exceed 10%;
- any voting rights attached to the shares of the target sub-funds are suspended for as long as they are held by the sub-fund and without prejudice to the appropriate treatment in the accounts and the periodic reports; and
- in any event, for as long as these target sub-fund shares are held by the Company, their value shall not be taken into consideration for the calculation of the net assets of the Company for the purposes of verifying the minimum threshold of net assets required by the law.

As a general rule, the Board of Directors reserves the right to introduce other investment restrictions at any time when indispensable for conforming to the laws and regulations in force in certain states where the Company's shares may be offered and sold. On the other hand, where permitted by current regulations applicable to the Company, the Board of Directors reserves the right to exempt one or more sub-funds from one or more of the investment restrictions specified above. These exceptions will be mentioned in the investment policies summarised in Book II for each of the sub-funds concerned.

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