SOFAZ Presentation

Rome, June 2016

Content

- SOFAZ's mission and governance structure
- Impact on Azerbaijan economy
- SOFAZ Investment Strategy
- Accountability and Transparency
- SOFAZ's investments in Italy

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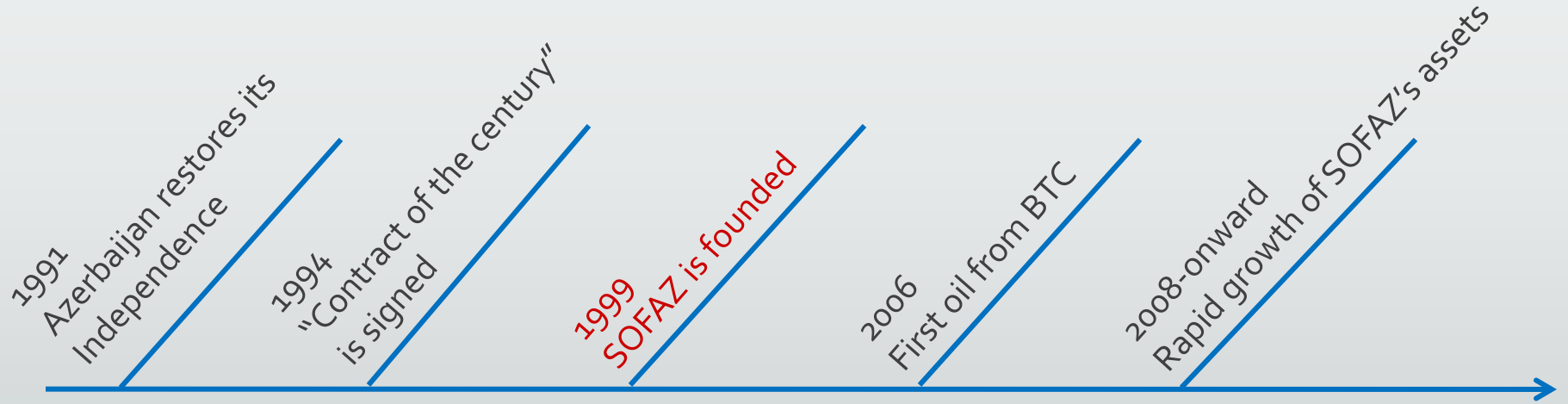
National Oil Strategy

- Development of oil and gas resources with foreign capital and technologies
- Development of multiple export routes
- Establishment of prudent oil revenue management framework in anticipation of substantial oil revenues

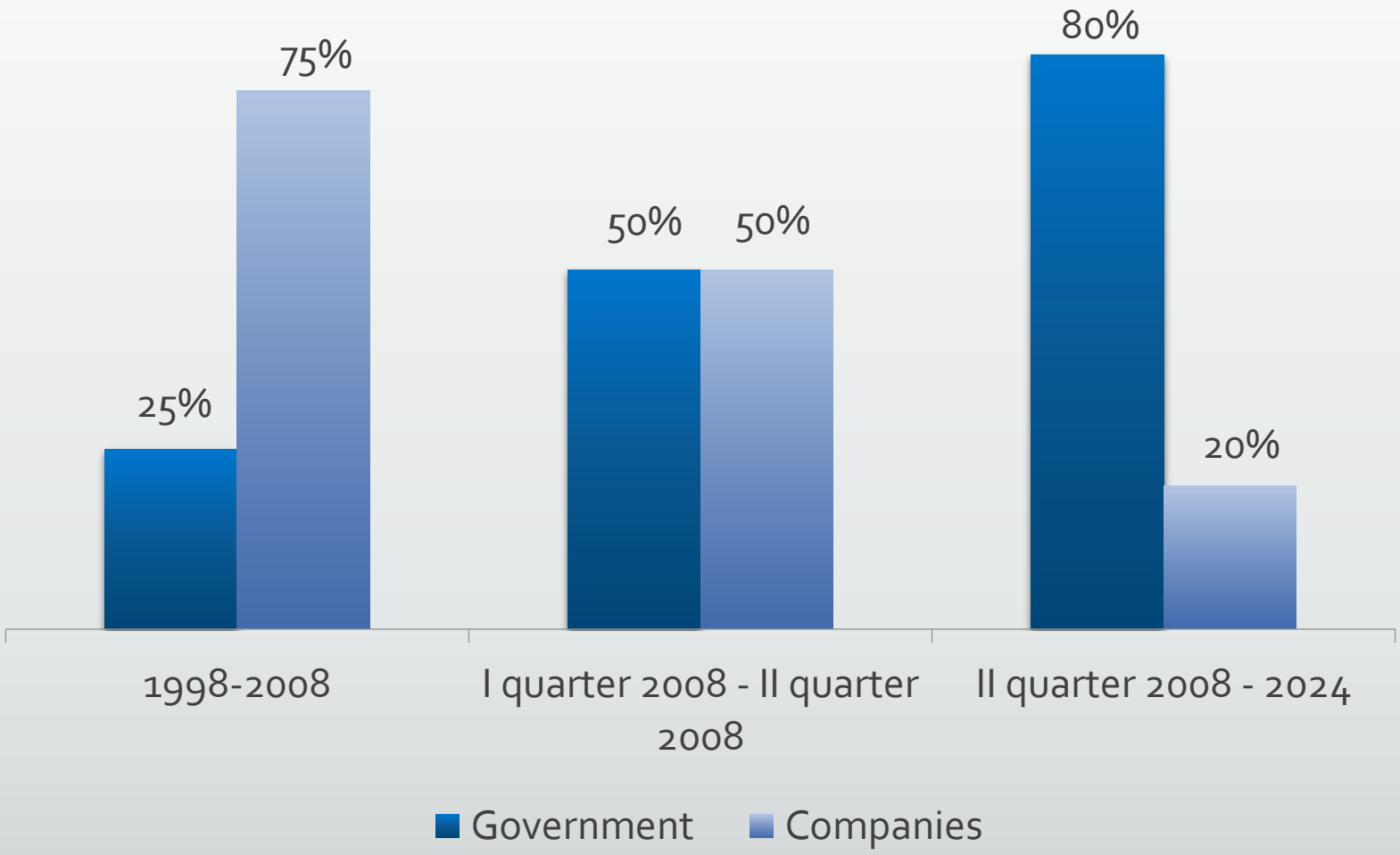


Objectives and main features

- Objectives:
  - Preservation of macroeconomic stability
  - Transformation of depletable hydrocarbon reserves into financial assets ensuring perpetual income for current and future generations

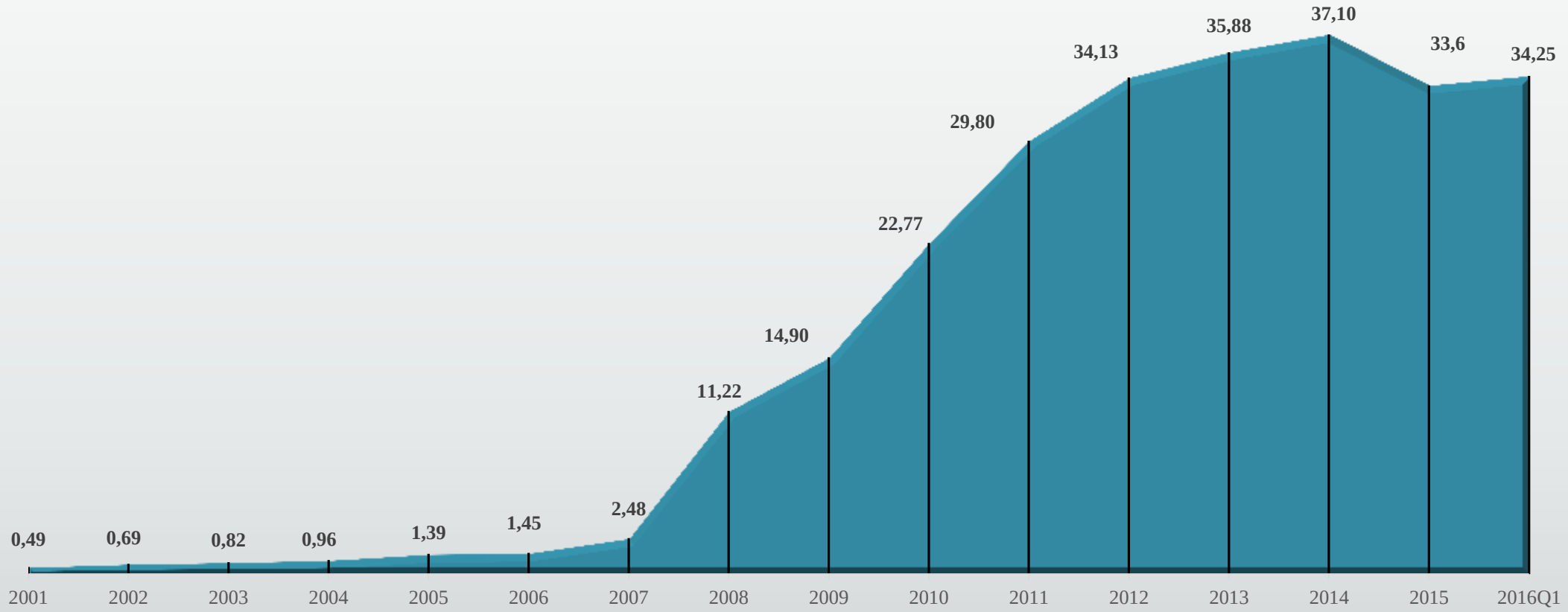
- Main features:
  - Sovereign Wealth Fund
  - Extra budgetary government institution
  - Separate legal entity

Government share in profit oil



SOFAZ assets during 2001-2016(Q1)

(USD billion, 31.03.2016)



Legal framework and Governance structure

- Legal framework
  - Statute of SOFAZ
  - Investment Guidelines
  - Investment Policy

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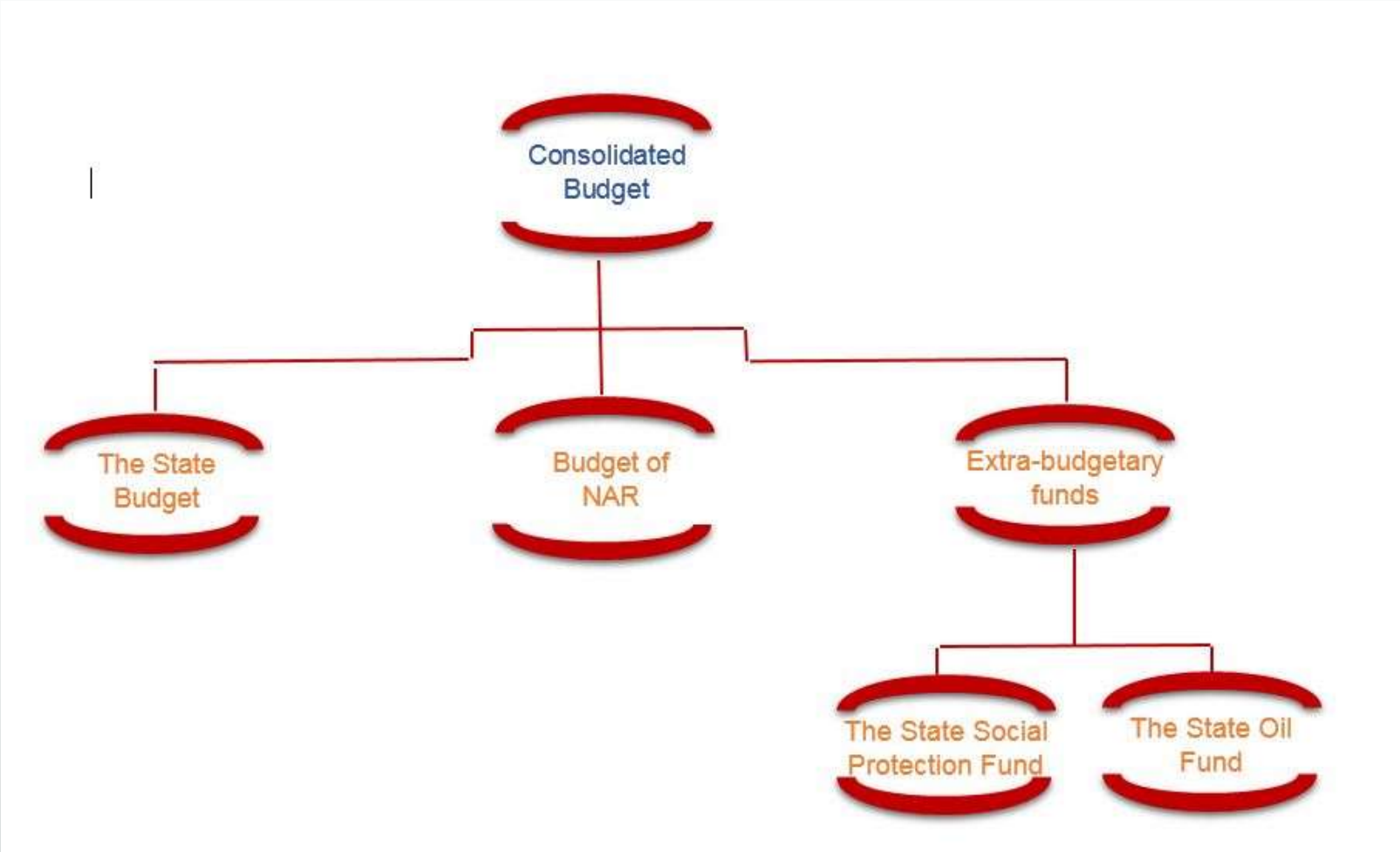
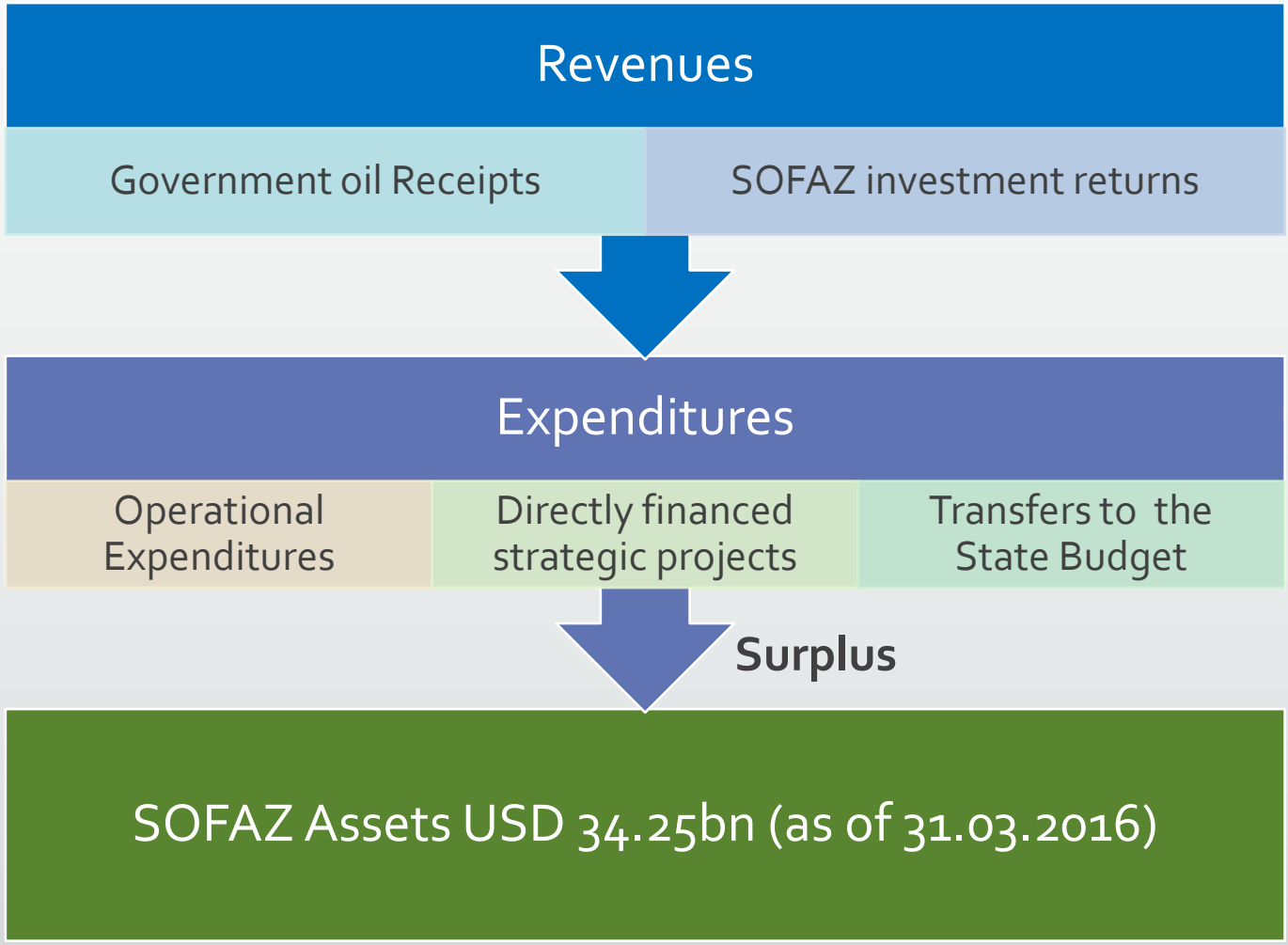
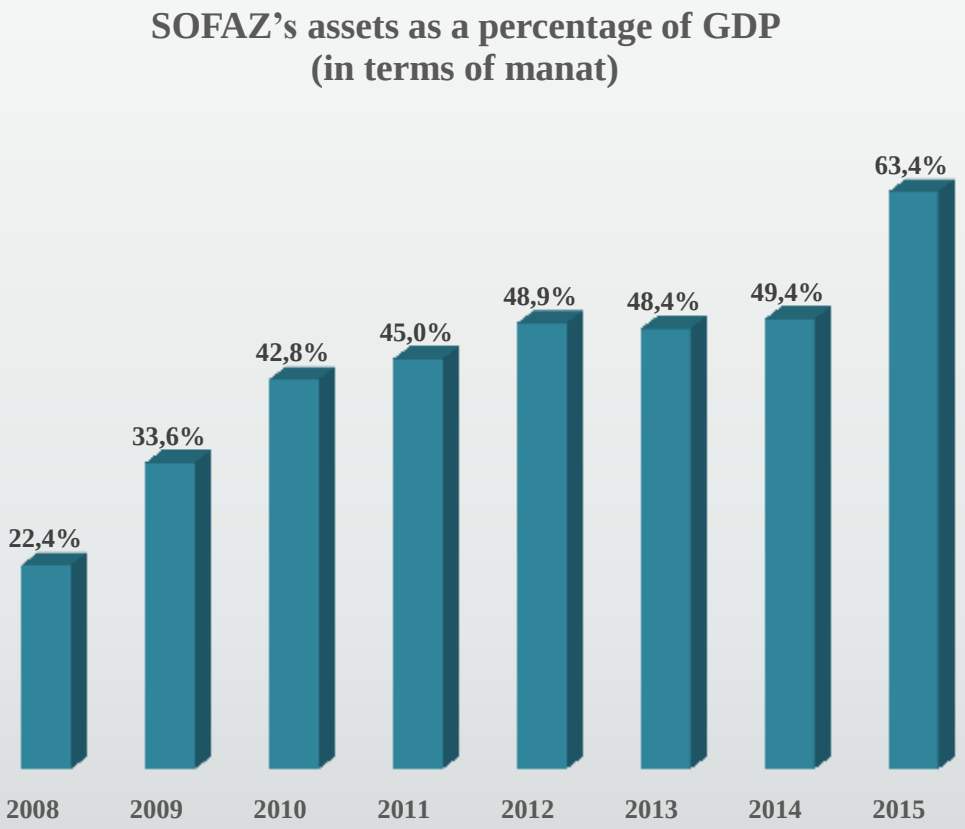
SOFAZ budget as a part of consolidated budget

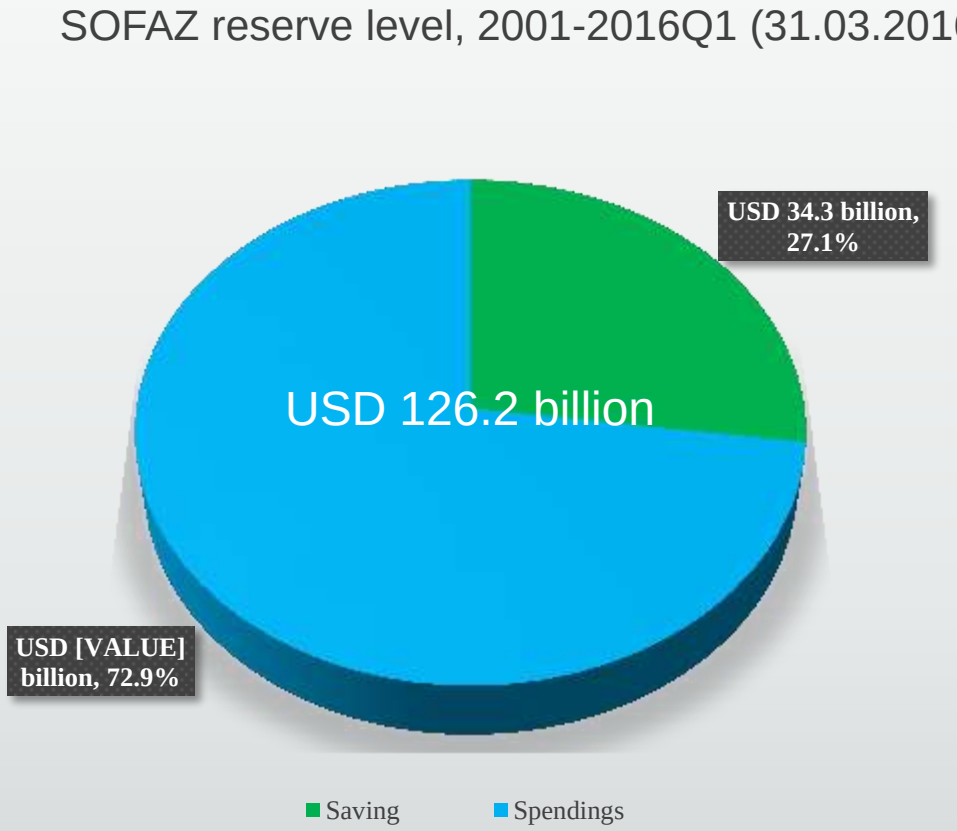


Funding and withdrawals

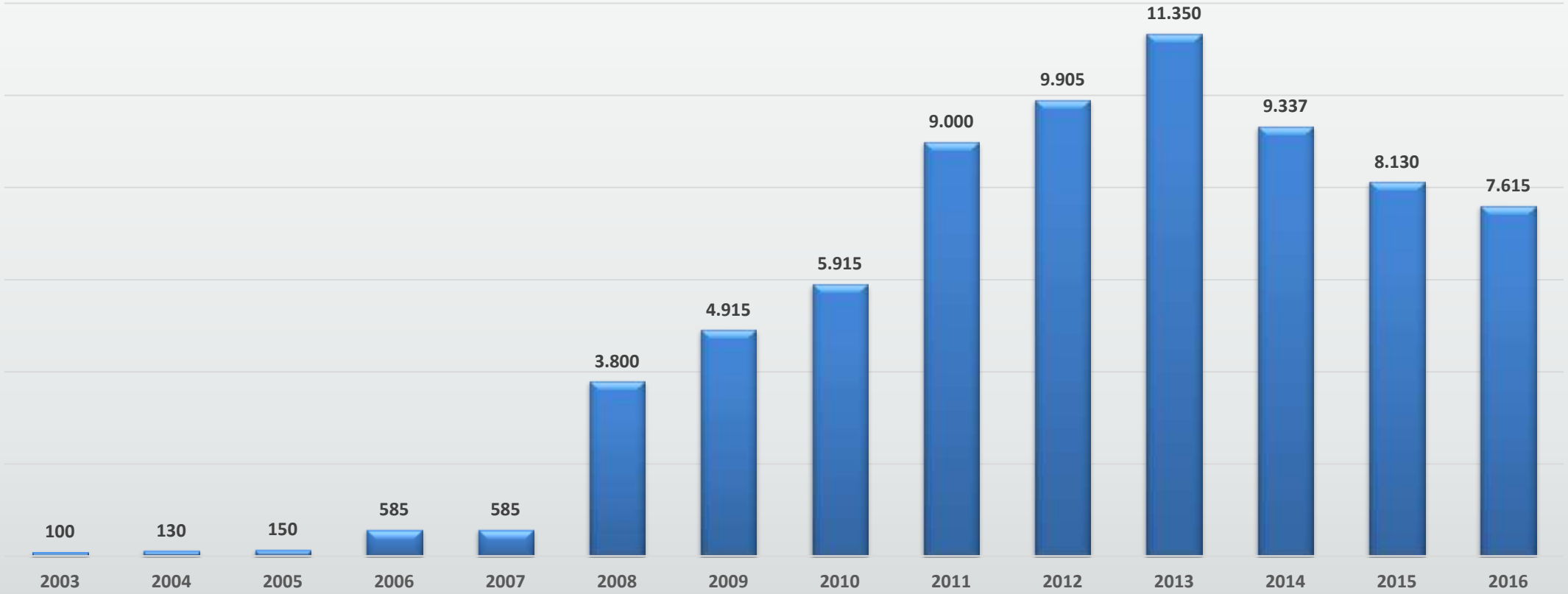


National economy and oil fund





SOFAZ transfers during 2001-2016
(AZN million)



Ongoing and completed projects

Projects	Start	End	Status	Expenditure Allocated (as 31.03.2016, USD mln)
Improving social conditions of refugees and IDPs	2001	-	Ongoing	2333.3
BTC Pipeline	2002	2006	Completed	312.6
Formation of the statutory capital of Azerbaijan Investment Company	2006	2006	Completed	102.7
Reconstruction of the Samur-Absheron irrigation system	2006	2018	Ongoing	1531.3
Constructing a water pipeline from Oguz-Gabala region to Baku	2006	2011	Completed	950.5

Ongoing and completed projects

Projects	Start	End	Status	Expenditure Allocated (as 31.03.2016, USD mln)
Baku-Tbilisi-Kars Railway	2007	2016	Ongoing	589.6
State Program on education of Azerbaijani youth abroad	2007	2015	Completed	190.5
"STAR" Oil Refinery Complex in Turkey - 40% share of AR (total cost 5,6 USD bln, equity share 1,9 USD bln)	2013	2018	Completed	760
"Southern Gas Corridor" (51% share of AR)	2014	2018	Ongoing	887.8

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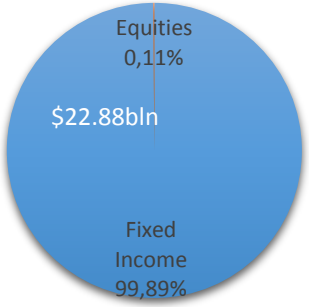
SOFAZ Investment Policy

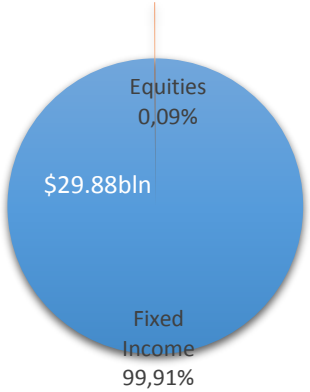
Currency Allocation	
50%	USD
35%	EUR
5%	GBP
Up to 10%	Currencies of countries with minimum credit rating "A"

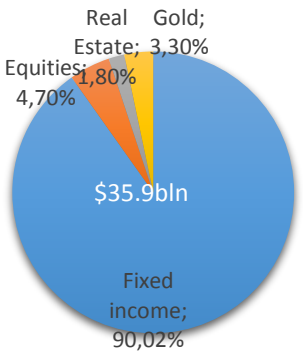
Asset Allocation	
70%	Fixed Income
Up to 15%	Equity, Private Equity
Up to 10%	Real Estate
Up to 5%	Gold

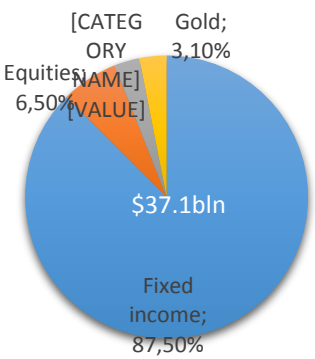
- Managing credit risk exposure: credit rating limits (at least 95% investment grade securities)
- Derivatives can only be used for hedging purposes

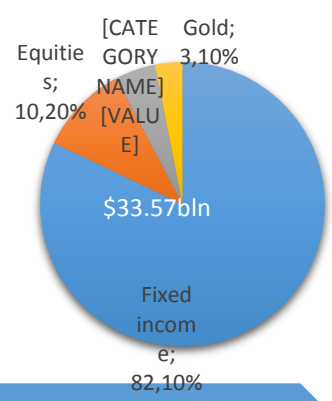
Major milestones (2001 – 2015)











2001

- *First investments were made.*

2007

- *Awarded with UN Public Service Award.*
- *Assets reached USD 2 billion.*

2010

- *Started investing into private equity*

2012

- *Assets reached US$ 30 billion*
- *Starts investing into public equity, gold, real estate*
- *New currencies introduced to the portfolio*
- *Commitment to IFC Catalyst Fund*

2013

- *Commitment to IFC Global Infrastructure Fund*
- *Total amount of gold purchased reached 30 tons*
- *20 tons of the purchased gold was brought to Azerbaijan*

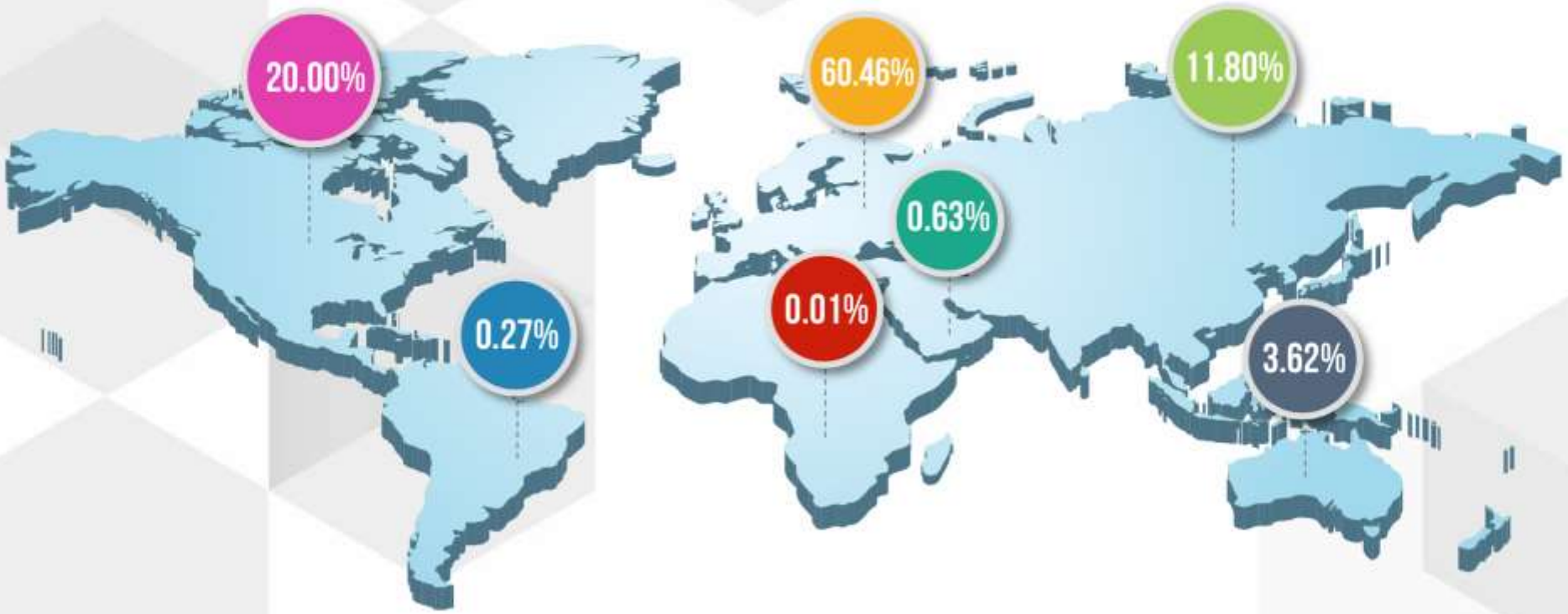
2014

- *Further investments made to Public Equities*
- *First time public equity indexes replicated in-house*
- *SAA amended*

2015

- *Real Estate investment made in Japan*
- *Further investments made to Real Estate through real estate funds*
- *Public Equity investments reached to USD 2.45 billion*

SOFAZ'S INVESTMENT PORTFOLIO BREAKDOWN BY GEOGRAPHIC REGIONS (AS OF 31.03.2016)



- North America
- South America
- Europe
- Middle East
- Africa
- Asia/Pacific
- Australia/New Zealand
- International financial organizations 3.21%

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Accountability and Transparency

- According to legislation
  - Fund is to disclose all information about its activity through:
    - *Quarterly and annual reports*
    - *Regular press conferences*
    - *Regularly updated website*
  - Fund has to be audited by an external independent auditor

Progress on SWF Linaburg-Maduell Transparency Index

Country	Fund	2012 score	Change in percentage points		
			2009–12	2007–09	2007–12
	Funds first scored in 2007				
Norway	*Government Pension Fund-Global*	98	1	5	6
New Zealand	*Superannuation Fund (PR)*	94	0	2	2
Chile	*Economic and Social Stabilization Fund*	91	9	20	29
United States	*Alaska Permanent Fund*	91	0	19	19
Australia	*Future Fund (PR)*	89	9	12	21
Azerbaijan	*State Oil Fund*	88	12	10	22
Canada	*Alberta Heritage Savings Trust Fund*	86	13	–5	8
Timor-Leste	*Petroleum Fund*	85	0	–2	–2
Trinidad and Tobago	*Heritage and Stabilization Fund*	83	0	34	34
Singapore	*Temasek Holdings*	76	3	19	22
Kuwait	*Kuwait Investment Authority*	73	10	15	25
Kazakhstan	National Fund	71	6	7	13
Korea	*Korea Investment Corporation*	69	9	24	33
Singapore	*Government of Singapore Investment Corporation*	66	1	56	57
United Arab Emirates	Mubadala Development Company	65	6	45	51
China	*China Investment Corporation*	64	7	33	40
Malaysia	*Khazanah Nasional*	59	15	6	21
United Arab Emirates	*Abu Dhabi Investment Authority*	58	0	56	56

EITI in Azerbaijan

- EITI is:

  For foreign and national extractive industries companies

  "Publish what you pay"

  For host governments of the extractive industries

  "Publish what you receive"

- EITI Secretariat of Azerbaijan is hosted by SOFAZ
- First ever EITI Report published (March, 2005)
- Azerbaijan regularly discloses EITI reports (14 reports published)
- All extractive industries companies are engaged in EITI implementation
- Civil Societies are actively involved in EITI

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SOFAZ's Investments in Italy

- FIXED INCOME – EUR 510 mln.
- EQUITIES – EUR 45 mln.
- REAL ESTATE – EUR 100 mln.

Q&A