

Classification of investment funds

1. Equity funds

Equity fund invests mostly in shares and other equity securities (rights for shares, depositary shares).

Equity fund should fulfill at least one of below requirements:

- share in share fund's assets and in other equity securities amounts at least 66%, or
- fund invests mostly in shares and other equity securities and has got benchmark able to mirror deposits' portfolio in which share and other equity securities amounts at least 90%.

Among equity funds following categories determining geographical specialization can be differentiated:

- 1) Domestic market funds
- 2) European market funds
- 3) American market funds (USA)
- 4) Asia and pacific region fund
- 5) Others (including global funds, emerging markets and other regions funds or without regional specialization).

Geographical specialization is determined by the country of issuers of securities included in fund's investment portfolio. Share of financial instruments issued by subjects domiciled in a given country (item 1) or region (items 2-5) should amount at least 66% of fund's assets.

Irrespective of division determining geographical specialization, among equity funds following additional categories can be set apart:

- 1) Index funds
- 2) Small and medium – size enterprises' funds
- 3) Sector funds

2. Mixed funds

Mixed funds invests in many types of assets i.e. equity securities (including shares), fixed income securities (bonds, money market instruments).

Among mixed funds below categories can be set apart:

- 1) Funds with hedged capital, for which the basic principle of investment policy is to secure against decrease of participation unit value under given level by allocation of investment portfolio in equity securities, derivatives and fixed income securities (hedging level can be fixed or variable, according to rules described in fund's prospectus).
- 2) Sustainable growth funds, for which effective share of equity securities and shares in assets should not exceed 40%.
- 3) Balanced funds which should fulfill one of two given requirements:
 - effective share of other equity securities and shares in funds assets should not be smaller than 40% and larger than 60%,

or

– shares of other equity securities and shares in assets should not be smaller than 30% and higher than 70% and fund should not have benchmark able to mirror deposits' portfolio, in which share of securities and shares is included in 40%-60% range.

- 4) Mixed funds – others. This category includes rest of mixed funds (i.e. active allocation, total return).

Usage of derivative instruments and opening deposits in collective investments cannot cause transgression of minimum or maximum fund's exposure on share market, over the range given for each category.

Among mixed funds given geographical categories can be set apart:

- 1) Domestic market funds
- 2) European market funds
- 3) American market funds (USA)
- 4) Asia and Pacific region funds
- 5) Other funds (including, among others, global funds, emerging markets funds, fund of regions without geographical specialization).

Geographical specialization is determined by the country of issuers included in fund's investment portfolio. Share of financial instruments issued by subject domiciled in given country (item 1) or region (items 2-5) should amount at least 66% of fund's assets.

3. Debt funds

Debt funds invest mostly in fixed income securities. Fund cannot invest in equity securities except specified circumstances i.e. purchasing of shares due to debt conversion.

Among debt funds given categories determining currency specialization can be differentiated:

- 1) Funds investing in Polish currency
- 2) Funds investing in a given foreign currency (i.e. EUR, USD) with identification of this currency
- 3) Funds without given placements' currency

The condition of classification of fund into one of subcategories 1-2 is holding share in assets of deposits fund denominated in a given currency, amounting at least 80%. Share in assets of deposit fund denominated in a given currency means effective exposure of funds for fluctuations of exchange rate of a given currency with taking into consideration used derivative instruments. Funds which does not fulfill the above request are classified as **funds without basic deposits' currency**.

4. Cash funds and money market funds

This group contains funds which fulfill requirements described in article 178 of The Investment Funds Act dated 27th of May 2004 (J. L. no 146 item 1546) and other funds for which total value of the Macaulay duration index does not exceed 1. Among money market funds and cash funds given categories determining currency specialization can be set apart:

- 1) Funds investing in Polish currency
- 2) Funds investing in a given foreign currency (i.e. EUR, USD) with identification of this currency
- 3) Funds without given basic deposit currency

The condition of classification of fund into one of subcategories 1-2 is holding share in assets of deposits fund denominated in given currency, amounting 100%. Fund which holds denominated deposits in different currencies can be classified into one of categories 1-2, on condition of using full hedging of main currency exchange rate. There is also allowed small (up to 10%) share of assets denominated in currency different than basic one, if fund sells participation units in this currency. Funds which does not fulfill the above requirement are classified as **funds without basic deposits' currency**.

5. Real Estate Funds

The group of real estate funds are funds, which investment objective is to obtain the revenues from rental property or from increase in the value of assets as a result of increase in the value of the real estate owned by the fund, directly or through the special purpose vehicles.

As soon as the fund finishes developing the targeted portfolio of investments, which can take up to 36 months, at least 80% of the value of the **real estate fund** assets should constitute:

- rights and titles to the real estates,
- stocks or shares in the private special purpose vehicles, which assets consist primarily of real estates,
- money market instruments and debt securities issued by the unlisted special purpose vehicles, which stocks and shares are included in portfolio of investments, and claims against those special purpose vehicles.

6. Private Equity Funds

Private assets funds specialize in investing in private equity.

As soon as the fund finishes developing the targeted portfolio of investments, which can take up to 36 months, at least 80% of the value of the assets of **private equity fund** should constitute:

- stocks and shares in private companies, unless they have become the subject of a public offer or have been admitted for trading on a regulated market after their acquisition by the fund,
- stocks or shares of public companies, purchased by the fund with the intention of the company's withdrawal from the organized market or with the intention of having a significant impact on the management and strategy of the activity of the company,
- debt securities, money market instruments and claims of the above mentioned companies.

The Fund may be categorized as private assets fund only if it does not meet the conditions allowing to categorize it as a real estate fund.

7. Hedge Funds

Hedge fund is a fund that meets the following conditions:

- 1) operates as closed-end fund or open specialized mutual fund
- 2) conducts the investment policy considering at least two of the following assumptions:
 - applies the advanced investment techniques aimed at achieving high rates of return (in absolute terms),
 - systematically uses the financial leverage, by means of credits or loans with a significant participation in the assets of the fund, uses derivative instruments or other techniques of

- investment, while the total exposure of the fund, taking into account the used financial leverage, substantially exceeds the value of the fund's net assets,
- largely uses the short-selling of financial instruments.
- 3) charges variable fees for managing, depending on the results of the fund.

8. Commodity Funds

Commodity funds are the funds that invest at least 66% of the value of the assets into the financial instruments, which are linked with the raw material markets, such as shares of raw material companies or commodity derivative instruments.

The Fund may be categorized as a commodity fund, only if it does not meet the conditions that allow it to be categorized as a sector equity fund or as a hedge fund.

9. Securitization Funds

The group of securitization funds include the closed-ended mutual funds, set up as the securitization funds, pursuant to the provisions of the Mutual Funds Act dated 27 May 2004 (Journal of Laws No. 146, item. 1546, as amended).

Additional comments:

1. **Funds of funds** and funds investing major part of the assets in participation title of one collective investment institution, are classified on the basis of total investment's portfolio total composition of collective investment institutions, where participation's titles are invested by a given fund (on a basis of model fund exposure on equity securities markets and fixed income securities).
2. In case of **funds with sub-funds**, each of sub-funds is being classified separately.
3. In case of **core capitals and connected funds**, only connected funds are being classified. Connected fund's profile should be described on a basis of core capital investment policy.