

## Rules of Fondul Proprietatea SA

### **1. Information on the Alternative Investment Fund Manager of Fondul Proprietatea SA (“AIFM”) and relationship between AIFM and the investors of Fondul Proprietatea SA (“Fondul Proprietatea / Fondul”)**

#### **1.1. AIFM identification data:**

**1.1. a)** name of AIFM: Franklin Templeton International Services S.à r.l. (“FTIS”)

**1.1. b)** Trade Registry registration number: Registered with Companies Register in Luxemburg under number B 36.979, LEI 549300PVL6CYCWSH9C53

**1.1. c)** Headquarters at rue Albert Borschette 8A, L-1246 Luxemburg, phone number (352) 46 66 67-1 and website <https://www.franklintempleton.lu>.

**1.1. d)** FTIS provides services in Romania at cross-border level in accordance with Law 74/2015, being registered in the register kept by the Financial Supervisory Authority („FSA”) under number PJM07.1AFIASMDLUX0037/10 March 2016.

#### **1.2. Object and objective of the administration.**

AIFM administers the Fund under the conditions established by the Constitutive Act, the Management Agreement in force and the Investment Policy Statement - all these documents are published on the Fund's website, [www.fondulproprietatea.ro](http://www.fondulproprietatea.ro).

#### **1.3. List of commissions charged by AIFM to investors.**

AIFM does not charge commissions directly from investors. AIFM has the quality of Sole Administrator of the Fund and its remuneration is approved by the Ordinary General Meeting of Shareholders, under the conditions of the legislation in force.

The remuneration of the AIFM as both the AIFM and the Sole Administrator is established and calculated according to the management agreement concluded between the Fund and the AIFM, and the Remuneration Policy as approved by shareholders, documentation published on the Fund's website, [www.fondulproprietatea.ro](http://www.fondulproprietatea.ro).

#### **1.4. The expenses that the AIFM is authorized to incur for the Fund and the method of calculating it**

Pursuant to the Management Agreement and to the shareholders approvals, the Fund bears, pays or will reimburse the AIFM the following expenses incurred by the AIFM:

- (i) expenses related to the payment of fees owed to the depositary;
- (ii) expenses related to intermediaries and advisors including related to the financial advisory services in connection with the trading, issue, purchase, sale or transfer of listed and unlisted securities or financial instruments from the Fund's portfolio, including fees and commissions due to relevant market operators;
- (iii) expenses related to taxes and fees owed to the FSA or other public authorities, according to applicable legislation, as well as expenses or charges imposed to the Fund by any tax authority related to the expenses in this clause or otherwise applicable to the running of the business of the Fund, including the notary fees, stamp duty tax and other similar tax;
- (iv) expenses related to the financial audit performed on the Fund and any other audits or valuations required by the legislation in force applicable to the Fund (for clarity, these expenses relate to the fair value measurement of the Fund's portfolio for the purpose of IFRS accounting and financial statements preparation and of NAV calculation);
- (v) expenses related to the admission to trading of the financial instruments issued by the Fund, and any subsequent issues or offerings; expenses with intermediaries and professional advisors in relation to arranging and maintaining the listing;
- (vi) expenses related to investor relations and public relations in the interest of the Fund;
- (vii) expenses related to ongoing reporting and disclosure obligations according to legislation in force;
- (viii) expenses related to the organising of any GMS and communications with the shareholders and to the payment of fees for registrar services and services related to distributions to shareholders;
- (ix) expenses related to the payment of taxes and fees owed to the Bucharest Stock Exchange ("BSE"), London Stock Exchange ("LSE") and any other exchange on which the financial instruments of the Fund or global depositary receipts or depositary interests corresponding to Shares of the Fund shall be admitted to trading, as well as membership fees;
- (x) expenses related to the registration with the Trade Registry or documents issued by the Trade Registry;
- (xi) expenses related to the payment of fees owed to the banks for banking services performed for the Fund, including credit facility costs;
- (xii) expenses related to appointing legal advisers and other advisors to act in the interest of the Fund;
- (xiii) expenses related to contracts with external service providers existing as of execution of the Management Agreement until the expiry or termination of the agreement, including expenses with lease for the headquarter of the Fund;
- (xiv) expenses related to remuneration, transport and accommodation of the members of the Board of Nominees (in relation to their services and attendance at meetings, in accordance with the Constitutive Act, the mandate agreements and any applicable internal regulations) and for independent persons (not employees of the AIFM) acting as representatives of the Fund on the corporate bodies of companies in the Portfolio, where appropriate; and
- (xv) expenses relating to printing costs for the Fund's documentation.

The Fund doesn't support any expenses related to distribution or advertising within the meaning of art. 49 of the FSA Regulation 7/2020.

Unless otherwise provided in the Management Agreement, the AIFM will incur all the costs and expenses occasioned by the performance of its duties. Save as expressly provided in this Management Agreement, all costs and expenses incurred by the AIFM in the performance of its functions shall not be for the account of the Fund but shall be borne by the AIFM.

Save as otherwise provided in the Management Agreement, the AIFM shall be liable for the following out of pocket expenses incurred by it when performing its duties thereunder, including, but not limited to:

- (i) expenses in connection with mailing and telephone, except for letters to the shareholders of the Fund;
- (ii) expenses in connection with business travel and accommodation, except for expenses related to investors relations activities, shareholders meetings and meetings of the Board of Nominees;
- (iii) expenses incurred with salaries, bonuses and other remunerations granted to the employees and collaborators of the AIFM or any associated company who acts as a delegate in accordance with the provisions of the Management Agreement);
- (iv) other expenses incurred for the functioning of the AIFM or any associated company who acts as a delegate in accordance with the provisions of the Management Agreement).

In performing its obligations under the Management Agreement, the AIFM shall not use (and shall procure that any associated company who acts as a delegate in accordance with the provisions of the Management Agreement will not use) Soft Dollar Practices (i.e., arrangements under which assets or services, other than execution of securities transactions, are obtained by a fund manager from or through a broker in exchange for the fund manager directing to the respective broker trades concluded on behalf of the undertaking for collective investment managed by that fund manager). All transactions in connection to the portfolio shall be consistent with the principle of best execution.

## **1.5. The responsibility of the AIFM in carrying out the activity of managing the Fund**

AIFM has the attributions and responsibilities established by the Constitutive Act, the management agreement, and the Investment Policy Statement - all these documents are published on the Fund's website, [www.fondulproprietatea.ro](http://www.fondulproprietatea.ro).

AIFM shall exercise its powers under the control of the GMS and under the supervision of the Board of Nominees, in accordance with the provisions of the Constitutive Act of the Fund.

## **2. Information on the depositary, the relationship between the AIFM and the depositary**

### **2.1. Depositary identification data:**

**2.1. a)** company name and legal form: BRD - Groupe Société Generale S.A. (joint stock company, organized as a credit institution)

**2.1. b)** BRD Tower headquarters, Ion Mihalache Blvd. no. 1-7, Bucharest, sector 1, telephone number: 021 200 83 72 and fax number: 021 200 83 73, having the website <https://www.brd.ro>

**2.2. Object of the depositary agreement concluded between the Fund, the AIFM and the depositary:**

In accordance with the Depositary and Custody Agreement, the depositary provides services in connection with (a) the assets of the Fund that are represented by all financial instruments of the Fund that can be physically transferred or, if not, registered or held in an account, directly or indirectly, on behalf of the depositary and which are transferable securities, including those incorporating derivatives, money market instruments or units of collective investment undertakings ("Custody Assets"), and (b) all non-transferable assets qualify as Custody Assets and which, in accordance with applicable national law, are recorded only directly in the name of the Fund with the issuer itself or its agent, such as a registrar or transfer agent, on the basis of documents provided by Fund, as well as through external evidence ("Non-Custody Assets"). Custody Assets and Non-Custody Assets are collectively referred to as "Assets".

The relationship between the Fund and the depositary is governed by the Custody and Custody Agreement and applicable law and there is no other fiduciary or similar relationship between the Fund and the depositary or any other third party in relation to the Custody Assets.

**2.3. Duration of the agreement concluded between the Fund, the AIFM and the depositary**

The Fund has appointed BRD – Groupe Société Generale SA as its depositary and custodian, to hold and transfer the Fund's assets, and to certify the Fund NAV, and the computation of the AIFM fees through a depositary and custody agreement which entered into force on 20 May 2016, as subsequently amended, for a three-year term and was extended during 2019 for another three years until 20 May 2022.

**2.4. Types of instructions received by the depositary from the Fund**

In accordance with the Depositary and Custody Agreement, the depositary receives instructions from the Fund regarding the Custody Assets belonging to the Fund.

**2.5. The level of the commission collected by the depositary for the depositary activity**

The remuneration of the Depositary is established in accordance with the Depositary and Custody Agreement as follows.

1. The official NAV certification of the Fund and the certification of AIFM fees	Maximum 0.05% per annum, applied to the value of the Fund's NAV at the end of the month
2. Custody services: The custody fee is applied to the value of the assets in custody at the end of the month, separately, depending on the market where the respective assets are held, if they are different from those in Romania.	Between 0.02% - 0.30% per year, depending on the type of market
3. Corporate action fees	free of charge (for listed and unlisted holdings)
4. Settlement fees	<ul style="list-style-type: none"> <li>✓ Local market:</li> <li>- Free of charge for trading through the BRD broker or a BRD counterparty for government securities</li> <li>- Central Depository / SAFIR commissions for other intermediaries</li> <li>✓ Foreign markets:</li> <li>maximum 10 EURO / transaction, depending on the type of transaction</li> </ul>
5. Other AIF services and banking operations (eg opening and operating current bank accounts)	will be charged the commissions and fees currently charged to its customers on the date of the operation, according to the General Banking Conditions, the documentation for opening accounts with the Custodian Bank and the Guide of fees and commissions existing at the bank's offices and on its website <a href="http://www.brd.ro">www.brd.ro</a>

If, due to non-fulfillment of the AIFM's obligations, such as lack / incomplete transmission of SSI information, non-transmission or delayed transmission of compliant settlement instructions by the AIFM, failure to ensure the availability of settlement by the deadline, and the Custodian is charged with fees / penalties specific to non-compliance with the discipline regime in settlement by local / international central depositories or global custodians / (sub) local / external custodians, the Custodian will communicate such tariffs / penalties as additional expenses ("out-of-pocket") related to the Depository and Custody Agreement, which the AIFM is required to pay. The AIFM will pay to the Custodian, based on the communication sent by the latter, the additional fees or commissions ("out of pocket") charged by local / international central depositories or (sub) global / local custodians and due for the services provided for the Financial Instruments in custody on the local market and foreign markets, including any costs / fees charged for OTC transactions.

Each partial settlement is charged separately with the aforementioned transaction settlement fee.

VAT is applied to the commissions mentioned above in accordance with the Romanian tax legislation.

Information about commissions (accumulated / paid) on 31 December 2020, related to the services provided by the depositary are included in the financial statements published on the Fund's website, [www.fondulproprietaea.ro](http://www.fondulproprietaea.ro).

## **2.6. Responsibilities of the depositary towards the Fund and towards the investors of the Fund for which it carries out the depositary activity**

Pursuant to the Depositary and Custody Agreement the depositary has the following liability for the safe keeping of Custody Assets:

- a) only the depositary shall be liable in respect of the carrying out of the depositary services as described in the Depositary and Custody Agreement and set out by applicable laws including the AIF Law, considering that the AIFM is prohibited from acting as depositary with respect to the Assets under Article 21 (4) of the AIFM Directive as such was transposed by Article 20 (4) of Law 74/2015;
- b) in case of loss of a Custody Asset by the depositary or by a third party to whom the custody was delegated by the depositary, the depositary shall be liable to the Fund in the conditions set forth by Article 21 para. (12) and (13) of AIFM Directive as such were transposed by Article 20 (13) and (14) of Law 74/2015, as well as by Articles 100 and 101 of the EU Regulation 231/2013. In such conditions, unless the depositary proves the existence of an exoneration cause set forth by the EU Regulation 231/2013, the depositary shall return to the Fund an identical Custody Asset or a Custody Asset with a corresponding value within maximum five business days upon the Fund's or the AIFM's request;
- c) in case of other damages produced by the depositary in connection with safe-keeping of Custody Assets other than losses of such Custody Assets, the depositary shall not be liable towards the Fund for its actions or inactions in relation to these obligations as long as they observe the legal provisions and the damages are not due to the depositary's negligence, fraud, breach of agreement, bad faith, or wilful default.

Pursuant to the Depositary and Custody Agreement the depositary has the following liability in case of safe keeping of Non-Custody Assets and other duties of the Depositary Bank:

- a) with respect to all duties other than the safe-keeping of Custody Assets, the depositary shall not be liable towards the Fund for its actions or inactions in relation to these obligations, as long as they observe the legal provisions, and, in addition, the depositary shall not bear any prejudice or expense resulting from such action or inaction, except in the case where these are due to the depositary's negligence, fraud, breach of agreement, bad faith or wilful default;
- b) the depositary shall not be liable for the incompleteness or illegality of any investment made by third parties on behalf of the Fund's account and received by the depositary from them or in case the investment is no longer valid or is fraudulent, either by reason of invalidity, forgery, falsity, incompleteness or otherwise except in so far as such

situation results from the negligence, wilful default, bad faith, breach of agreement or fraud on the part of the depositary;

- c) the depositary shall not be liable to the Fund or any third party for any indirect consequential or special damages, including loss of profits or business opportunity, arising in connection with the agreement.

Except as set out in the agreement concluded with the Fund and applicable law, the depositary expressly disclaims all obligations to the Fund.

## **2.7. The termination of the Depositary and Custody Agreement**

The Depositary and Custody Agreement may be terminated in the following situations:

- (a) by the agreement of the Fund and the depositary;
- (b) by unilateral termination by any of the parties subject to the terms of the Depositary and Custody Agreement (both parties may unilaterally terminate the agreement with a prior written notice of at least 90 days);
- (c) in case the FSA, or the NBR or Romanian competent authorities withdraws notice / operating authorization of either party required to perform their obligations hereunder;
- (d) if the NBR initiates any surveillance or special administration procedures of the depositary or the depositary has started the bankruptcy proceedings.

In all cases of termination, the depositary undertakes to provide all reasonable cooperation and supply all reasonable information required to support the handover of the assets and other arrangements governed by the Depositary and Custody Agreement to any new depositary, subject to compliance with the applicable law and regulations.

## **2.8. Force majeure in the Depositary and Custody Agreement.**

The parties to the Depositary and Custody Agreement will not be held liable or will not be deemed to have failed to fulfil their obligations in any case of delay or non-fulfilment of an obligation, in whole or in part, generated or determined by circumstances beyond their control, absolutely insurmountable and unavoidable after the entry into force of the Depositary and Custody Agreement, including, but not limited to: interruption, delay or failure (partial or complete) of the electricity source or computer communication services (its equipment). Whereas, if the systems are internal to the Force majeure party, that person must have adequate means of prevention and recovery; actions of military and civilian authorities; sabotage; war or government measures; popular movements or civil unrest; strikes or other industrial blockades; state of national emergency; epidemics; floods, earthquakes, fires or other calamities; governmental orders, norms or regulations, judgments or of regulatory bodies, except for those relating to misconduct or violation of applicable law or legislation by that Party; difficulties or crises of energy or natural resources; inability to obtain or obtain in a timely manner materials,

equipment or transport, as well as any other cases of force majeure qualified as such according to doctrine or jurisprudence.

Both the occurrence and termination of a case of force majeure shall be notified to the other party within 2 working days from the date of its occurrence and termination, respectively, and the certificate of force majeure issued by the competent authorities (in this case, The competent Chamber of Commerce and Industry, depending on the place of occurrence of the case of force majeure) will be submitted within 1 working day from its issuance by the competent Chamber of Commerce. The party that fails to notify in due time the occurrence or termination of a case of force majeure shall pay the other party the equivalent amount of the damage caused, being deprived of its right to be released.

If a case of force majeure lasts for more than 30 calendar days, the Depositary and Custody Agreement may be terminated at the initiative of either Party by a simple notice sent to the other Party by courier or post, with acknowledgment of receipt, subject to and in accordance with applicable law only.

### **3. Information regarding Fondul Proprietatea SA**

#### **3.1 Name: Fondul Proprietatea SA**

#### **3.2 The currency used for denomination**

The Shares were admitted to trading on Tier 1 (currently Premium Category) of the Spot Regulated Market managed by the Bucharest Stock Exchange (the “BSE”) on 25 January 2011 under the symbol “FP” with the ISIN ROFPTAACNOR5 and are traded in RON. Starting with 29 April 2015 the GDRs are admitted to trading on the Specialist Fund Market of the London Stock Exchange plc (the “LSE”) under the symbol “FP.” with the ISIN US34460G1067 and are traded in US dollars.

The Fund’s functional and reporting currency is the RON.

#### **3.3. The Fund’s objectives description**

The Fund's investment objective mentioned in the Investment Policy Statement consists of the maximization of returns to shareholders and the increase of the net asset value per share via investments mainly in Romanian equities and equity-linked securities.

#### **3.3. a) Performance objectives of the Fund**

The AIFM pursues several performance objectives endorsed in the Management Agreement entered into between the Fund and the AIFM. The performance objectives are provided in the



Investment Policy Statement (“IPS”), a document mentioned in the Constitutive Act of the Fund which is approved by the extraordinary general meeting of shareholders, as follows:

- a) a discount objective, whereby the AIFM aims to ensure that the discount between the closing price for each trading day of the Shares on the BSE (the “Trading Day”) and the latest reported NAV per Share should be equal to or lower than 15% in at least two thirds of the Trading Days during the applicable reporting periods (i.e. a period between 1 January and 31 December each year with the first reporting period starting on 1 January 2020 and ending on 31 December 2020 and the second reporting period starting on 1 January 2021 and ending on 31 December 2021 each referred to below as a reporting period); and
- b) a NAV objective, whereby the AIFM aims to increase the level of the NAV (adjusted to reflect the value of the NAV as at the end of the applicable reporting periods, as well as any returns to shareholders being either dividend or non-dividend ones (i.e. in the last case following reductions of the par value of the Shares and distribution to the shareholders) implemented after the end of the previous reporting period, distribution fees and transaction and/or distribution costs relating to either dividend or non-dividend distributions including buy-backs of Shares/ GDRs/ depositary interests executed through daily acquisitions or public tenders after the end of the previous reporting period), divided by the total number of paid Shares, less treasury Shares and less equivalent in Shares of GDR acquired by the Fund and not yet converted into Shares, held at the end of each reporting period, above the level of the NAV per Share reported as at the end of the previous reporting period.

For the avoidance of doubt, the term “*previous reporting period*”, when applied to a first reporting period under the Management Agreement, is to be understood as being the last reporting period derived from either the current or the previous management agreement.

The AIFM aims to meet the performance criteria by implementing corporate actions, subject to approval by the Fund's shareholders, with the objective of narrowing down the discount between the Fund's NAV per share and the Shares' market price. Such corporate actions include the buyback programmes and cash distributions conducted by the Fund. Considering that the management fee payable to the AIFM is calculated based on the market capitalization of the Fund, which is in direct proportion with the market value per Share, any action of the AIFM leading to an increase of the Share price will have an impact on the amount of the management fee. In order to prevent a potential conflict of interests between itself and the Fund arising from the increase of the Shares' market price, the AIFM observes rigorously the requirements approved by the Fund's shareholders and acts under the close monitoring of the Board of Nominees and generally observes the specific conflicts of interest policies applicable to the Fund and to the AIFM.

### **3.3. b) Investment Policy**

The prudential rules concerning the investment policy of the Fund, as well as the investment goals, objectives, and the decision-making process for selecting investments in accordance with the investment objectives are set out under the Fund's IPS. The IPS provides criteria against which investment results will be measured and serves as a review document to monitor, evaluate, and compare the performance of the AIFM on a regular basis.

The IPS is drafted and proposed by the AIFM, after consulting the Board of Nominees, with the observance of the investment limits set forth in the applicable laws and regulations and in the Constitutive Act. The latest form of the IPS in force starting with 23 July 2020 was approved by the Fund's EGMS on 28 April 2020. The IPS is published on the Fund's website <https://www.fondulproprietatea.ro/home/investments/investment-strategy.html>.

In accordance with the Investment Policy Statement, the AIFM may propose shareholders cash distributions. The level of cash distributions is proposed by the AIFM applying the Annual Cash Distribution Policy and in accordance with the other measures for Control Discount Mechanism in place (for instance the buy-backs). The Annual Cash Distribution Policy is published on the Fund's website at the following link: <https://www.fondulproprietatea.ro/about-fund/fund-overview/corporate-governance>.

According to the policy currently in force, the AIFM intends to recommend to shareholders for approval an annual cash distribution of at least RON 0.05 per share, subject to applicable law and necessary approvals, of any restrictions provided by Romanian legal or fiscal regulations, as well as available funding resources.

According to Article 29 of the Romanian Law no. 243/2019 on alternative investment funds, amending and supplementing certain normative acts the Fund may perform returns of capital pro rata with the contributions made by the investors with the purpose to decrease its share capital, only once during the financial year, subject to the approval of the extraordinary general meeting of shareholders, in accordance with the Romanian Law no. 31/1990, republished, with subsequent amendments.

By way of exception from the provisions above, the Fund can perform additional share capital returns pro rata with the shares held by the investors, with the purpose to decrease its share capital, if the following conditions are cumulatively met:

- a) the share capital return is approved by the Fund shareholders meeting held according to the Romanian Law no. 31/1990, republished, with subsequent amendments;
- b) the share capital return to shareholders is made exclusively from the own sources of the Fund;
- c) the Fund has recorded profit in the last 3 financial years, according to its annual financial statements audited according to the law.

In the case of dividend distributions, the distributable amount is generally calculated as: the sum of (1) the income from the annual dividends received by the Fund from the portfolio companies, with the exception of special cash distributions, (2) plus interest on cash balances, (3) less expenses and taxes and (4) less mandatory allocations to reserves in accordance with the regulations in force.

In case of return of capital, the distributable amount will be based on the best estimate of the Fund Administrator according to the latest financial statements available at the time of proposing the respective distribution for shareholders' approval, subject to restrictions in Romanian legal or fiscal regulations and is conditioned by available funding sources.

### **3.3. c) The main categories of financial instruments in which to invest**

The Fund may invest exclusively in one or more of the following assets:

- a) securities and money market instruments registered or traded in a trading venue, in Romania or in a Member State;
- b) securities and money market instruments admitted to official listing on a third country stock exchange, which operates regularly and is recognized and open to the public, provided that the choice of stock exchange is approved by the FSA, in accordance with the eligibility requirements of the regulations issued by FSA, and to be provided in the fund rules or in the constitutive act of the investment company, approved by FSA;
- c) newly issued securities, which are the subject of a public offer for admission to trading, with cumulative compliance with the following conditions:
  - (i) issue documents include a firm commitment to be admitted to trading on a trading venue or trading on a third-country stock exchange that operates regularly and is recognized and open to the public, provided that the choice of trading venue is to be approved by the FSA or to be provided in the fund rules or in the articles of incorporation of the investment company, approved by the FSA;
  - (ii) this admission must be ensured within a maximum of one year from the issue;
- d) Participating securities of undertakings for collective investment in transferable securities or alternative investment funds established or not in Member States, with cumulative fulfilment of the following conditions:
  - (i) alternative investment funds ("AIF") that are authorized or registered;
  - (ii) the activities of the AIF are subject to periodic reports, which allow an assessment of the assets and liabilities, income, and operations during the reporting period, in accordance with the redemption rate offered to investors, as appropriate;
  - (iii) the AIF profile is in line with the liquidity profile of the AIF set by the AIFM according to article 4 paragraph. 11 of Law no. 243/2019, with subsequent amendments;
- e) deposits with credit institutions, which are repayable on request or offer the right of withdrawal, with a maturity not exceeding 12 months, provided that the registered office of the credit institution is located in Romania, in a Member State or in a third country, in the latter case provided that the credit institution is subject to prudential rules equivalent to those issued by the European Union;
- f) derivative financial instruments, with final settlement in cash or in the support action of the instrument, traded within a trading venue or on a stock exchange from a third country within the meaning of letter. a) and b), and / or derivative financial instruments, traded outside regulated markets, with the cumulative fulfilment of the following conditions:
  - (i) the underlying asset consists of the instruments provided for in this paragraph, as well as financial indices, interest rates, precious metals, energy products and the exchange rate, in which the Fund may invest, according to its investment objectives, as set out in the fund rules or the articles of association of the investment company;
  - (ii) counterparties, in the negotiation carried out outside the regulated markets, are entities, subject to prudential supervision, which belong to the categories approved by FSA;
  - (iii) derivative financial instruments traded outside regulated markets are subject to daily and verifiable valuation and may, at the initiative of the AIFM, be sold, liquidated or the position may be closed daily, at their fair value, by a transaction of the opposite direction;

g) money market instruments, other than those traded on a trading venue, which are liquid and have a value that can be accurately determined at any time, excluding trading effects, provided that the protection of investors and their savings, and instruments:

(i) to be issued or guaranteed by an administrative authority, central, local, or regional, 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 States by one of the constituent members of the federation or by an international public body, of which one or more Member States are members; or

(ii) to be issued by a body whose securities are traded on regulated markets, referred to in letter a) and b); or

(iii) to be issued or guaranteed by an entity, subject to prudential supervision, according to the criteria defined by European legislation, or by an entity that is subject to and complies with prudential rules, rules validated by the FSA as equivalent to those provided by European legislation ; or

(iv) to be issued by other entities belonging to the categories approved by the FSA, provided that investments in such instruments are subject to investor protection equivalent to that provided for in points (i), (ii) and (iii), and that the issuer is a company whose capital and reserves amount to at least the equivalent in lei of 10,000,000 euros, which presents and publishes its annual financial statements, according to the applicable European legislation, or an entity that, within a group of companies that contain one or more listed companies, has the role of financing the group or is an entity dedicated to the financing of securitization vehicles that benefit from a bank financing line;

h) shares of limited liability companies, regulated by Law no. 31/1990, republished, with subsequent amendments and completions, whose annual financial statements are audited according to law;

i) securities as defined in art. 3 para. (1) point 26 of the Government Emergency Ordinance no. 32/2012 which are not admitted to trading on a trading venue or are not traded on a stock exchange in a third country;

j) currency, purchased on the domestic market, freely convertible, according to the criteria of the National Bank of Romania;

k) government securities;

l) greenhouse gas emission certificates, as defined in art. 3 lit. b) of the Government Decision no. 780/2006 on establishing the trading scheme for greenhouse gas emission certificates, as subsequently amended and supplemented;

m) movable and immovable property strictly necessary for the activity of a Fund.

### **3.3. d) Description of any technical tools that could be used in portfolio management, such as hedging strategies**

#### **Technical tools used in portfolio management**

Within the strategy of active portfolio management, a series of specific tools / techniques will be used, among which:

- Value: We seek to identify the underlying worth of a business and determine what its assets can generate in earnings and cash flow.

- **Patience:** Once we identify what we believe to be an undervalued security, along with the factors we believe should change its valuation, we are patient in allowing this value to be realized. Our experience has taught us that stock markets are often short-sighted and affected by sentiment, which can create short-term distortions in share prices. Templeton's long-term investment horizon looks beyond these short-term issues and instead focuses on long-term value drivers.
- **Bottom-up:** We identify value through rigorous, fundamental analysis, proprietary screens, and a worldwide network of experienced research resources. Research is carried out on a company-by-company basis – across different industries – to determine what we consider their economic worth to be based on future earnings, cash flow or asset value potential.

### **3.3. e) Minimum recommended duration of investments**

Minimum recommended duration of investments is for 5 years. The Fund's shares are admitted to trading on Category 1 (currently the Premium Category) on the regulated spot market of BVB, and the GDRs were admitted to trading on the specialist fund market segment of the London Stock Exchange. Given the fact that these financial instruments are traded on the stock exchange, the Fund doesn't have a legal minimum duration of investments.

### **3.3. f) Risk Factors**

#### **Risk management**

The Fund's investment portfolio comprises listed and unlisted equity investments.

The Fund's investing activities expose it to various types of risks that are associated with the financial instruments and with the markets in which it invests. The most important types of financial risks to which the Fund is exposed are market risk, credit risk and liquidity risk.

The management of the Fund implemented financial risk management procedures consistent with those applied globally by FTIS.

#### **A. Market risk**

Market risk is the risk that changes in market prices and rates, such as equity prices, interest rates and foreign exchange rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

##### *(i) Equity price risk*

Equity price risk is the risk that the value of an equity instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to its issuer or factors affecting all instruments traded in the market.

Equity price risk arises from changes in the value of equity investments and it is the primary risk impacting the Fund. Diversification across securities and industries, to the extent possible,

is the primary technique for mitigating equity price risk. The companies in which the Fund holds equity instruments operate in different industries. The Fund has concentrated exposures to the “Power utilities: generation”, “Power and gas utilities: distribution and supply” and “Oil and gas” sectors.

*(ii) Interest rate risk*

The Fund places cash into bank deposits, treasury bills and government securities with fixed interest rates and original maturities of up to one year. Any potential reasonable movement in interest rates would have an immaterial effect on the Fund.

*(iii) Currency risk*

The Fund’s exposure to currency risk is not significant. The Fund holds current accounts with banks and receivables and payables denominated in foreign currencies (EUR, USD, and GBP), but the balances are not significant.

## **B. Credit and counterparty risk**

Credit risk is the risk of financial loss occurring to the Fund if a counterparty fails to meet their contractual obligations and is linked principally to cash and deposits with banks, treasury bills, government bonds and other receivables.

Current accounts and deposits are held with banks in Romania. The Fund Manager implemented a formal policy regarding bank counterparty risks and exposure limits. The Fund may only establish new deposits with financial institutions where the institution or the institution’s corporate parent has a credit rating of “investment grade” (BBB- or better). The credit risk is also diversified by allocating the cash and cash equivalents across several banks. The selection of financial institutions was made, and the exposure limits were decided upon based on their credit ratings.

All Fund’s current accounts and deposit balances have low credit risk as they are held with reputable banking institutions.

The credit risk related to investments made in treasury bills and government bonds is assessed to be low considering the fact that they are issued by the Ministry of Public Finance of Romania.

The Fund does not have a significant exposure to credit risk related to other assets.

## **C. Liquidity risk**

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund’s approach to managing liquidity risk is to continuously ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund’s reputation.

The Fund's equity investments include unlisted instruments issued by Romanian companies which may be considered illiquid and also listed but not liquid instruments (respectively 83% of total equity investments as of 31 December 2020). Due to insufficient volumes of transactions, not all shares listed on the Bucharest Stock Exchange are considered liquid. Liquidity can vary over time and between markets and some investments may take longer to sell. As a result, the Fund may not be able to sell some of its investments in these instruments within the time constraints imposed by its own liquidity requirements, or to respond to specific events such as deterioration in the credit worthiness of any particular issuer. As a closed ended investment fund, liquidity risks attributable to the Fund are less significant than for an open-ended fund. The Fund prudently manages liquidity risk by maintaining an optimal level of liquid assets to finance current liabilities.

#### **D. Sustainability Risk**

The AIFM of the Company has implemented a policy in respect of the integration of sustainability risks in its investment decision making-process<sup>1</sup>. The AIFM integrates sustainability risks and opportunities into their research, analysis, and investment decision-making processes.

Sustainability risk means an environmental, social, or governance event or condition, that, if it occurs, could potentially or actually cause a material negative impact on the value of a Fund's investment. Sustainability risks can either represent a risk of their own or have an impact on other risks and may contribute significantly to risks, such as market risks, operational risks, liquidity risks or counterparty risks.

Sustainability risks are important elements to consider in order to enhance long-term risk adjusted returns for investors and determine specific Fund's strategy risks and opportunities.

The AIFM make use of specific methodologies and databases into which environmental, social, and governance (ESG) data from external research companies, as well as own research results, are incorporated. Assessment of sustainability risks is complex and may be based on ESG data, which is difficult to obtain and incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.

To the extent that a sustainability risk occurs or occurs in a manner that is not anticipated by the AIFM's models, there may be a sudden, material negative impact on the value of an investment. Such negative impact may result in an entire loss of value of the relevant investment(s) and may have an equivalent negative impact on the Net Asset Value of the Fund.

The AIFM considers that sustainability risks are relevant to the returns of the Fund. The integration of sustainability risks in the investment decision process may have the effect of

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<sup>1</sup> Article 6 of the Sustainable Finance Disclosure Regulation requires asset managers to disclose the following information: how sustainability risks are integrated into their investment decisions, and the results of an assessment of the likely impacts of sustainability risks on their funds. This document has to be considered in conjunction with the risk management information already provided in the Annual Report.

excluding profitable investments from the investment universe of the Fund and may also cause the Fund to sell investments that will continue to perform well.

Appreciation of sustainability risk is to a degree subjective and there is no guarantee that all investments made by the Fund will reflect beliefs or values of any particular investor on sustainable investments.

A sustainability risk could materialise as the occurrence of an environmental, social or governance event or condition causing material negative impact on the value of one or several investments and thus negatively affecting the returns of the Fund.

### **3.3. g) Investment restrictions**

According to the AIF Law, the investment limitations applicable to retail alternative investment funds such as the Fund are the following:

- (a) the Fund cannot hold more than 10% of its assets in securities and money market instruments issued by the same issuer, except for securities or money market instruments issued or guaranteed by a EU Member State, by the public local authorities of the EU Member state, by a Non-Member State or international public entities to which one or more EU Member States are part. The 10% limit may be raised to 40% provided that the total value of the securities held by the Fund in each of the issuers in which it holds 40% does not exceed 80% of the total value of its assets;
- (b) the Fund cannot hold more than 50% of its assets in securities and money market instruments issued by entities belonging to the same group, defined as the parent company and its subsidiaries, and in case of the group of the sole manager of the Fund, this limit is of 40%;
- (c) the exposure of the Fund to counterparty risk in a transaction with derivatives traded outside regulated markets cannot exceed 20% of its assets, regardless of the transaction counterparty;
- (d) the global exposure of the Fund to derivatives cannot exceed the total value of its assets;
- (e) the value of the current accounts and the cash held by the Fund must not exceed 20% of its assets; the limit may be extended up to 50% of its assets, provided that the respective amounts come from issuance of equity securities, mature investments or from the sale of financial instruments from the portfolio and that such extension does not last for more than 90 days;
- (f) the Fund cannot open and set up bank deposits with the same bank for a value representing more than 30% of its assets;
- (g) the Fund cannot hold more than 20% of its assets in equity securities not admitted to trading on a trading venue or on a stock exchange of third country, issued by a single retail alternative investment fund;
- (h) the Fund cannot hold more than 10% of its assets in equity securities not admitted to trading on a trading venue or on a stock exchange of a third country issued by a single alternative investment fund for professional investors;



- (i) the Fund cannot hold more than 50% of its assets in equity securities not admitted to trading on a trading place or on a stock exchange market from a third country issued by other open-end alternative investment fund. The limit is set at 40% of its assets for the entities in case of the group from the AIFM is part;
- (j) the Fund cannot hold more than 40% of its assets in equity securities issued by a single UCITS authorised by the FSA or by a competent authority from another Member State, and in equity securities issued by a single UCITS admitted to trading on a trading venue in Romania, other Member State, or a stock exchange of a third country;
- (k) the Fund cannot grant loans of financial instruments which represent more than 20% of its assets and the loans cannot exceed 12 calendar months, in accordance with the regulations issued by the FSA regarding margin trading and loan operations; the 20% limit of its assets may be increased to 30%, with the approval of the FSA, in accordance with the conditions established by the FSA regulations;
- (l) the Fund cannot grant loans in cash, cannot participate/subscribe syndicated loans, cannot secure loans in cash in favour of a third party, except for entities belonging to the same group as the Fund, incorporated as investment fund, not exceeding 10% of its assets, and cannot purchase directly or indirectly, partially or totally, credit portfolios issued by other financial or non-financial institutions, except for investments in financial instruments issued by internationally-recognized financial institutions, credit institutions or non-banking financial institutions authorized by the National Bank of Romania or other central banks from an Member State or from a third country;
- (m) the Fund cannot hold more than 40% of its assets in securities, money market instruments which were not admitted to trading on a Trading Venue or a stock exchange a Non-EU Member State, except for government securities and bonds issued by the Ministry of Public Finance, as well as the holdings acquired by the Fund by virtue of law, in which case no holding limit is established;
- (n) the Fund cannot hold more than 20% of its assets in shares issued by limited liability companies regulated by the Law no. 31/1990, republished, with subsequent amendments; this provisions are not applicable if the Fund will be specialised in real estate;
- (o) the Fund cannot hold more than 10% of its assets in greenhouse gas certificates as defined in article 3 letter b) from Government Decision no. 780/2006, with subsequent amendments.

The Fund may exceed the above limits set out under the AIF Law for a period of maximum 90 days only if this is triggered by the exercise by the Fund of its preference rights in relation to the financial instruments in its portfolio. Exercising the preference right related to existing holdings, acquired by the Fund from the Romanian State under other regulations, does not lead to exceeding the limits described above.

Pursuant to the AIF Regulation, the Fund needs to comply with the above investment restrictions within six (6) months as of the date the FSA issues the AIF Authorisation. Until that date, the Fund is still subject to the investment restrictions set out under Law no. 247/2005 set out below:

- (i) the Fund may hold a maximum of 20% of its assets in transferable securities and money market instruments not admitted to trading (except for government securities and bonds issued by the Romanian Ministry of Public Finance, for which there is no investment limit). Unlisted securities received by the Fund from the Romanian State, pursuant to the provisions of Law 247/2005, and from Electrica S.A. are not taken into account for computing this holding limit;
- (ii) the Fund cannot invest more than 10% of its assets in instruments (including listed securities, newly issued securities, units in UCITS or Non-UCITS or listed money market instruments) issued by the same issuer (with the exception of government bonds). Original contributions from the Romanian State are exempted from this limitation; however, the Fund is not allowed to acquire any new securities issued by issuers in which the Fund has originally received shares from the Romanian State until the Fund's holding decreases below the holding limit, with the exception of the instruments acquired based on preference rights, which may be held for maximum 120 calendar days;
- (iii) the Fund cannot invest more than 10% of its assets in financial instruments issued by entities belonging to the same group of companies;
- (iv) the Fund cannot invest more than 10% of its assets in units issued by UCITS or Non-UCITS;
- (v) except for certain situations and for a period not exceeding 90 calendar days, the current accounts and cash held by the Fund cannot exceed 20% of its assets;
- (vi) the amount of bank deposits with the same credit institution cannot represent more than 10% of the Fund's assets;
- (vii) the exposure to the counterparty risk in a transaction with derivatives traded off the regulated markets cannot exceed 10% of the Fund's assets, irrespective of the counterparty, while the global exposure through derivatives cannot exceed 15% of the total allocation of net assets of the Fund; and
- (viii) the Fund must invest at least 20 % of its assets in: (i) securities listed on a regulated market or on an alternative trading system from Romania or from an EU Member State; (ii) securities admitted to trading on a stock exchange of a Non-Member State or negotiated on another regulated market in a Non-Member State operating regularly, recognised and open to the public, provided that the choice of the stock exchange or of the regulated market is approved by the FSA or is included in the Constitutive Act as approved by the FSA; (iii) newly issued securities, under certain conditions; or (iv) units in or securities issued by UCITS and certain types of Non-UCITS under certain conditions provided for by the law.

The Fund may exceed the investment limits regarding financial instruments upon exercise of subscription preference rights attached to such instruments, on the condition that it does not exceed a period of 120 calendar days (this rule is not applicable in the case of holdings in non-listed securities obtained from the Romanian State).

Further, pursuant to the same, the Fund may hold:

- (a) up to 10% of its assets invested in listed shares or money market instruments issued by one single issuer, except of the government securities;
- (b) up to 20% of its assets invested in unlisted securities or money market instruments except of the government securities and bonds and other cases permitted by law;
- (c) up to 10% of assets invested in bank deposits with one single bank;

- (d) up to 10% of assets invested in financial instruments issued by entities belonging to the same group of companies;
- (e) up to 10% of assets invested in UCITS units or other collective investment scheme units;
- (f) exposure to the counterparty risk in a transaction with derivatives traded out of the regulated markets up to 10% of assets, irrespective of the counterparty of the transaction, while the global exposure of derivatives may not exceed 15% of the total allocation of net assets.

In line with the investment restrictions above, according to the IPS, shares received from Romanian State on the basis of the legislation in force at that time are exempted from the general rules on allocation. Where the Fund acquires further securities in the same issuer as securities received from Romanian State, the general rules on allocation shall apply to the newly acquired securities only. For the calculation of the ownership limit for securities not admitted to trade shall be excluded from the value of assets not admitted to trade the value of securities not admitted to trade owed from the Romanian State on the basis of the legislation in force at that time. Therefore, any part of the current portfolio of the Fund (as it has been set up, on securities not admitted to trade owed from the Romanian State on the basis of the legislation in force at that time) shall be exempted from the general rules on allocation. However, any new acquisition made by the Fund shall observe the general rules on allocation. Until decrease of its participation in the relevant listed issuers, the Fund is prohibited to acquire further securities in the same issuer as securities received from Romanian State, except for the exercise of the subscription rights related to the Fund's preference rights where the excess of the relevant investment limit should not last for more than 120 calendar days.

The AIFM will inform investors with respect to any breach of the investment restrictions applicable to the Fund and the measures that the AIFM will take in connection with such breaches by publishing current reports with the FSA, on the website of the BSE and on the Fund's website, as soon as possible in accordance with the terms required by the applicable law as of the breach.

### **3.3 h) Valuation methods used for each type of investment**

Valuation of the Fund's assets is performed by using the valuation methods in accordance with the principle of fair value, in compliance with the provisions FSA Regulation 9/2014, Articles 113-122 and EU Regulation 231/2013. The responsibility for setting the methods of valuation of portfolio assets sits with the AIFM, which shall adopt such valuation methods that protect the investors' interests and market integrity, acting with honesty, fairness, and professional diligence.

If the responsibility to value the Fund's assets is delegated to an independent evaluator, then the Fund Manager assesses on an ongoing basis how such an evaluator fulfils its duties.

The valuation methods applicable for the calculation of the Fund's net asset value ("NAV") according to the AIF Regulation and the Fund's internal policies are presented below:

**A.** Financial instruments admitted to trading and traded in the last 30 trading days (working days) on a regulated market or in trading systems other than regulated markets, from an EU

Member State, including on an alternative trading system in Romania, and those admitted at the official rate of a stock exchange or an alternative trading system from a non-EU Member State are valued as follows:

- a) the shares and transferable securities including derivatives and units issued by UCITS:
  1. at the closing price published on the day of calculation by the market section considered the main market, in case of shares admitted to trading on such regulated market from the EU Member State or the stock exchange from the Non-EU Member State; or
  2. at the reference price published on the day of calculation, in case of shares traded on the trading systems other than regulated markets, including other alternative trading systems, published by the operator of such trading system for each of the segments of the system;
- b) fixed income securities including money market instruments, follow one of the methods below:
  1. one of the methods indicated under letter a) above, depending on the trading place of such transferable securities;
  2. the method based on the daily recognition of interest and amortization of the discount/premium related to the period elapsed from the acquisition date;
  3. the method based on mid-market quotations (calculated as average between the best selling price and the best purchase price), if there are relevant composite price models published by worldwide acknowledged official institutions or private firms (such as NBR, Bloomberg, Reuters);
    - 3.1: If there is no relevant composite price benchmark, the valuation can be performed using BID quotations.
    - 3.2: or, in the absence of any quotation in accordance with the previous points, the method of determining the fair value of the instrument according to internationally valuation techniques, based on a detailed explanatory decision of the Fund Manager;
  4. if it is chosen the valuation method from points 3 or 3.1 and there is no relevant price for a fixed income instrument, that instrument shall be valued, as follows:
    - a) either based on the method provided under point 2 using the net purchase price (in case of newly-issued transferable securities for which there is no relevant composite price model) or the last composite price used in the valuation. When a relevant composite price will become available and this will exist for a period of 30 trading days (the observation period when the relevance of such price is analysed), the fixed income security is valued using mid- market quotations, starting from the working day immediately following the 30-trading day observation period;
    - b) or based on the method mentioned at point 3.2. When a relevant composite price becomes available which will exist for a trading period of 30 days (the observation period in which the relevance of this price is analysed), the fixed income instrument will be valued based on the valuation method mentioned at point 3, starting with the working day immediately following the 30-trading day observation period.
  5. if the composite price model used is not available or becomes irrelevant during a 30-trading day observation period, the method based on the daily recognition of interest and amortization of discount/related premium is used, starting from the working day

immediately following the 30-trading day observation period, starting from the last composite price used in the valuation. If, subsequent to the application of the method based on the daily recognition of interest and amortization of discount/related premium, there is a trading history and a relevant composite price model during a 30-trading day observation period, then the mid-market quotations will be applied, starting from the next working day following the 30-trading day observation period;

6. If the Fund Administrator decides to apply the valuation method mentioned at point 3, then it has the obligation to prepare and submit to the FSA, the rules and procedures for determining the relevance of the composite quotations used;
  - c) money market instruments, similar to the provisions of letter b);
  - d) derivative financial instruments, similar to the provisions of letter a);
  - e) the participation titles issued by the UCITS, similar to the provisions of letter a);
  - f) structured products shall be valued at reference price (related to an individual issuance of structured products, respectively to a trading session) calculated by the market operator where such transferable securities are traded.

**B.** The financial instruments admitted to trading on several regulated markets and/or in alternative trading systems other than regulated markets, from an EU Member State, including alternative trading systems in Romania, traded in the last 30 trading days (working days) are valued at the closing price of the market section considered main market or at the reference price provided in alternative systems having the highest degree of liquidity and frequency of trading of such financial instrument determined by the volume and number of transactions recorded during the previous calendar year.

If the financial instruments are also admitted on alternative stock exchanges or systems from a non-EU Member State, the price of the market with the highest liquidity and frequency of trading is taken into account.

Financial instruments admitted to trading only on several stock exchanges and/or alternative trading system from non-EU Member States are valued at the closing price of the stock exchange or at the reference price provided by the alternative systems with the highest liquidity and frequency of trading of such financial instrument determined by the volume and number of transactions recorded during the last 365 days, corresponding to the day for which the calculation is made. The calculation is performed annually, at the beginning of each calendar year.

In case of a listed security admitted to trading on a regulated market or a multilateral trading system with liquidity considered by AIFM as being irrelevant for the application of the stock exchange market price valuation method, on the basis of a prudent judgement regarding the active market (as defined by International Financial Reporting Standard 13 - Fair value measurement (IFRS 13)), AIFM may decide that the respective holding may be valued based on a valuation report prepared by an authorised valuer. Such valuation method must be applied for a period of at least one calendar year. Also, AIFM should include in the Fund's annual report a detailed explanation of its decision and the detailed analysis of the respective issuer liquidity which led to the conclusion that the stock exchange market price is not relevant.

C. (i) Financial instruments not admitted to trading on a regulated market or on trading systems other than regulated markets, including alternative trading systems in Romania, from an EU or Non-EU Member State are valued as follows:

a) shares are valued using:

1. either the shareholders' equity per share, as per latest issuer's annual financial statements, prepared either in accordance with the local accounting standards applicable to the issuer or IFRS, if available. In case of investments in shares of credit institutions, the shareholders' equity taken from the monthly reports submitted to the NBR; or
2. a valuation method according to the international valuation standards (using the fair value principle), approved by the AIFM;

b) fixed income securities money market instruments are valued according to provisions of point A b) 2 and/or b) 3;

c) derivative financial instruments are valued using well-known techniques of the financial markets (e.g., based on the current value of another similar financial instrument, models of cash flow analysis and option valuation, etc.), so as to observe the fair value principle;

d) the units issued by undertakings in collective investments are valued based on the latest available net asset value per share.

e) in case of portfolio companies not admitted to trading within a regulated market or a multilateral trading system, in which the Fund holds over 33% of the share capital, the respective holding is valued exclusively in accordance with international valuation standards based on valuation report, updated at least annually. Such rule is not applicable in case of holdings in portfolio companies under judicial liquidation or other liquidation procedures, in portfolio companies under temporary or final activity termination, or having negative shareholders' equity, such being by default valued at zero. Holdings greater than 33% in portfolio companies under insolvency or reorganization procedures are valued either at zero or at a value calculated with the assistance of an independent valuator.

(ii) The financial instruments admitted to trading on a regulated market, on an alternative system or on trading systems other than regulated markets, from an EU-Member State, including alternative trading systems in Romania, and those admitted at the official rate of a stock exchange or an alternative trading system from a non-EU Member State, but not traded in the last 30 trading days (working days) are valued starting from the 31st non-trading day as follows:

- the shares, transferable securities, derivative financial instruments, and units issued by undertakings in collective investments similarly to the valuation methods stipulated under C (i) above;
- the fixed income securities and money market instruments according to point A b) 2 and/or b) 3.

(iii) Cash held in the current bank accounts is valued by taking into account the available balance as at the end of the date for which the NAV calculation is performed (based on transactions value date). Cash amounts held with credit institutions undergoing the bankruptcy proceedings shall be included in the NAV at nil value.

(iv) Bank deposits and depositary receipts are valued based on the daily recognition of the interest income for the period elapsed from the bank deposit starting date.

(v) Structured deposits are valued on the basis of the principle of daily recognition of the minimum guaranteed interest of such structured deposit that will be subsidized by the bank. If a minimum interest is not guaranteed, then the valuation will consider the minimum current account interest. Upon maturity, if the evolution of the underlying asset has complied with the conditions required to establish the deposit, the positive difference of interest shall be recognized for the entire period elapsing from the starting date of the deposit. The valuation method must be maintained throughout the entire term of the deposit.

(vi) Deposits with interest paid in advance, regardless of the deposit term, are valued based on the initial deposit amount throughout the entire deposit term. If interest has been received prior to maturity date of the bank deposits, the amounts received shall be deducted from the calculated value.

(vii) Money-market instruments in the form of commercial papers are valued similarly to the calculation method used for fixed income securities.

**D.** Shares in a portfolio company that is under insolvency or reorganization procedures are included in the net asset from the date on which the notice was published in the Insolvency Procedures Bulletin which can be accessed at the following link: <https://bpipf.onrc.ro/>, either at zero or at the value calculated with the assistance of an independent valuer by using valuation methods in accordance with the International Valuation Standards (using the fair value principle).

**E.** Shares in a portfolio company under judicial liquidation or other liquidation procedures or in a portfolio company which ceased temporary or definitely its activity are valued, from the date on which the notice was published in the Insolvency Procedures Bulletin which can be accessed at the following link: <https://bpipf.onrc.ro/>, at zero.

Shares in an unlisted or listed but not traded in the last 30 trading days portfolio company having negative shareholders' equity are valued at zero.

**F.** In case of companies in insolvency or reorganization, whose shares have been re-admitted to trading on a regulated market or alternative trading system based on a final court decision regarding the confirmation by the appointed syndic judge of the reorganization plan of the company and the confirmation by the issuer/market or system operator that it would not challenge by appeal the confirmation regarding the reorganization plan, the shares shall be valued in accordance with point A a) above if the shares have a market price, namely if transactions were recorded from the date of their re-admission to trading. If the shares have no market price, they are valued until an available reference price is recorded, according to point C (i) letter a) above.

**G.** Dividends from portfolio companies and bonus shares received from portfolio companies following their share capital increase shall be recorded in the Fund's portfolio on the first day when the investors purchasing the shares no longer receive dividends or on the first day when investors purchasing the shares may no longer participate in the capital increase.

If, in case of lack of information, the dividends for holding shares listed on foreign markets may not be recorded in the assets in accordance with the first paragraph, the counter value of such dividends shall be recorded as an asset on the date the Fund's Sole Director or the Fund's Depository Bank becomes aware of the information on the ex-dividend date, evidenced by documents/excerpts/publications.

If the dividends and/or bonus shares are not paid/allocated by portfolio companies within the legal term or the term provided in the GSM resolution, then they shall be included in the NAV at nil value. If the legal term/term provided in the GSM resolution to pay/allocate the dividends falls on a non-working day, then the deadline shall be extended until the end of the first working day.

**H.** (i) The shares of companies not admitted to trading resulting from share capital increases in cash are valued as follows:

a) until the share capital increase is registered with the Trade Registry, at their subscribed value;  
b) from the date the share capital increase is registered with the Trade Registry, similarly to the rules mentioned under point C above.

(ii) If the capital increase is performed by offering preference rights, their value will be registered in the Fund's assets on the first day when investors purchasing the shares may no longer participate in the capital increase. Until the first day of transaction, the valuation of the preference rights is performed using their theoretical value. After their admission to trading, the preference rights will be valued at the market price (according to point A from above) corresponding to the day for which the calculation is made.

**I.** Equity titles and greenhouse gas emission certificates are valued at least yearly based on the value obtained by using valuation methods in accordance with valuation standards in force, according to the law (by using the fair value principle).

### **3.4 The entity responsible for analysing investment opportunities**

Investment opportunities are analysed by the AIFM. FTIS has opened a branch in Bucharest and starting with 1 December 2020 the portfolio management is performed by FTIS Bucharest Branch. Johan Meyer is the permanent representative, being at the same time the portfolio manager of the Fund, being supported in his activity by Calin Metes and Daniel Naftali, both deputy portfolio managers.

### **3.5 Methods to determine the Net Asset Value of the Fund**

#### **3.5 a) Asset valuation rules**

To determine the Net Asset Value of the Fund, the portfolio holdings are valued and reflected in the Fund's net assets at values established in accordance with the applicable accounting rules



and the provisions of articles 113-122 of FSA Regulation no. 9/2014 and EU Regulation 231/2013.

The Fund Manager conducts annually, through a third party appointed considering the need to avoid the conflict of interest, an analysis of the valuation procedures and methods used, in order to ensure that they are adequate and in line with the legislation in force.

The valuation rules used to for the calculation of the Net Asset Value, for tradeable securities and money market instruments owned by Fondul Proprietatea are as follows:

- a. Shares listed on a regulated market (ex. BSE), traded in the last 30 trading days: Closing price. As an exception, for companies admitted to trading on regulated markets or a multilateral trading system with a level of liquidity considered by the AIFM, based on a judgement regarding prudent values on active markets defined by the International Financial Reporting Standard 13 – Fair Value Measurement (IFRS 13), to be irrelevant for the application of market price valuation, the Fund Manager can decide that the respective holdings' value in the Fund's assets be determined based on a valuation report performed in accordance with the applicable valuation standards, according to the law. If the AIFM decides to use this valuation method, then it will maintain it for at least one calendar year, for the respective holdings considered as illiquid;
- b. Shares listed on an alternative trading system (ex. AeRo market), traded in the last 30 trading days: Reference price;
- c. Listed shares which have not been traded in the last 30 trading days: Fair value/share;
- d. Shares not admitted to trading: Fair value/share;
- e. Shares in a company that is under insolvency or reorganization procedures: Valued at zero;
- f. Shares in a company that in administrative liquidation / dissolution/ bankruptcy: Valued at zero;
- g. Shares in unlisted companies or listed companies not traded in the last 30 trading days which have negative shareholder equity: Valued at zero;
- h. Shares in companies for which financial statements for the previous financial exercise have not been made available within 90 days after the legal deadline: Valued at zero;
- i. Treasury bills: Acquisition price cumulated with the daily interest value related to the period elapsed from the acquisition date;
- j. Listed bonds: according with the valuation methods mentioned at point 3.3 h) letter A.b) above, applicable in case of fixed income securities including money market instruments;
- k. Deposits with banks: The value of the deposit cumulated with the daily interest value related to the period elapsed from its creation date;
- l. Dividends distributed by the Fund's portfolio companies: are booked and accounted for in the net asset value as receivables based on the General Shareholders Meeting ("GSM") in which the respective dividends are approved. As such: the dividend income from listed holdings is recognised at ex-dividend date, while the dividend income from unlisted holdings is recognised when declared, respectively at the date when the dividend distribution is approved by the GSM of the respective company. If dividends or shares distributed without cash consideration are not cashed/received within the legal term, then they shall be included in assets at nil value;

- m. Greenhouse gas emission certificates: Fair value according to the valuation standards in force. Up to the date of this document, Fondul Proprietatea has not invested in greenhouse gas emission certificates and does not plan to make such investments in the near future.

The valuation rules mentioned above must be read together with the valuation methods used for each type of investment detailed in this document at point 3.3 h).

### **3.5 b) Net Asset Value calculation method**

The Net Asset Value is determined as the difference between the total assets value and the aggregate value of the Fund's debts and deferred income. In the aggregate value of the Fund's debts both the current and non-current liabilities are included and also the provisions booked by Fondul Proprietatea.

The total value of the Fund's assets is calculated according to the regulations in force, by cumulating:

- a) non-current assets;
- b) current assets;
- c) derivatives;
- d) deferred expenses.

The total value of liabilities and deferred income is determined based on the information supplied by the own accounting organised and conducted according to the legal requirements in force.

According to the requirements of article 47 from FSA Regulation 7/2020, the Net Assets Value per Share is computed as total net assets value divided by the number of issued shares in circulation (paid shares) excluding treasury shares and repurchased own shares related to global depositary receipts or certificates of interest of own shares. The equivalent number of shares corresponding to the Fund's GDRs bought back and held at the NAV reporting date are assimilated to treasury shares and as such excluded from the calculation of the NAV per share indicator. The NAV per share is calculated based on 4 decimal places using truncation method.

### **3.5 c) Frequency of NAV reporting**

Considering the provisions of FSA Regulation 10/2015, art. 17 (3), the official NAV reporting for the Fund is prepared for the following dates:

- a) on a monthly basis, for the last calendar day of the month;
- b) for the dates when share capital changes are recorded to Trade Registry.

### **3.5 d) The means, locations, and frequency of NAV publications**

According to FSA Regulation 7/2020 art. 50 (4), Annex 10 (detailing the NAV calculation) has to be published on the Fund's website within maximum 15 calendar days from the end of the reporting date.

According to FSA Regulation 7/2020 art. 50 (2), Annex 11 (regarding the detailed statement of investments) has to be published on the Fund's website on a quarterly basis (respectively for the last calendar day of the quarter) within maximum 15 calendar days from the end of the respective quarter.

The publication of the reports mentioned above will be completed by the Fund Manager.

In case the 15th calendar day from the end of the reporting date is a non-working day, then the reporting deadline is prolonged until the next working day.

FSA may request, whenever it deems necessary, additional details and explanations on the NAV reports, with the obligation of FTIS being to respond to such requests within 5 (five) working days. Within this said term, the Fund's depositary bank will certify such details and explanations within 1 (one) working day from the date when it receives such requests from FTIS.

The reports are also submitted by the AIFM to:

- The FSA according to the requirements set out at article 50 from FSA Regulation 7/2020
- BSE and LSE in accordance with the requirements of the BSE Code and Law 24/2017 on issuers of financial instruments and market operations (the NAV report must be submitted to each stock exchange on which the Fund is listed). As such, the detailed NAV calculation can be found on the website of these stock exchanges as well.

### **3.6. Replacement conditions for the AIFM and the depositary**

#### **3.6. a) List the situations in which the AIFM can be replaced**

Termination of the mandate of the AIFM may be made in the following situations:

- The Fund may terminate the Management Agreement unilaterally and at its sole discretion, at any time, on the basis of three months' written notice to the AIFM, pursuant to an OGMS decision approving the concurrent termination of the mandate and the Management Agreement.
- AIFM may terminate the Management Agreement and terminate its mandate on the basis of six months' written notice.
- The AIFM may terminate the Management Agreement and terminate its mandate on the basis of written notice to the Fund as soon as reasonably practicable if:
  - a) the termination was imposed by a binding decision issued by, or was determined by, any competent regulatory authority; or
  - b) important obligations under the Management Agreement can no longer be fulfilled as a result of the amendment of applicable law, provided that the AIFM has made reasonable efforts to comply with, or (if it is not possible for the AIFM to comply) propose a reasonable alternative arrangement that includes an affiliate complying with the relevant legislation, but, despite these efforts, compliance has not been possible; or
  - (c) if the Fund is subject to a final dissolution decision.

The appointment of a new AIFM is made with the vote of the ordinary general meeting of shareholders and the mandate becomes effective from the date of its acceptance or another later date set by the parties.

### **3.6. b) Enumeration of the situations in which the Depositary can be replaced and the rules for ensuring the protection of investors**

The current depositary of the Fund was appointed for a determined period, respectively until 20 May 2022.

The Fund may unilaterally terminate the agreement, provided that a 90-day prior written notice is sent to the depositary in accordance with applicable law.

The depositary may terminate the agreement only after the Fund has been given a written notice of at least 90 calendar days. The Fund may terminate the agreement only after the depositary has been given a written notice of at least 90 calendar days. The notice period runs from the date of notification of the termination of the agreement to FSA.

The decision to terminate the agreement is published on the Fund's website.

Within the above 90 days, the Fund has the obligation to conclude an agreement with a third-party depositary and to deposit it with the FSA in accordance with the applicable legislation. The current depositary has undertaken to provide all required support and to provide all necessary information to support the transfer of the Fund's assets and the implementation of other arrangements with any new depositary, subject to compliance with applicable law.

The Depositary and Custody Agreement may be terminated also in the following situations:

- a) by the agreement of the Fund and the depositary;
- b) in case the FSA, or the NBR or Romanian competent authorities withdraws notice / operating authorization of either party required to perform their obligations hereunder;
- c) if the NBR initiates any surveillance or special administration procedures of the depositary or the depositary has started the bankruptcy proceedings.

The current depositary undertakes to cooperate reasonably and to provide the information reasonably requested in order to ensure the transition to any new depositary, subject to compliance with applicable laws and regulations.

After the date of termination of the current deposit agreement but no later than 2 (two) working days from the date of completion of the transfer process from the current depositary to the new depositary according to the above, the current depositary will promptly report to the Fund and FSA, as well as to the new depositary, if requested, the statement of all investments and cash held on behalf of the Fund, which shall contain a detailed description of how the transfer of assets, the net asset value and the net assets value.

### **3.7 Leverage calculation method (gross method or commitment method)**

In accordance with the EU Regulation 231/2013 leverage is any method which increases the Fund's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of Fund's exposure to its net asset value and is calculated on both a "gross" and "commitment" method.

Under the gross method, exposure represents the sum of the Fund's positions (including all listed and unlisted holdings) after deduction of cash balances and cash equivalents in the Fund's functional currency (i.e. RON), without taking into account any hedging or netting arrangements. Government securities with a residual maturity of 90 days or less are assimilated to cash and cash equivalents and are excluded from leverage calculation whilst government securities with a residual maturity above 90 days are assimilated to investments and are included in the leverage calculation.

Under the commitment method, exposure is calculated without the deduction of cash balances and cash equivalents and after certain hedging and netting positions are offset against each other if applicable.

According to its Constitutive Act, AIF Law and AIF Regulation, the Fund may not utilize loan agreements for investment purposes and buyback of own shares for the purpose of share capital decrease. The use of derivative financial instruments is permitted.

The maximum incremental level of leverage which the AIFM is entitled to employ on behalf of the Fund for AIFM Directive monitoring and reporting purposes is 50% which, considering 100% of long assets held in the portfolio, relates to a ratio of 1.5 (or 150%) for both the gross method and the commitment method.

**The Rules of the Fund were drafted on 8 December 2021.**