



Appendix No. \_\_\_\_  
to the Minutes of the meeting of  
Board of Directors of  
Qazaqstan Investment Corporation  
Joint Stock Company  
dated \_\_\_\_\_ 2023  
(Minutes No. \_\_\_\_)

Approved  
by the decision of the Board of Directors of  
Qazaqstan Investment Corporation  
Joint Stock Company  
dated \_\_\_\_\_ 2023  
(Minutes No. \_\_\_\_)

**Development Strategy of Qazaqstan Investment Corporation  
Joint Stock Company for 2024-2033**

Astana, 2023

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## **Introduction**

Qazaqstan Investment Corporation Joint Stock Company (QIC, Corporation) is a fund of private equity funds created to promote the sustainable development of the national economy.

In 2007, the First President of the Republic of Kazakhstan N. A. Nazarbayev in his Annual Address to the people of Kazakhstan announced the initiative to create a fund of private equity funds. Pursuant to this instruction, on March 7, 2007, the Board of Directors of Kazyna Sustainable Development Fund JSC decided to establish Kazyna Capital Management JSC.

The sole shareholder of QIC is National Managing Holding “Baiterek” Joint Stock Company (NMH “Baiterek” JSC, Holding).

In order to strengthen the Corporation's positioning as a country investment institution, a key player in global private equity market, strategic partner for international investment community with main activity related to facilitation of inflow of foreign investment into the Republic of Kazakhstan, as well as in order to more accurately broadcast a wide range of financial instruments of the Corporation based on decision of the Sole shareholder dated December 28, 2022, a rebranding was carried out, during which on January 10, 2023 Kazyna Capital Management JSC was re-registered as Qazaqstan Investment Corporation Joint Stock Company.

The previous QIC Development Strategy for 2014-2023 was approved in a new edition by the decision of the Board of Directors dated September 4, 2020 in connection with the past structural changes and the expansion of the mandate of QIC activities.

This Development Strategy is another strategic document for a ten-year period and was developed in accordance with the Rules for the development, coordination, approval, monitoring and updating of development strategies of subsidiaries of National Managing Holding “Baiterek” Joint Stock Company, approved by the decision of the Management Board of NMH “Baiterek” JSC dated September 25, 2018 No. 38/18 and the Development Plan of NMH “Baiterek” JSC for 2024-2033.

This document is based on the key strategic directions of QIC's activities to realize its role as a driver of the development of the private equity market in Kazakhstan and an authorized operator for implementation of state incentives for industries.

The development strategy defines the mission, vision, strategic directions, as well as goals, objectives and projected values of key performance indicators for 2024-2033.

## **1. Analysis of the current situation**

### **1.1. Analysis of the external environment**

#### **1.1.1. Macroeconomic analysis**

According to the World Bank, global GDP growth in 2022 amounted to 3.2%.<sup>1</sup> Economic growth in emerging markets and emerging economies in the Europe and Central Asia region (hereinafter referred to as ECA) slowed significantly in 2022 and amounted to 1.2%, as its pace was negatively affected by rising inflation, disruptions in energy supplies and in the value chain, as well as a noticeable tightening of monetary policy.<sup>2</sup>

The forecast of the International Monetary Fund for the average annual growth of the world economy until 2027 is 3%. The growth rate of the global economy will slow down and will be among the lowest in the last thirty years, second only to the indicators noted during the global recessions of 2009 and 2020. Particularly vulnerable to economic shocks are States dependent on foreign trade, weak economic diversification, high debt levels and exposure to natural disasters.<sup>3</sup>

The pace of economic growth of the ECA in 2023 will remain insignificant, real GDP will grow by 1.4%. According to World Bank forecasts, China and India will account for half of the global GDP growth in 2023. On the contrary, in the US and the Eurozone, economic activity is slowing down because high rates affect demand. Growth rates are expected to decline by about 90% of all developed economies. For low-income countries, the situation is also getting worse: borrowing is becoming more expensive, and export demand is subject to decline.

The rate of inflation growth in 2022 accelerated sharply after the COVID-19 pandemic. According to forecasts, core inflation – excluding food and fuel prices – will remain at a high level, and it will take longer to reduce it than most market participants and representatives of the bodies responsible for the formation of financial and economic policy expect.

The tightening of financial conditions in most countries will continue to have a negative impact on private investment; at the same time, the likelihood of further increases in the key interest rate by major central banks increases. Risk aversion, typical for most of 2022, led to unstable market dynamics, which caused an increase in the risk of financial shocks, which persisted in 2023. Given the significant public spending, in the situation of successive crises, one of the priorities for restoring budgetary opportunities and replenishing liquidity buffers in most countries of the region will be fiscal consolidation.

The recent energy crisis gives the region an opportunity to accelerate the achievement of the goals of the “green” transition. By adopting policies to support a sustainable and reasonable transition from high dependence on fossil fuels to

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<sup>1</sup> World Bank data: Kazakhstan

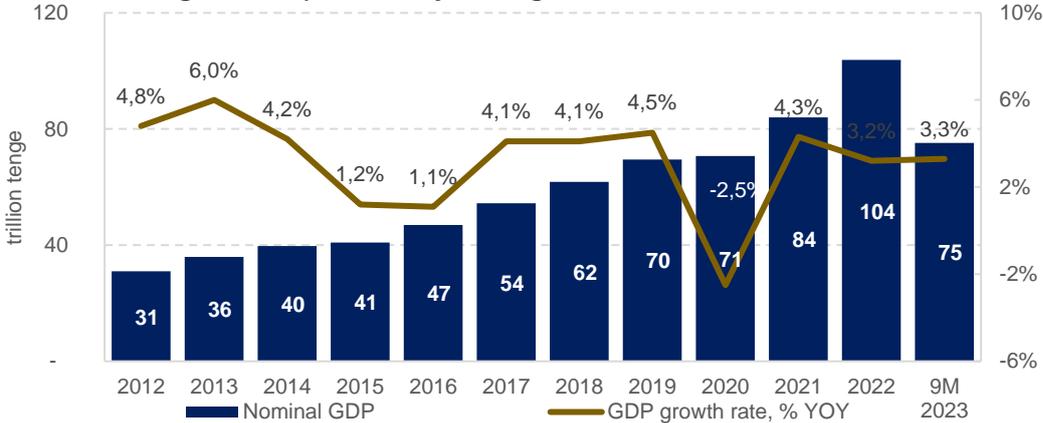
<sup>2</sup> World Bank: Overview of the economy of the Europe and Central Asia region

<sup>3</sup> IMF Report "Prospects for development of the world economy"

alternative energy sources, ECA countries can help reduce the high energy intensity of the region and reduce environmental degradation.

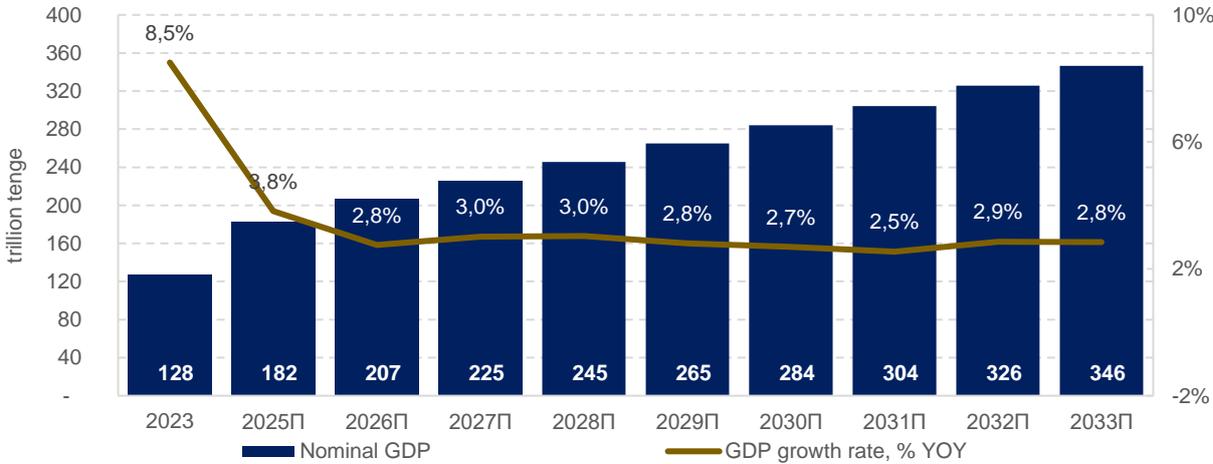
Taking into account the situation with low growth rates and high inflation, the problem of the “cost of living crisis” significantly affects the standard of living of the population of the ECA countries. Rising food prices and electricity bills, rising mortgage costs and rising rents, as well as higher prices for services are undermining the standard of living of a significant part of the population of the ECA region.

**Figure 1: Dynamics of GDP growth in Kazakhstan, 2012-1h2023<sup>4</sup>**



In the first half of 2023, the nominal GDP of the country amounted to 47 trillion tenge, while the real GDP growth compared to the previous year was 3.3%. From 2012 to 2022, the cumulative average annual growth rate of nominal GDP was 13% (from 31 to 104 trillion tenge). In 2020, there was a negative indicator of real GDP growth (-2.5% compared to the previous year), due to the impact of the pandemic with a concomitant reduction in the services, transport and trade sectors, but a recovery in growth rates followed in 2021 and 2022.

**Figure 2: Dynamics of GDP growth in Kazakhstan, forecast for 2023-2033<sup>5</sup>**



<sup>4</sup> Bureau of National Statistics of the Republic of Kazakhstan

<sup>5</sup> S&P Capital IQ Pro

According to the forecast of analysts of S&P Capital IQ Pro agency, Kazakhstan's GDP is expected to grow steadily in nominal terms from 2023 to 2033, with an average annual growth rate of 11%, from 128 to 346 trillion tenge, while real GDP growth will decrease from 3.9% to 2.8%, averaging 3.1%.

A significant share of GDP in the first half of 2023 is accounted by industry (29.4% or 13.8 trillion tenge), in which the largest shares are accounted by the mining industry (49% or 6.7 trillion tenge) and the manufacturing industry (45% or 6.2 trillion tenge). The second largest sector of GDP is trade – 15.8% (7.4 trillion tenge), while the third place is occupied by the real estate sector – 12.3% (5.8 trillion tenge).

According to the estimates of the Ministry of National Economy of the Republic of Kazakhstan, a moderate increase in economic growth is planned to 3.5% in 2023 and 4% in 2024, mainly due to the hydrocarbon sector, as oil production may increase due to new projects<sup>6</sup>.

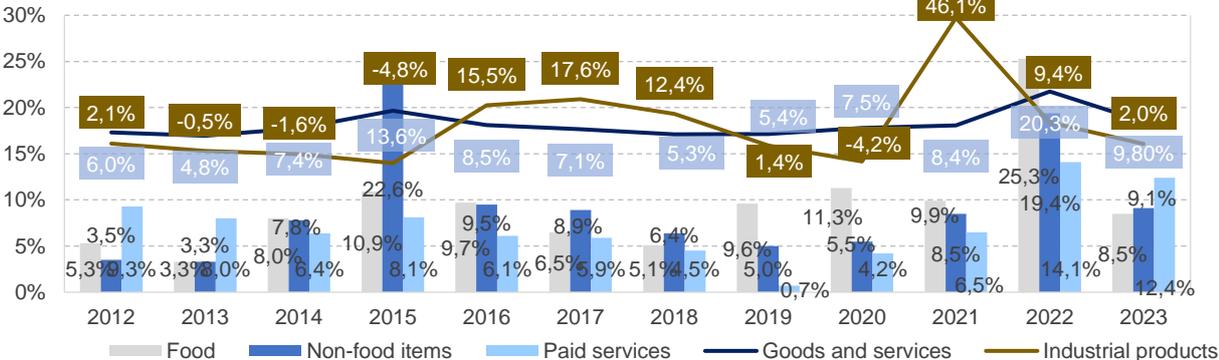
According to the national socio-economic development plan, the average annual growth rate of industries in 2023-2027 will be 4%:

- manufacturing industry – 4.9 %;
- mining industry – 3.1 %;
- the volume of gross agricultural output will be 4.5%;
- the construction industry will average – 8.8%;
- the projected growth of trade turnover is 7.4%.

Inflation is expected to decrease, but will remain high in 2023 under the influence of high food prices. Tight monetary policy will help reduce inflation to the upper limit of the target by 2025.

The budget for 2023 plans a moderate increase in real spending, especially on social security and wage increases. The Government of the Republic of Kazakhstan plans to reduce transfers from the National Fund and eventually increase revenues from non-oil taxes. Oil prices are projected to decline and affect export earnings and the current account balance in 2023, but there may be a deficit in subsequent years as oil prices continue to fall.<sup>7</sup>

**Chart 3: Inflation, 2012 – 8M 2023<sup>8</sup>**



By category, the increase in prices for August 2023 to August 2022 was: for food products – 12.4%, for non–food products – 13.5%, for paid services – 13.9%, for goods

<sup>6</sup> Forecast of socio-economic development of Kazakhstan for 2023-2027

<sup>7</sup> World Bank: Overview of the economy of Kazakhstan

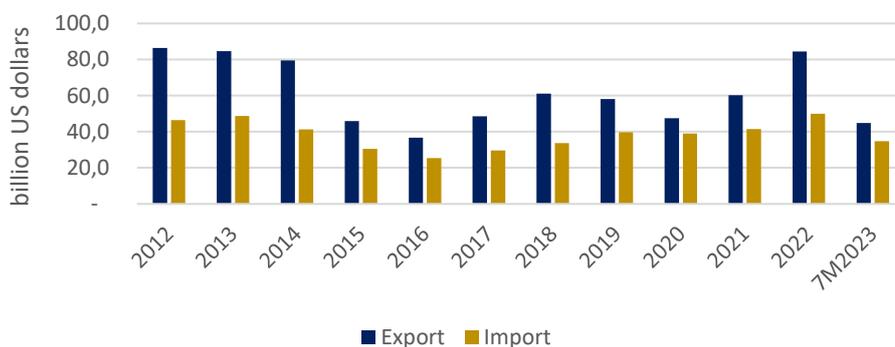
<sup>8</sup> Bureau of National Statistics of the Republic of Kazakhstan

and services - 13.1%. In August 2023, bakery and flour products increased in price by 17.3% compared to August 2022, alimentary products - by 19.6%.

For the entire period under review, the level of consumer price inflation (goods and services) reached its maximum value in 2022, the indicator was 20.3% against the background of geopolitical difficulties, the Russian-Ukrainian military conflict and sanctions against Russia. By category, the price increase for December 2022 to December 2021 was: for food products - 25.3%, for non-food products – 19.4%, for paid services - 14.1%. According to the data of the National Statistics Bureau of the Republic of Kazakhstan, in December 2022, bakery products and cereals increased in price by 33.6% compared to December 2021, dairy products – by 31.3%, fruits and vegetables – by 21%, meat and meat products – by 16.6%.

The change in the industrial product price index in 2012-2022 was characterized by significant volatility. In 2020, this indicator fell to -4.2%, but next year it increased and amounted to 46.1%. This rise is associated with a pandemic, since in 2020 the decline in industrial production occurred due to the transition to a remote format of work and the restriction of the mode of operation of enterprises. In 2022, prices for industrial products increased by 9.4%. In August 2023, compared with August 2022, the decline in prices for industrial products amounted to 7.7%.

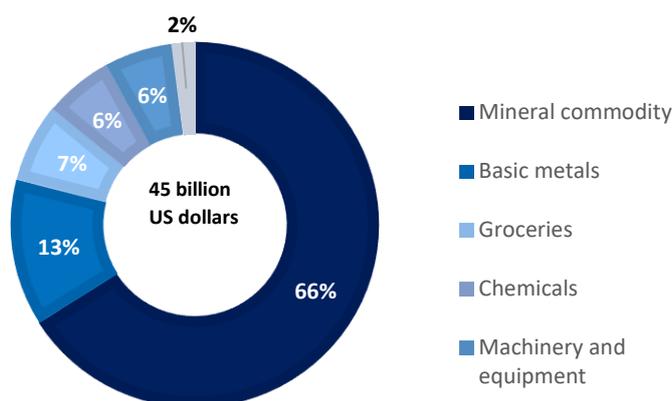
**Chart 4: Dynamics of exports and imports in Kazakhstan, 2012 – 7M 2023<sup>9</sup>**



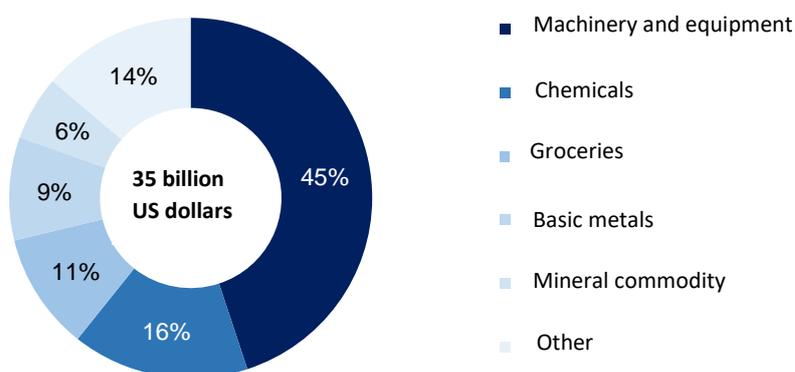
In 2015, Kazakhstan's foreign trade turnover sharply decreased (exports by 42%, imports by 26%), which is due to the decline in world oil prices, which began at the end of 2014 and continued in 2015. In 2020, the volume of exports decreased by 17.24% and amounted to 48 billion US dollars, while the volume of imports decreased by 2.5% and reached 39 billion US dollars. The decline in exports is due to lower oil prices and demand from the transport industry and a reduction in global trade as a result of the pandemic. In 2022, the volume of exports and imports increased by 40% and 22% compared to last year and amounted to 84 and 50 billion dollars. The United States, respectively, which is due to geopolitical events in the region.

<sup>9</sup> Bureau of National Statistics of the Republic of Kazakhstan

**Diagram 5: Structure of Kazakhstan's exports for 7 months of 2023**



**Diagram 6: Structure of imports of the Republic of Kazakhstan for 7 months of 2023<sup>10</sup>**

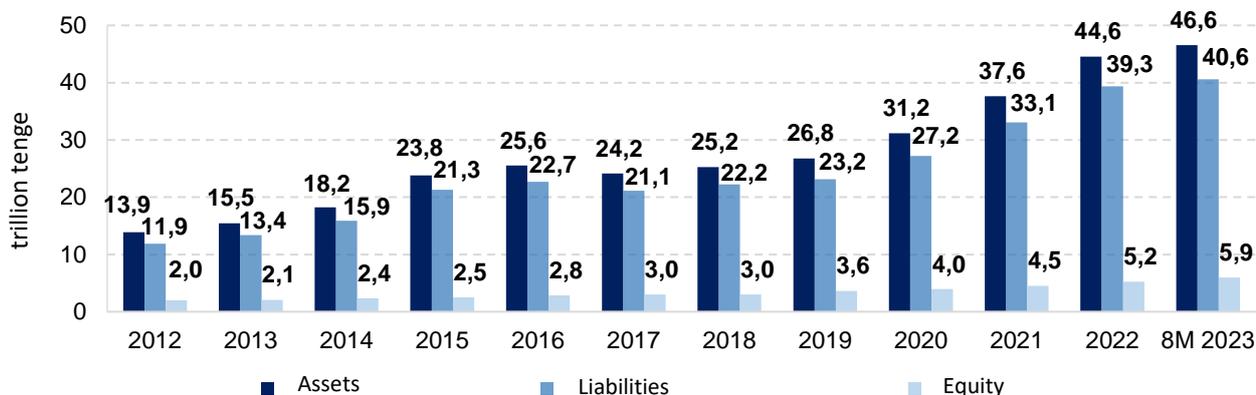


For 7 months of 2023, mineral products accounted for the maximum share in the export structure – 66% (\$29.7 billion US dollars), base metals, – 13% (\$5.7 billion US dollars), food products – 7%, (\$3.2 billion. US dollars), chemical products – 6% (\$2.7 billion US dollars), machinery and equipment – 6% (\$2.6 billion US dollars), other – 2% (\$930 million US dollars). In the structure of imports for 7 months of 2023, the maximum share fell on machinery and equipment - 45% (\$15.6 billion US dollars), chemical products – 16% (\$5.5 billion US dollars), food products – 11%, base metals – 9%, mineral products – 6% and others – 14%. Thus, the outpacing growth of exports over imports, as well as a significant increase in export prices compared to import prices, indicates an improvement in the foreign trade situation for Kazakhstan, which significantly improves the country's balance of payments.

There are 21 second-tier banks (STB) operating in the Republic of Kazakhstan, including 11 banks with foreign participation, 8 subsidiaries of STB, 2 banks with 100% state participation. In addition, the number of STB branches is 255, the total number of representative offices of non–resident banks in the Republic of Kazakhstan is 19, the total number of STB representative offices abroad is 4.

<sup>10</sup> Bureau of National Statistics of the Republic of Kazakhstan

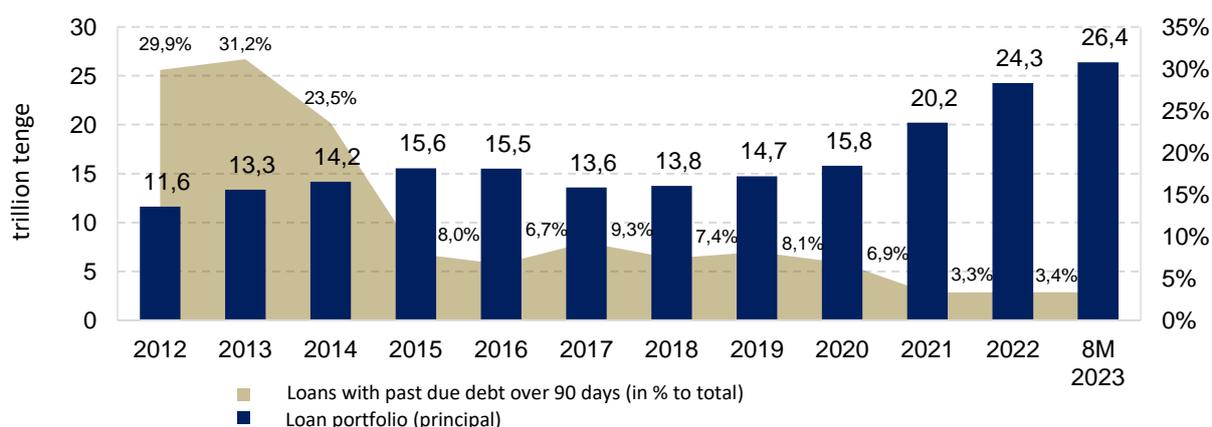
**Diagram 7: Dynamics of assets, liabilities and capital of the banking sector of the Republic of Kazakhstan<sup>11</sup>**



The total assets of the banking sector as of August 1, 2023 amounted to 46.6 trillion tenge, while at the beginning of 2023 assets amounted to 44.6 trillion tenge, which is 18.4% more than last year (37.6 trillion tenge). In general, assets had positive dynamics from 2012 to 2022, the cumulative average annual growth rate was 12.4% (from 13.9 trillion tenge to 44.6 trillion tenge). The liabilities of the banking sector as of August 1, 2023 amounted to 40.6 trillion tenge. In the total liabilities of STB, the largest share is held by customer deposits - 78.9% (32 trillion tenge).

As of August 1, 2023, the loan portfolio (principal debt) in the amount of 26.4 trillion tenge occupies the largest share in the asset structure (54.6% of total assets). For the period from 01.01.2013 to 01.01.2023, the cumulative average annual growth rate of the loan portfolio was 7.6% (from 11.6 to 24.3 trillion tenge). As of 01.08.2023, the share of loans with overdue debts over 90 days in the total loan portfolio amounted to 3.4% or 0.89 trillion tenge.

**Diagram 8: Dynamics of the loan portfolio of the banking sector of the Republic of Kazakhstan<sup>12</sup>**



<sup>11</sup> Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market

<sup>12</sup> Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market

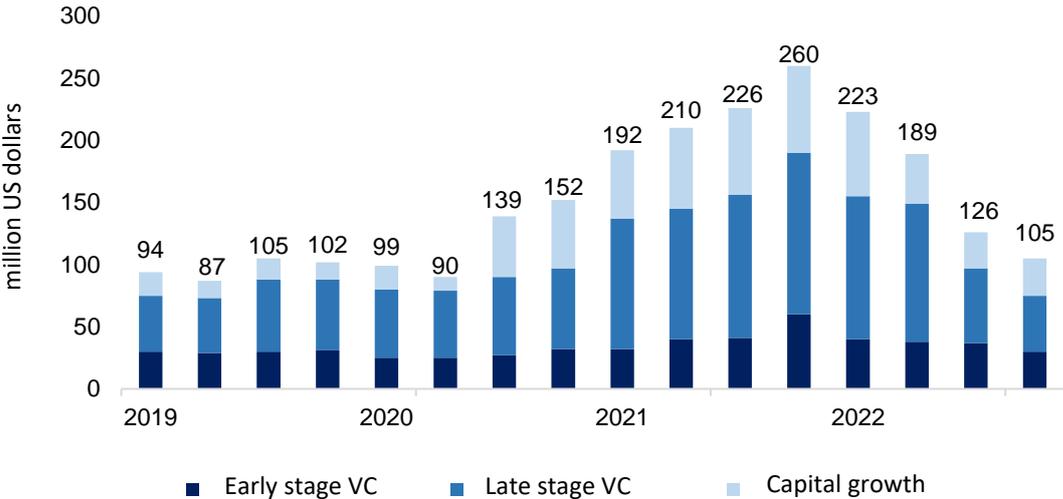
### 1.1.2. Global Private Equity Market<sup>13</sup>

Investments, exits and fundraising decreased in 2022 due to the global deterioration of the macroeconomic situation. Inflation and rising interest rates have reduced the enthusiasm of market participants for the number of transactions after the global COVID-19 pandemic.

Factors that influenced the decline in investment volume:

- loss of markets and assets of Russia and Ukraine;
- lack of natural resources;
- global food prices and supply disruptions;
- growing risks of inflation and recession;
- financial market instability;
- the slowdown in the growth of the real economy;
- disruptive innovation;
- geopolitical restructuring.

*Diagram 9: Total invested capital, by investment stages, quarterly*



In the second half of 2022, the activity of funds decreased significantly. In general, the size of transactions decreased by 28% and amounted to about \$644 billion. While buyouts remain the largest asset class in the industry, a number of others are growing at double-digit rates. Transactions of the “growth” asset category do not depend as much on bank debt as share buybacks. But growth funds and venture capital funds have faced a number of problems:

- rising interest rates reduce the value of future earnings, which has a disproportionately large impact on the value of fast-growing companies;
- most of the dynamics of the technology segment in 2021 and early 2022, due to the effect of COVID-19, began to seem over-optimistic;

<sup>13</sup> Global Private Equity Report for 2023, Bain&Company

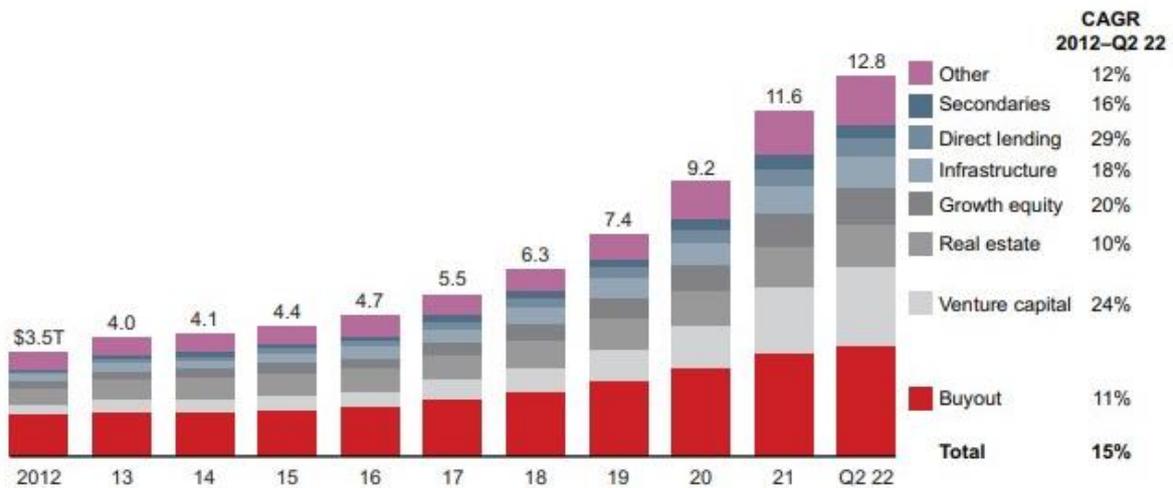
- conservatism of Management Companies (GP).

In 2022, global capital raising changed course, but the total amount of funds raised was still the second largest in history.

The total amount of capital raised by private equity funds over the past 19 years has steadily continued to grow from \$106 billion in 2003 to \$1,373 billion in 2022.

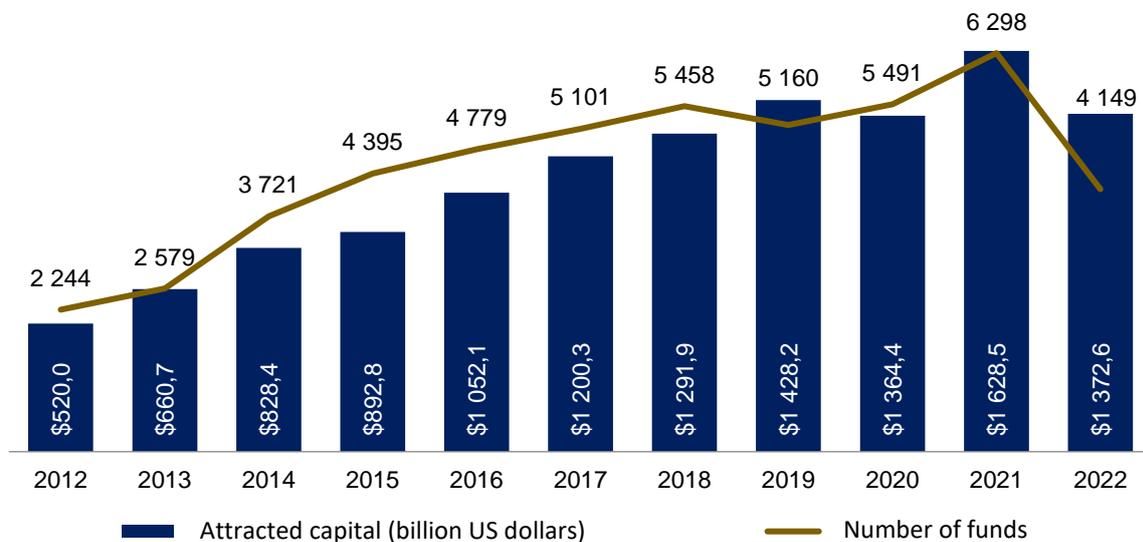
Alternative asset class managers around the world raised \$1.37 trillion in private capital during 2022, which is 16% less than in 2021, but is still the third largest indicator ever. Thus, the total amount for five years amounted to \$ 7.1 trillion, which exceeds any five-year period in the history of the private investment industry.

**Diagram 10: Global indicator of assets under management, by asset class (\$trillion)**



The number of funds has grown from 938 in 2008 to 4149 in 2022. The average size of funds in 2022 was \$542 million compared to \$376 million in 2009.

**Diagram 11: Total amount of private capital raised (\$billion)<sup>14</sup>**

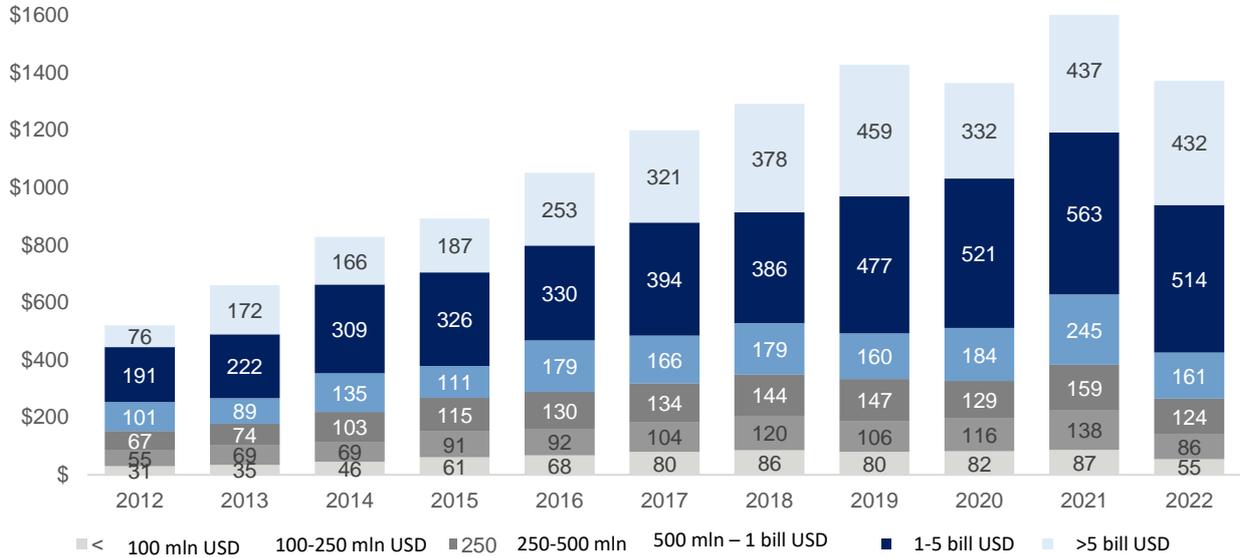


<sup>14</sup> PitchBook Data

The share of private investments in investors' portfolios has increased, which is partly due to the negative dynamics of the stock market and the decline in the value of assets traded on the open market. For some LPs, this dynamic has led to a narrowing of the gap between the actual and targeted allocation of funds in the private market, while for others it has led to a general redistribution of funds in favor of one or more classes of private assets. As a result, some need to balance portfolios contributed to a decrease in the number of new liabilities, and in some cases, the sale of private assets on the secondary market last year.

The difficulties associated with raising funds that arose against the backdrop of the economic downturn (for example, the refusal of banks to finance risky transactions and a more conservative approach to limits in conditions of uncertainty) did not affect the participants of the private capital market equally.

**Figure 11.1: Structure of attracted capital by size of funds (\$billion)<sup>15</sup>**



In the absence of stability and high uncertainty of the market, investors prefer large funds (AUM from 1 to 5 billion USD) and mega-funds (AUM > 5 billion USD) in the formation of new obligations. In 2022, \$432 billion was raised by mega-funds, which accounted for 32% of the total amount of capital raised.

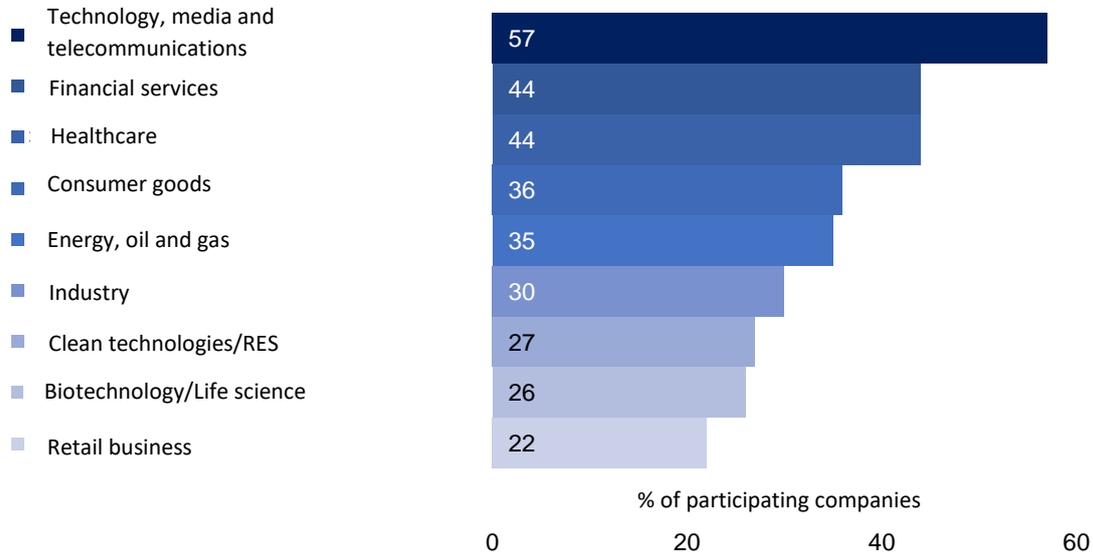
The trend of increasing the volume of funds raised through large and mega-funds has been traced over the past decade. A slight increase in the volumes attributable to the shares of smaller funds, however, did not affect the indicative compound annual growth rate (CAGR) of the attracted capital, divided by the size of the funds. The largest CAGR of 2012-2022 is demonstrated by mega-funds.

In general, the industry has good opportunities for long-term growth and prosperity. Despite the recent decline in transaction activity, exit from business and fundraising, the main indicators remain stable.

<sup>15</sup> PitchBook Data

Considering the above, as well as the growing popularity of the global alternative asset class market, QIC needs to follow market trends, expand the geography of investment and look for new partnership opportunities with global players.

**Diagram 12: PE investment market in the 1st half of 2023 by sector<sup>16</sup>**



Technology, media and telecommunications have historically been the most popular sector for investors.

Investors continue to show greater interest in North America as the most mature market with a developed stock exchange infrastructure and investor protection.

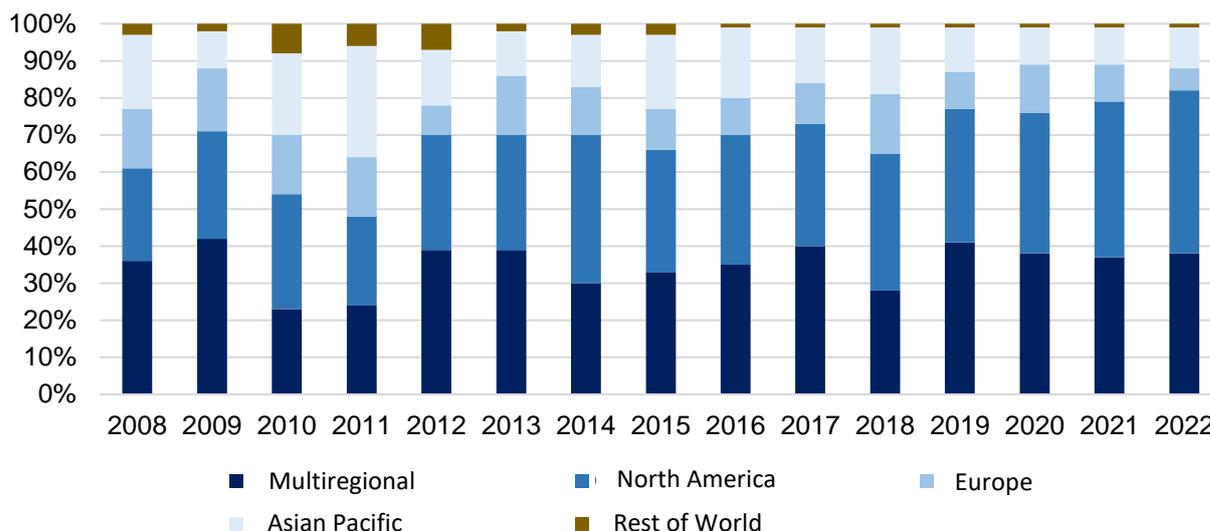
Most investors prefer interregional geographically diversified funds “without putting all their eggs in one basket”.

The European continent is losing its former attractiveness against the background of the military conflict and the uncertainty associated with it. The decline was also partly due to the currency effect, as the dollar strengthened against most European currencies in 2022. It is possible that the decrease in the volume of liabilities is due to the record high level of unused capital at the end of 2021.

Investors are leaving China due to tighter controls by Chinese government agencies, violations of the rights of foreign investors, lobbying for local businesses, slowing down promised reforms, as well as due to growing tensions between China and the United States.

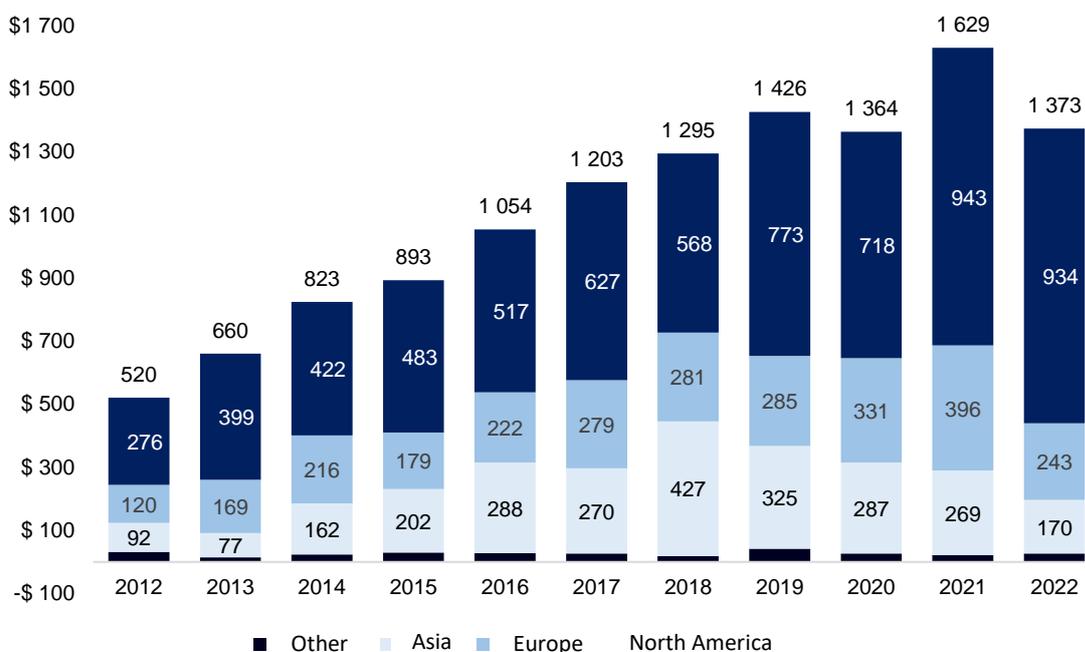
<sup>16</sup> Private Equity International Report

**Diagram 13: Share of capital raised by region**



In Asia, the volume of fundraising has been declining over the past five years (the volume of capital raised in 2022 amounted to 170 billion USD). The long-term decline in funds focused on Asia is explained by a combination of factors, including excess unused capital (dry powder) and changes in government regulation. In Asia as a whole, according to Preqin data, the volume of fundraising decreased significantly in the segments of PE (-49.2%) and private debt (-24.6%), while the volume of fundraising in infrastructure and natural resources increased by 1%.<sup>17</sup>

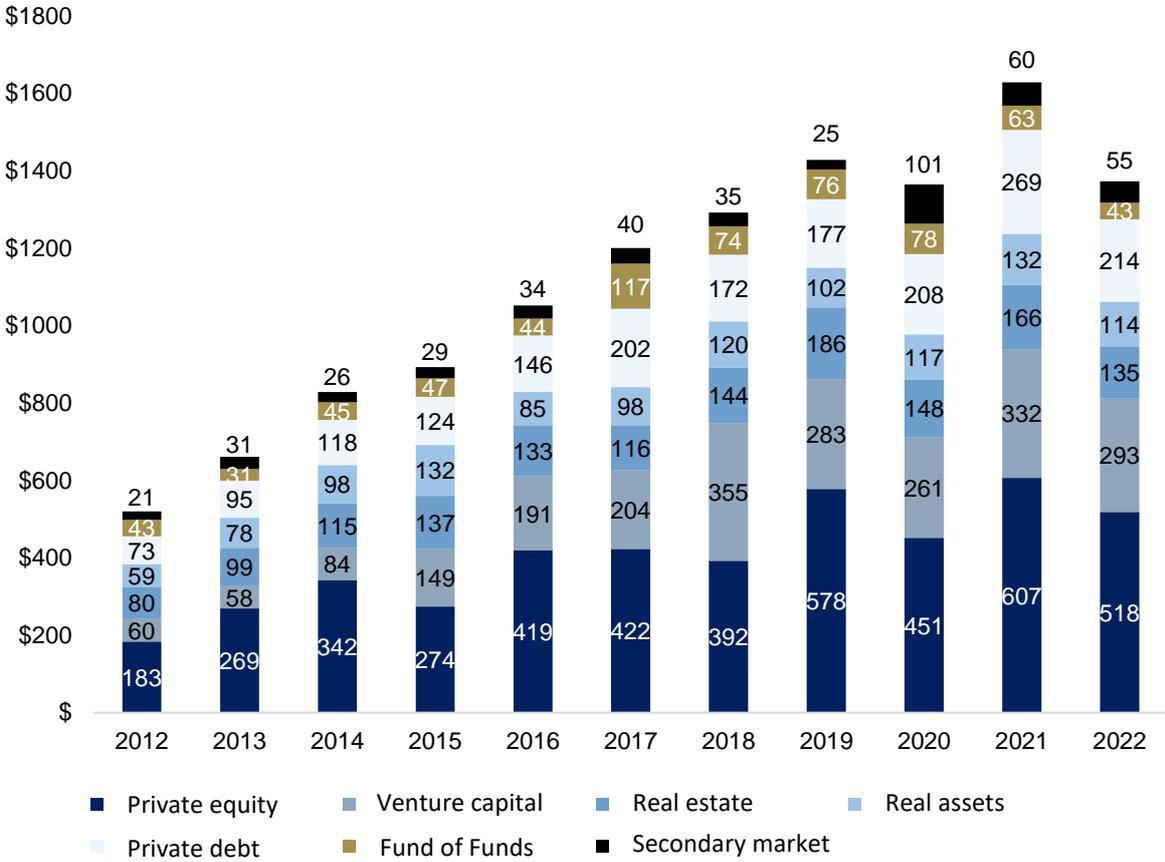
**Diagram 13.1: Structure of attracted capital by region (\$billion)**



<sup>17</sup> Preqin Data

The main share of private capital accounts for the total volume of direct investment and venture capital. Since 2016, it has consistently exceeded 50% of the funds raised.

**Diagram 13.2: Attracted private capital by type (\$billion)**



In 2022, when the global market was affected by the next economic downturn, the shares of investments in private equity instruments and venture capital increased in the total structure of attracted capital, largely due to the favorable impact of lower prices on the valuation of private assets on the public markets for investors to enter (it is possible to enter high-quality assets at lower prices). However, the increase in the share may also be due to the echoes of the success demonstrated by the private capital market in 2021.

**1.1.3. Central Asia Market Overview<sup>18</sup>**

Net FDI inflows to Central Asia increased by 39% and amounted to \$10 billion, of which 61% came from Kazakhstan.

This was facilitated by the unique geographical location of the region. Some Central Asian countries are located at the intersection of key international trade corridors, which provides communication along key transport and logistics routes.

<sup>18</sup> EY Report "In Conditions of Uncertainty of the Global economy, which way will Central Asia choose?"; National Statistical Agencies, Central (national) banks, IMF, ADB, World Bank, Trade Map, CEIC; World Investment Report, UN Conference on Trade and Development

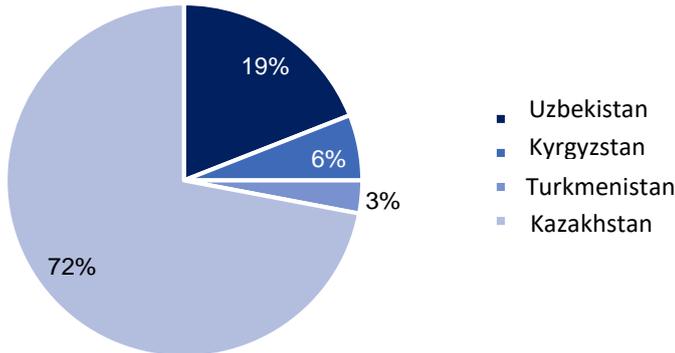
Given the ongoing geopolitical conflict between Russia and Ukraine and the sanctions imposed by the West in connection with it, trade routes through Central Asia and the Caspian Sea have acquired special importance. It is expected that this region will also become an even more important transport hub within the framework of the Chinese “One Belt, One Road” program, which is currently being implemented to promote transcontinental trade in Eurasia<sup>19</sup>.

11 international transit corridors pass through Kazakhstan, of which five are railway and six are automobile. The volume of cargo transportation through Kazakhstan is rapidly increasing, with rail transport accounting for almost 90% of cargo transportation.<sup>20</sup> The Government of Kazakhstan is making significant efforts to build new transport infrastructure, as well as modernize existing terminals, including strengthening the ports of Aktau, Kuryk and the Trans-Caspian International Transport Route<sup>21</sup>.

Uzbekistan is seeking to invest in the development of its transport infrastructure, especially in railway networks, in order to expand access to world markets through seaports in the Persian Gulf. The Government of Uzbekistan has announced the creation of several new free economic zones (FEZ), which will create opportunities for investment in warehousing, cargo transportation, distribution systems and specialized equipment.

According to the EY research, foreign investors express an opinion, that Kazakhstan and Uzbekistan are the two most favorable countries for investment in the region, given their more stable macroeconomic environment, significant business opportunities and strategic location in the market between Europe and Asia. The abundance of natural resources, growing urbanization and modernization, as well as the availability of a young workforce make these countries attractive to investors.<sup>22</sup>

*Diagram 14: Attractiveness analysis of Central Asian countries*



Kazakhstan is leading as the most popular country for investment in Central Asia.

<sup>19</sup> “Logistics and Transport Competitiveness in Kazakhstan, UNECE  
<sup>20</sup> Nikkei Asia  
<sup>21</sup> Kazakh Invest: Kazakhstan and infrastructure; International Trade  
<sup>22</sup> EY Report "In Conditions of uncertainty in the global economy, which path will Central Asia choose?"

**Table 1: Socio-economic indicators of the Central Asian region<sup>23</sup>**

Increase in 2000-2021 (Central Asia)		2000	2010	2021
<b>1.4x</b>	Population, million people.	55	62	77
<b>7.5x</b>	GDP, billion US dollars	46	243	347
<b>1.8x</b>	Share in global GDP, %	0.4	0.6	0.7
<b>17.2x</b>	Volume of FDI, billion US dollars	12.3	101.6	211.4
<b>6x</b>	Foreign trade turnover, billion US dollars	27.4	149.4	165.5
<b>3.1x</b>	Mobility of the population, passKm/person.	2 198	4 435	6 792

Along with the potential of the region, there are some structural problems.

**Table 2: Structural challenges of the Central Asian region and ways to solve them**

No.	Problems	Purpose	Solutions
1.	Lack of access to the sea	Sustainable development of trade and production	<ul style="list-style-type: none"> <li>• development of transport infrastructure, transport and logistics services;</li> <li>• simplification and harmonization of trade and transit procedures;</li> <li>• digitalization of documents and trade procedures;</li> <li>• support of competition in the field of transport and logistics.</li> </ul>
2.	Resource dependence and low level of financial development	Reduction of dependence on price shocks in commodity markets and development of the financial market	<ul style="list-style-type: none"> <li>• improving the investment and business climate;</li> <li>• expansion of regional cooperation ties;</li> <li>• accessibility and wider range of banking, insurance and investment services;</li> <li>• integration with the global financial market.</li> </ul>
3.	Climate change	Reducing environmental risks, contributing to solving the global climate problem	<ul style="list-style-type: none"> <li>• introduction of low-carbon technologies;</li> <li>• development of “green” energy;</li> <li>• efficient waste recycling;</li> <li>• increasing the environmental responsibility of individuals and enterprises.</li> </ul>
4.	Lack of coordination in water and energy complexes	Achieving water and energy security, reducing the cost of electricity	<ul style="list-style-type: none"> <li>• coordination of cross-country actions in the industry;</li> <li>• cooperation in the field of electricity transmission;</li> </ul>

<sup>23</sup> Analytical report of the Eurasian Development Bank

			<ul style="list-style-type: none"> <li>• development and modernization of water and energy infrastructure;</li> <li>• modernization of irrigation systems.</li> </ul>
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The sustainable economic recovery plan after the COVID-19 pandemic, combined with the market potential, has had a positive impact on the investment attractiveness of Kazakhstan.

Almost 53% of EY survey respondents believe that consumer goods (including agri-food products) will stimulate foreign investment in the region by 2025, second only to energy: energy (57%), consumer goods, including agri-food products (53%), digital economy (40%), clean technologies and renewable energy sources (27%), healthcare and business services (21% each).<sup>24</sup>

Over the past few years, the Government of Kazakhstan has implemented a number of reforms aimed at liberalizing and diversifying the economy into new industries, including financial services and the consumer sector. The country has created 14 Special Economic Zones providing tax benefits, and the Astana International Financial Centre (AIFC) has been established to develop financial and capital markets in the region. These initiatives have helped the country to improve the business climate, open its market to foreign investors and provide significant investment opportunities.

The structure of FDI in investment areas over the past 10 years demonstrates continued interest in the mining industry. The share of investments in this sector in the total volume increased from 25% in 2012 to 45% in 2022. At the same time, the volume of investments in the manufacturing industry increased (5% CAGR), the share in the total volume increased from 12% in 2012 to 19% in 2023. The volume of investments in the wholesale and retail trade sector also increased significantly (9% CAGR, from 9% of total investments in 2012 to 19% in 2023). At the same time, it should be noted a significant reduction in investments in the sector of professional, scientific and technical activities (-18% CAGR, reduction of the share in the total volume from 30% in 2012 to 4% in 2023).

Historically, the Central Asiatic region, in particular Kazakhstan, attracts large investments from foreign energy companies such as Chevron, ExxonMobil and TotalEnergies, due to the abundance of oil, natural gas and other minerals. The petrochemical and metallurgical industries are also of the greatest interest. However, as local authorities diversify energy sources and reduce dependence on carbon, there is a shift to cleaner energy sources. Taking into account the potential of the region in generating energy from wind and solar, there is a significant increase in investments in environmentally friendly technologies and renewable energy sources. Kazakhstan ranked 5th among the world's developing economies in terms of attracting net investments in renewable energy projects for the period 2015-2022 with a volume of \$ 56.3 billion.<sup>25</sup>

<sup>24</sup> EY Report "In Conditions of uncertainty in the global economy, which path will Central Asia choose?"

<sup>25</sup> World Investment Report, UN Conference on Trade and Development

Another dynamically developing sector in the region is the consumer goods sector, which includes retail trade and the agri-food sector. Central Asia has an extensive agricultural base, which encourages businesses to invest in the agri-food and food industry.

When making decisions about investing in the region, investors pay attention to a number of factors, which include incentive measures, policies and reforms, the availability of an efficient and qualified workforce, a high standard of living, an emphasis on sustainable development practices, support for individual industries, accessibility to capital (in particular, for SMEs), taxation, as well as developed public infrastructure.

In general, these factors can be grouped into five main categories, the work on which is of great importance for all stakeholders, including governments, companies and consumers. These are the level of implementation of digital technologies, taxation, labor market, regulatory framework and sustainable development.

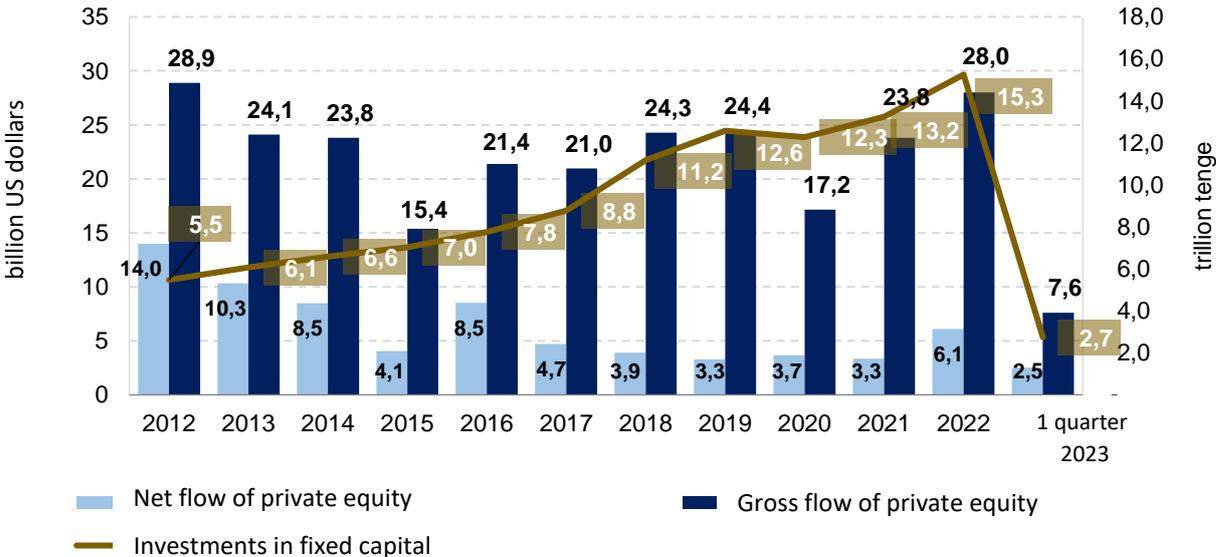
Another important factor in choosing a country for investment is the availability of venture capital and other sources of financing for digital initiatives.

Today Kazakhstan is a new investment opportunity and a huge potential for capital investment. Our republic occupies a strategically important location, has a favorable environment for doing business, protection of investors' rights and investment incentives.

As of the end of 2022, the gross inflow of FDI to Kazakhstan amounted to 28 billion US dollars, which is 17.7% more than in 2021, and is a record value for the last 10 years.

This increase is justified by structural reforms and the policy implemented by the Government of the Republic of Kazakhstan in the field of attracting investments.

**Diagram15: Foreign direct investment (FDI) in Kazakhstan<sup>26</sup>**



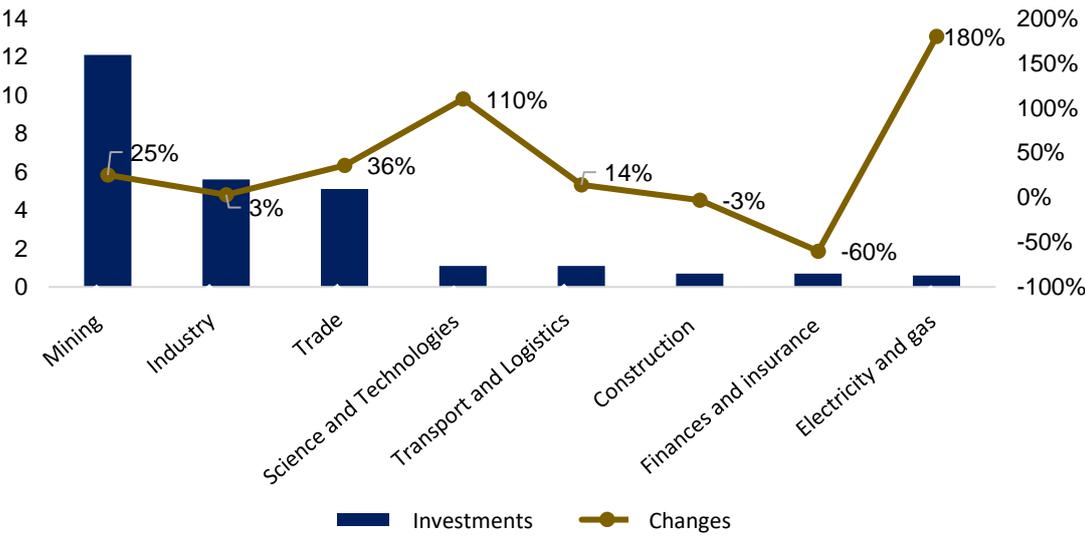
In the first quarter of 2023, the net inflow of direct investments amounted to \$2.5 billion. While the gross inflow of FDI amounted to 7.6 billion US dollars. In 2022, net

<sup>26</sup> Bureau of National Statistics of the Republic of Kazakhstan, National Bank of the Republic of Kazakhstan

inflows increased by 83% (from \$3.3 billion to \$6.1 billion). and gross inflow of direct investments by 18% (from \$23.8 to \$28 billion). US dollars).

In the first quarter of 2023 the largest volume of investments was invested in the mining industry – 46% (\$3.5 billion), followed by the manufacturing industry – 22% (\$ 1.6 billion) wholesale and retail trade; repairs – 16% (\$1.2 billion), financial and insurance activities – 4% (\$0.3 billion), professional scientific activity – 2% (\$0.1 billion), and others – 10% (0.8 billion USA dollars).

**Diagram 16: Foreign direct investment by industry<sup>27</sup>**



**Table 3: Major investors by country (2022)**

<b>Netherlands</b>	8.3 billion US dollars or 29.6%
<b>US dollars.</b>	5.1 billion US dollars or 18.2%
<b>Switzerland</b>	2.8 billion US dollars or 10.0%
<b>Belgium</b>	1.56 billion US dollars or 5.7%
<b>South Korea</b>	1.5 billion US dollars or 5.3%
<b>Russian Federation</b>	1.5 billion US dollars or 5.3%
<b>China</b>	1.43 billion US dollars or 5.0%
<b>France</b>	770.2 million US dollars or 2.8%
<b>Great Britain</b>	661 million US dollars or 2.3%
<b>Germany</b>	469.5 million US dollars or 1.7%

<sup>27</sup> Bureau of National Statistics of the Republic of Kazakhstan, National Bank of the Republic of Kazakhstan

### 1.1.4. Overview of the stock market of the Republic of Kazakhstan<sup>28</sup>

Despite the immaturity of local capital markets, stock exchanges attract retail investors well.

*Table 4: KASE/AIX indicators*

	Trading volume (year/ $\Delta$ YoY)	Number of accounts (year/ $\Delta$ YoY)	Mobile platform	Dedicated strategy/ programs to attract retail investors
<b>KASE</b>	<b>\$580M</b> (2022/+50% YoY)	<b>547k</b> (2023/1.5x YoY)	<b>KASE Online</b>	<b>Yes</b>
<b>AIX</b>	<b>\$140M</b> (1H 2023/+82% YoY)	<b>858k</b> (1H 2023/2x YoY)	<b>Tabys</b>	<b>Yes</b>

In addition to the efforts of KASE and AIX to increase market liquidity and attract retail investors, the government is also interested in conducting an IPO by the quasi-public sector. Reducing the share of the state in the economy is one of the key priorities for Kazakhstan. The initial public offering of shares is one of the ways.

A large-scale privatization plan for 2016-2020 was developed in the country, which was fully implemented. The new plan for 2021-2025 includes 721 state-owned enterprises. The program has made a significant contribution to reducing the state's share in the economy by placing shares of national companies on the stock exchange. As the liquidity of the market and the investor base grow, this may serve as an incentive for the private sector to consider an IPO.

QIC can play a role in stimulating the development of local stock exchanges and increasing the transparency of the private sector, encouraging relatively mature and well-known portfolio companies to consider an IPO.

The main advantages of conducting an IPO:

- access to additional sources of financing for future growth plans;
- closer monitoring of the public market provides increased attention to more reliable financial indicators, management and reporting;
- increased visibility in the market;
- provision of state currency for acquisitions i.e., acquisitions financed by shares.

In 2017, QIC made a joint attempt with KASE to encourage private companies to list on the stock exchange by launching a platform for private market participants. The initiative was not effective due to legal obstacles and low interest from project companies. QIC plans to resume work and make efforts to increase the liquidity of the

<sup>28</sup> KASE, AIX data

local capital market, as well as to provide itself with an alternative option to exit project companies.

Today there are the following key problems of the market:

- economic structure and political risks;
- level of development of capital markets;
- the quality of human capital and the mentality of entrepreneurs;
- ecosystem of the direct investment market (including legislation);
- transparency and trust.

Thus, at the moment there are trends in Kazakhstan that indicate that the Kazakh PE market is not mature enough: there is a lack of high-quality projects that can provide the desired profitability corresponding to the existing risks; there are limited opportunities to exit projects; funding of local classical PEF is carried out mainly through quasi-state institutions.

Large-scale reforms and measures to improve the investment climate are necessary for the development of the PE market. At the same time, Kazakhstan looks quite attractive against the background of other markets with a transitional economy. With proper development of the PE infrastructure in the country, including the legislative framework, increasing the depth of financial markets and increasing the professional competencies of market participants, Kazakhstan will not only be able to ensure a stable inflow of investments, but also create prerequisites for sustainable economic development in the coming years.

The development of private equity and venture capital requires an integrated approach, at the same time, opportunities and recommendations for stimulating the growth of private equity investments in Kazakhstan can be divided into several categories:

- **development of the infrastructure of the PE market:** improvement of measures to protect the rights of minority shareholders, amendments and additions to regulatory legal acts, improvement of taxation and judicial practice;
- **stimulating activity in the capital market:** development of trading platforms to attract investors, transfer of some part of pension assets to independent managers;
- **potential points of economic growth:** export development, small and medium-sized businesses, as well as investments in stressful assets;
- **popularization of the private equity instrument:** development of a Direct Investment Association uniting professional market participants, development of a comprehensive strategy for promoting and popularizing the equity investment instrument.

### 1.1.5. Kazakhstan's Private Equity Market<sup>29</sup>

The history of the development of the PE market in Kazakhstan can be divided into the following key stages:

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<sup>29</sup> Bureau of National Statistics of the Republic of Kazakhstan, Report on the Direct Investment Market of Kazakhstan, KMPG.

### **1993-2007**

- In the 1990s, a significant part of private investment was associated with the privatization program. The first PEF - Eagle Kazakhstan Fund, AIG Silk Road Fund and CAAEF – appeared in 1994-1995. They were created in accordance with intergovernmental agreements between Kazakhstan and the United States, as well as with the help of international financial institutions.

- The emergence of such MFIs as IFC (1993), ADB (1994), EBRD (1997) supported Kazakhstan in its difficult transition from centralized planning to a market economy by providing both debt and equity capital to businesses.

- The appearance of the first family offices captive funds (Centras, Resmi, Vemy Capital, Ordabasy, Lancaster Group, Visor), which are now the drivers of the PE market, in the early and mid-2000s was mainly due to the fast-growing economy and rising oil prices. The portfolios of these funds were concentrated in the energy, mining and financial services industries.

- Nevertheless, the PE market in the country began to formally develop only in 2007 with the creation of a quasi-public fund of funds - QIC.

### **2007-2013**

- Kazakhstan's economy has been seriously affected by the global financial crisis. Commercial banks could not pay their significant external debt and obligations. The government supported troubled banks by acquiring their shares.

- In such conditions, the access of enterprises to bank financing was limited, and the market needed alternative sources of financing.

- In 2012, JSC “Problem Loans Fund” (PLF, accountable to the Ministry of Finance) was established as an additional tool to improve the quality of banks' loan portfolios, and in 2013, large-scale measures were taken to restore the banking sector and thereby clean up the assets of STB.

### **2013 - present**

- In 2014-2016, Kazakhstan experienced a slowdown in economic growth due to lower commodity prices and currency devaluation. The banking system has undergone a process of consolidation, distressed assets of banks have been transferred to special institutions that manage them and improve them for further sale.

During this period, market activity was stimulated by QIC: 51% of the total investments were made by QIC funds.

In 2018, the Astana International Financial Centre was established in Astana to promote investment in the economy. It is expected that the AIFC will contribute to the development of the PE market in Kazakhstan.

Also, the period 2017-2019 is marked by a number of major transactions, mainly in the banking sector. At the same time, the number of transactions also grew against the background of the adaptation of the economy after the shocks of 2014-2016.

Reduction in activity as a result of the impact of COVID-19 in 2020-2021, as well as the impact of the war in Ukraine on regional activity in the sector, starting in 2022. At the same time, 2020 is marked by a fairly large number of transactions with their small average size, which is due to the entry of several venture funds at once.

The market of professional private equity investments (private equity) was formed during a period of macroeconomic instability under the influence of many

external factors. As a result of the transformations of the first two stages of the country's economic development, a certain specificity of investments in private equity has been formed in Kazakhstan:

An important role in the equity capital market in Kazakhstan is played by family offices/business conglomerates, which occupy ~ 50% of the total welfare of the population. Investment structures with family offices focus on managing existing assets, and when investing, they set the main goal – generating profits, without having separate strategies for exiting investments. However, the results of the analysis showed that 9 family offices/business conglomerates had a similar structure to the PEF, most of which currently do not carry out active investment activities in Kazakhstan.

For 15 years, the main driver of PE in Kazakhstan was the quasi-state fund of funds Qazaqstan Investment Corporation, which created 19 funds, including funds with international investors such as the EBRD, ADB, Mubadala, IFC, CITIC and others.

Fund managers are mainly international management companies (general partners, GP).

*Table 5: Participants of the PE market in Kazakhstan*

<i>Key players</i>			
<b>State development institutions and quasi-state funds</b>	<b>International Financial Organizations (IFOs)</b>	<b>Family offices</b>	<b>Traditional PEF</b>
<i>Investment strategy</i>			
<b>Investment priority:</b> promote the development of priority sectors of the economy <b>Funding sources:</b> state <b>Industry focus:</b> various (resource and non-resource sectors)	<b>Investment priority:</b> invest in emerging markets <b>Funding sources:</b> international financial markets <b>Industry focus:</b> infrastructure, financial services, agriculture, consumer sector	<b>Investment priority:</b> improving shareholder welfare <b>Funding sources:</b> private capital wealthy individuals and their businesses <b>Industry focus:</b> financial services, mining, oil and gas	<b>Investment priority:</b> development of priority sectors of the economy <b>Funding sources:</b> international financial markets, state/quasi-state organizations <b>Industry focus:</b> transport and logistics, agriculture, energy

*Source: databases of Merger Market, Capital IQ, internal QIC data and public sources, QIC analysis*

The specifics of local approach to investment shows that traditional PE are not present in the current investment ecosystem and the main players in the PE market are the PEF with quasi-public funds and captive PEF with family offices.

**1.2. Analysis of the internal environment**

**1.2.1. Operational activities**

At the end of 2022, the QIC portfolio consisted of 17 PEF, the number of cumulative investments by funds with QIC participation amounted to 2.4 billion US dollars, the total capitalization of PEF with QIC participation was 2.5 billion US dollars, the volume of QIC investments in PEF was 0.7 billion US dollars, investments attracted to Kazakhstan for 1 US dollar invested by QIC - 2.07 dollars USA from partners.

**Table 6: QIC Private Equity Funds**

No.	Private Equity Fund	Year of creation	Size (million US dollars)	The amount of QIC's obligations for the fund (million US dollars)
<b>Captive PEF</b>				
1.	Baiterek Venture Fund	2014	84*	84*
2.	DBK Equity Fund C.V. (DBK EF)	2017	72,4*	2,2*
3.	KCM Sustainable Development Fund I C.V. (KCM SDF)	2019	54*	54*
<b>Portfolio PEF</b>				
4.	Kazakhstan Infrastructure Fund C.V. (KIF)	2014	105	100
5.	Kazakhstan Hungarian Investment Private Equity Fund C.V. (KAGF)	2015	40.4	20
6.	Kazakhstan Growth Fund L.P. (KGF)	2009	80.8	40
7.	Kazakhstan Capital Restructuring Fund C.V. (KCRF)	2010	100	49.5
8.	CITIC Kazyna Investment Fund I L.P. (CKIF)	2010	200.4	100
9.	Russian-Kazakhstan Nanotechnology Fund (RKNF)	2011	51	25
10.	Falah Growth Fund L.P. (FGF)	2008	500	50
11.	Da Vinci Emerging Technologies Fund III L.P. (Da Vinci)	2021	67.6	10
12.	Quest Ventures Asia Fund II, L.P. (Quest)	2020	32.5	10
13.	500 STARTUPS V, L.P. (500 Startups)	2019	140	10
14.	Wellington Partners III Technology Fund (Wellington)	2004	150	7.7
15.	Flagship Ventures Fund (Flagship)	2005	151.5	10
16.	Aureos Central Asia Fund L.L.C. (ACAF)	2007	37	5.3
17.	Macquarie Russia and CIS Infrastructure Fund C.V. (MRIF)	2009	630	30
<b>Total</b>			<b>2 496,6</b>	<b>607.7</b>

\* PEF with capitalization in tenge. Conversion at the rate of KASE as of 31.12.2022 462.65 tenge per US dollar

The QIC strategic portfolio can be conditionally divided into several categories:

• **funds engaged in active investment activities:** BVF, DBK EF, KCM SDF, Da Vinci, Quest, 500 Startups;

• **funds with a completed investment period:** PEF that have completed the investment process and focused on managing portfolio companies and finding opportunities for successful exit: KGF, KIF, KAGF;

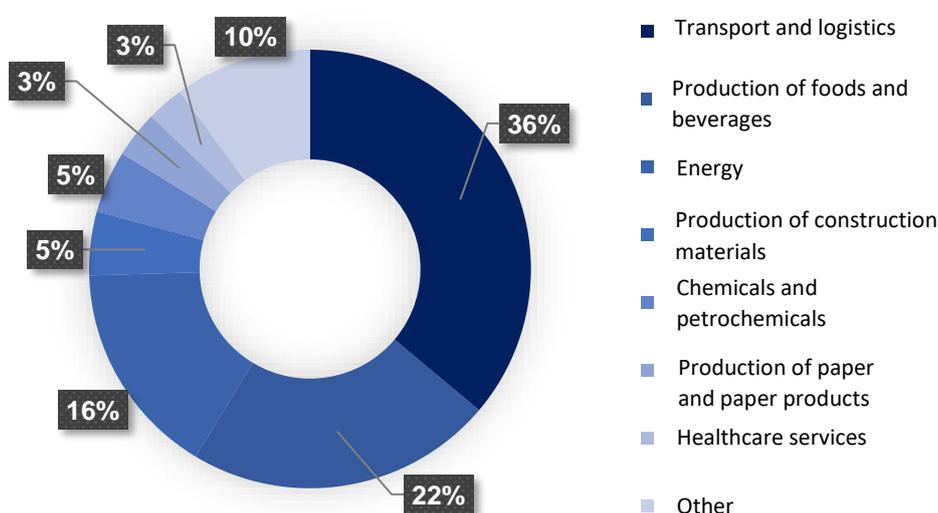
• **end-of-life funds:** KCRF, CKIF, RKFN, FGF, Wellington, Flagship;

• **funds in the process of liquidation:** MRIF, ACAF;

• **funds at the creation stage:** APEX FUND I L.P.

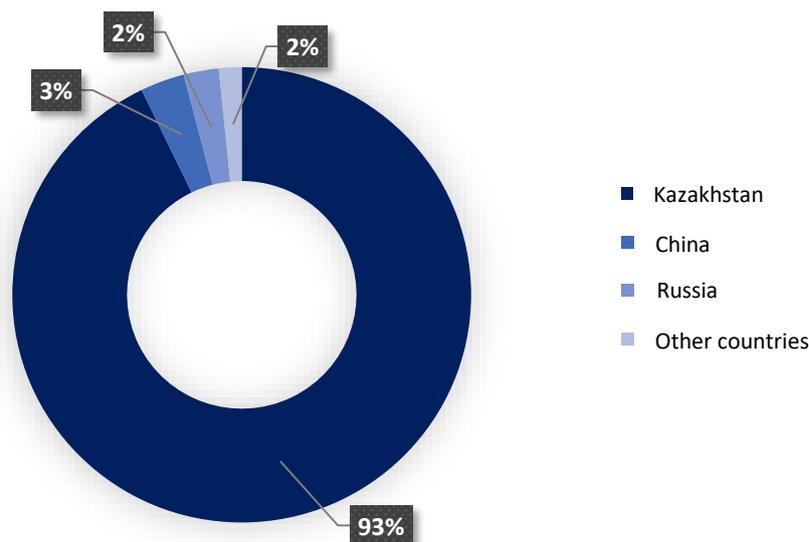
By the end of 2022, the total investments by sector are as follows: transport and logistics – 36%, food production – 22% and energy – 16%.

*Diagram 17: QIC portfolio investments by industry*



At the end of 2022, there are 59 projects in the QIC portfolio (excluding startups), of which the share of projects in Kazakhstan is 93%.

*Diagram 18: QIC portfolio investments by country*



### 1.2.2. Financial and economic activities

Analysis of financial condition and performance of QIC for the period 2020-2022 was carried out on the basis of the audited financial statements of QIC.

Income received from strategic portfolio based on results of portfolio and captive funds related to payment of dividends, interest, changes in fair value of financial investments, as well as from the treasury portfolio in the form of interests on deposits, securities, REPO.

*Table 7: QIC revenues 2020-2022*

Income	2020	2021	2022
Interest income	1 991	3 014	5 110
Dividend income	71	42	517
Income from derivative instruments	-	324	-
Income from changes in the fair value of financial instruments	1 882	3 297	12 421
Foreign exchange gains	3 291	448	729
Income from restoration of reserves	-	183	-
Other income	-	-	73
<b>Total:</b>	<b>7 235</b>	<b>7 308</b>	<b>18 850</b>

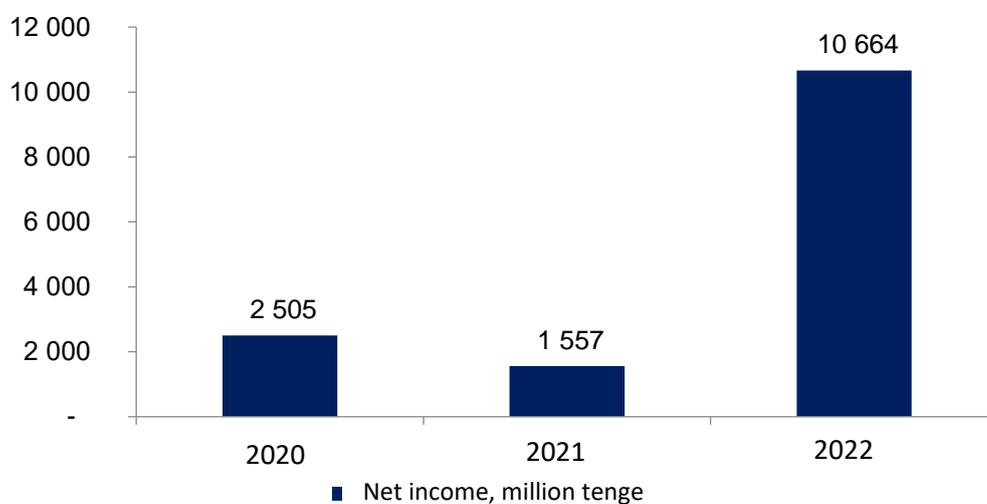
The structure of expenses compared to 2021, the share of interest, administrative and other expenses increased, due to issuance of debt securities, upward trend of expenses due to internal and external factors of the economy, including: inflation, changes in socio-economic indicators and the exchange rate against tenge. The expenditure part is presented in the following table:

*Table 8: QIC expenditures 2020-2022*

Expenses	2020	2021	2022
General and administrative expenses	1 322	2 157	2 589
Interest expense	9	363	1 118
Provision for impairment	16	-	161
Expenses on derivative instruments	1 031	-	-
Impairment charges	-	148	-
Other expenses	585	-	952
<b>Total:</b>	<b>2 963</b>	<b>2 668</b>	<b>4 820</b>

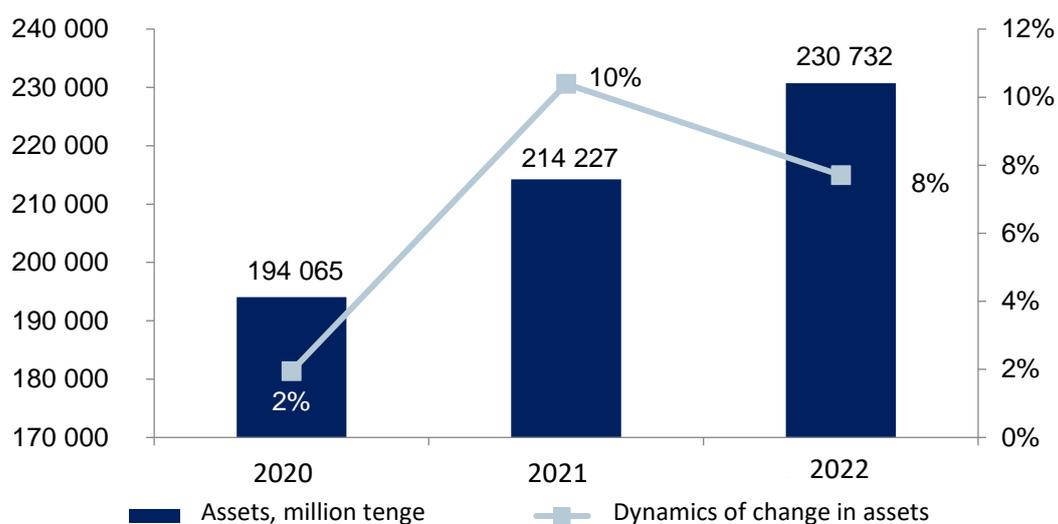
According to the audited financial statements for 2022, a positive financial result was obtained in the amount of KZT 10 664 million.

*Diagram 19: QIC Net Profit*



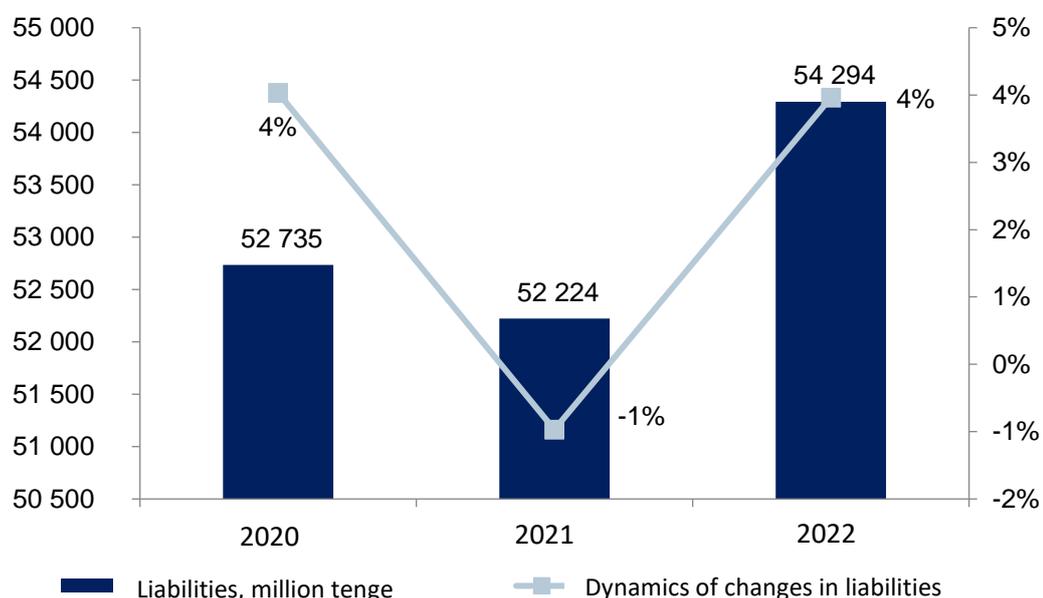
As of December 31, 2022, assets amount to 230 732 million tenge, which is 8% higher than in 2021, or 16 505 million tenge. The increase is due to a positive revaluation of PEF, the receipt of funds from core activities.

**Diagram 19: QIC assets**



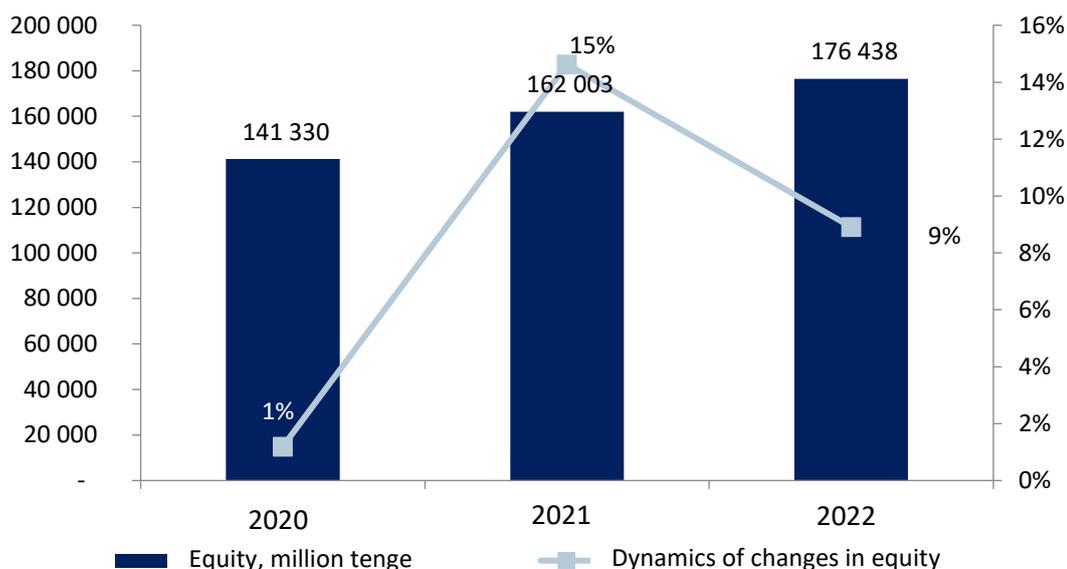
Liabilities at the end of the reporting period amounted to 54 294 million tenge, the increase in liabilities compared to 2021 was due to obligations on state subsidies in connection with the early repayment of previously issued loans and income tax.

**Diagram 20: QIC commitments**



Capital as of December 31, 2022 amounted to KZT 176,438 million, as of the same date in 2021 – KZT 162,003 million. The increase in capital is associated with a positive financial result by the end of 2022.

**Diagram 21: QIC Capital**



### 1.2.3. Corporate governance

The Corporation's governance system is a set of processes that provide management and control over the Corporation's activities, as well as a system of relationships between the Sole Shareholder, the Board of Directors, the Management Board, other bodies of the Corporation and interested parties in the interests of the Sole Shareholder, as well as the Corporation's interaction with subsidiaries.

The Corporation considers corporate governance as a means of increasing the efficiency of the Corporation's activities, ensuring transparency and accountability, strengthening its reputation and reducing the costs of raising capital by them. The Corporation considers a proper corporate governance system as its contribution to ensuring the rule of law in the Republic of Kazakhstan and a factor determining the place of the Corporation in the modern economy and society as a whole. The corporate governance system provides for a clear separation of powers and responsibilities between the Corporation's bodies, officials and employees.

The QIC Corporate Governance Code was approved by the decision of the Board of the Baiterek Holding dated January 12, 2018. The Code is a set of rules and recommendations that the Corporation follows in the course of its activities to ensure a high level of corporate governance in relations within the Corporation and with other market participants.

The Corporation's corporate governance is based on the principles of fairness, honesty, responsibility, transparency, professionalism and competence. An effective corporate governance structure implies respect for rights and interests of all persons interested in the Corporation's activities and contributes to the successful operation of the Corporation.

In accordance with the Code, QIC is obliged to strictly comply with its provisions in their activities and conduct an assessment of corporate governance by the

Internal Audit Service once every two years, as well as an independent assessment of corporate governance with involvement of external auditors at least once every three years, the results of which are posted on the Corporation's Internet resource.

In accordance with the requirements of the Code, in 2022 PriceWaterHouseCoopers LLP conducted an independent appraisal of the Corporation's corporate governance system in accordance with the above methodology, as well as using the provisions and principles of the Organization for Economic Cooperation and Development on corporate governance for organizations with state participation and best international practices in the field of corporate governance.

According to the results of the diagnostics, the assessment of compliance of the Corporation's management with the requirements of the best world practice amounted to 93.81% and there has been an increase since 2021 in the "Structure" component from 83.6% to 95.83%, in the "Processes" component – from 89.1% to 91.67%, in the "Transparency" component – from 91.9% to 94.51%.

#### **1.2.4. Risk management system**

QIC has a structure approved by the Board of Directors that clearly defines the participants in the corporate risk management system.

The approved Risk Management Policy is fundamental internal document of QIC and defines the organizational structure of risk management, roles and responsibilities of bodies, committees and structural divisions: the Sole Shareholder, the Board of Directors, the Audit and Risk Committee, the Management Board, the Investment Committee, the Risk Management Department, the Internal Audit Service and other structural divisions of the Corporation.

The main objectives of the risk management system are:

- to build an effective integrated system and to create an integrated risk management process as an element of QIC, as well as continuous improvement of activities based on a unified standardized approach to risk management methods and procedures;
- to improve the efficiency and sustainability of QIC development, reduce losses, increase profitability and most efficient use of capital;
- to ensure that QIC accepts acceptable risks that are adequate to the scale of their activities;
- to ensure normal functioning of QIC in crisis situations.

The risk management system includes the following main elements:

- definition of goals – QIC is exposed to risks from external and internal sources, and main condition for effectiveness of identification, assessment and development of risk management methods is setting of goals. QIC goals and objectives are aligned with risk appetite;
- risk identification – identification of internal and external risks to which QIC is or may be exposed, the occurrence of which may negatively affect the ability to achieve the planned goals and implement the tasks set;

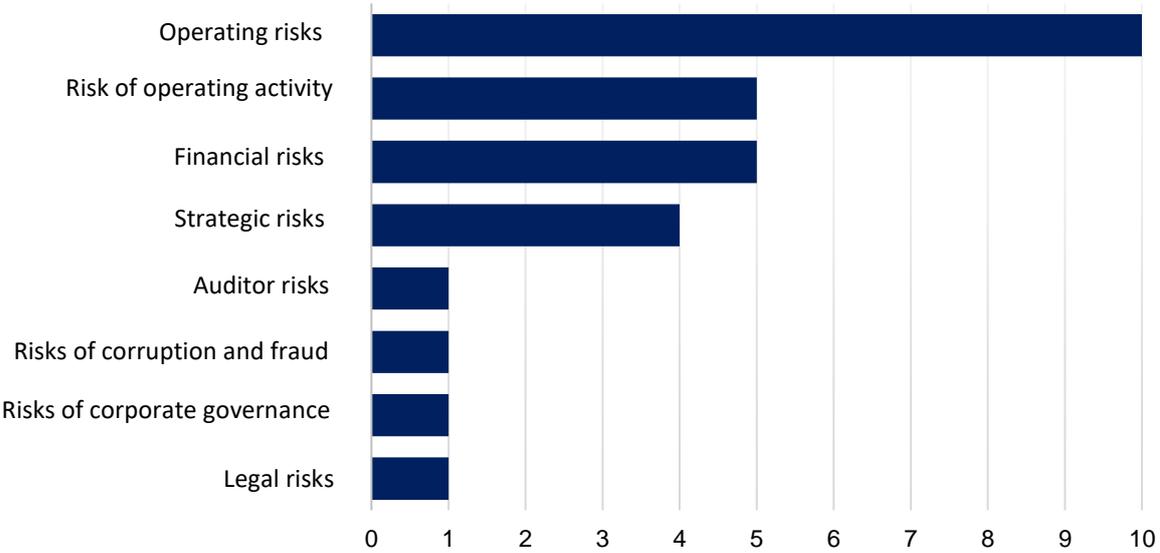
- risk measurement - development and use of a system and tools that allow objectively determine the size and probability of QIC risks;
- risk minimization – involves the implementation of set of measures aimed at reducing the likelihood of events or circumstances leading to losses, and (or) reducing (limiting) the number of potential losses;
- risk control – functioning of internal control system and establishment of maximum permissible limits (restrictions) on risks;
- risk monitoring – continuous assessment of the level of the main QIC risks and compliance with the maximum permissible limits.

The Corporation on a quarterly basis monitors the QIC's key risks and submits them to the Management Board and the Board of Directors of QIC. Taking into account the unstable financial condition of second-tier banks, a monthly analysis of the financial condition of second-tier banks and issuers of securities is carried out.

In addition, the Corporation conducts an independent assessment of the effectiveness of the risk management system every three years.

To classify risks in QIC, risks are grouped into the following categories: operational risk, core business risk, strategic risk, financial risk, legal risk, corporate governance risk, audit risk, corruption and fraud risk.

*Figure 22: Classification of risks (qty)*



**1.2.5. Implementation of ESG principles**

The concept of responsible investment, which includes taking into account ESG factors (environmental, social and managerial) when investing, is becoming an increasingly important part of the decision-making process in the field of DI.

In accordance with the Sustainable Development Policy, QIC integrates the principles of sustainable development into the following processes:

- the process of making investment decisions;
- development strategy development and planning;

- corporate governance;
- operational activities;
- risk management and internal control;
- financial support of project companies and monitoring of the project cycle.

QIC strives to introduce ESG factors into all stages of the investment process – from the search for project proposals to monitoring the environmental and social impact of funded projects. The ESG integration method involves the assessment of risks and opportunities identified as a result of the analysis of factors related to the environment, social sphere and management, which are materially significant for the QIC.

In October 2022, QIC joined the UN Principles of Responsible Investments Association, becoming the first quasi-public financial institution in the CIS to join the leading international network of institutional investors committed to the concept of implementing ESG standards in their investment activities.

Members of the PRI Association are international private equity funds aimed at introducing and developing the practice of “responsible investment” in the industry.

PRI Association members commit to follow 6 principles of “responsible investment”:

- inclusion of ESG standards in investment analysis and decision-making processes;
- consideration of ESG factors in policies and practices;
- requirements for the recipients of investments to properly disclose information about environmental, social and management issues;
- promoting the adoption and implementation of ESG principles within the investment industry;
- improving the effectiveness of implementing the principles of responsible investment;
- informing about the activities and progress achieved in the implementation of the principles.

QIC, being the driver of private equity infrastructure development in Kazakhstan, evaluates project proposals for compliance with ESG criteria. The Corporation plans to develop additional tools that will allow monitoring related risks throughout the project lifecycle.

In 2023, QIC for the first time formed the Annual Report of UN PRI (UN Principles for Responsible Investment).

Also, in order to increase transparency and quality of disclosed information for stakeholders, QIC publishes annual reports and reports on sustainable development in accordance with internal regulatory documents and the Guidelines for Reporting in the Field of Sustainable Development of the Global Reporting Initiative GRI (Global Reporting Initiative).

### **1.3. Comparative analysis of QIC's activities with similar companies**

Three companies were selected based on their relevance to QIC: SIFEM (Swiss Investment Fund for Emerging Markets), Mubadala (United Arab Emirates), KFW DEG (Germany). Most of these organizations use various tools, taking into account the mandate for economic development, and at the same time strive to be profitable and independent.

**Table 9: Comparative analysis of QIC activities with similar companies<sup>30</sup>**

	 <b>SIFEM</b> SWISS INVESTMENT FUND FOR EMERGING MARKETS	 <b>MUBADALA</b>	<b>KFW</b> DEG	 <b>QIC</b> QAZAQSTAN INVESTMENT CORPORATION
<b>Country</b>	<b>Switzerland</b>	<b>UAE</b>	<b>Germany</b>	<b>Kazakhstan</b>
<b>Geography of investments</b>	Africa 35.0% Asia 33.0% Latin America 18.0% Global 8.0% CIS, Central and Eastern Europe 6.0%	North America 37.1% Europe 28.7% Asia 15.2% Middle East 13.0% Other 6.0%	Asia 31.1% Latin America 27.4% Africa and the Middle East 27.2% Europe 10.4% Other 3.9%	Kazakhstan 93.0% Asia 3.0% Russia 2.0% Other 2.0%
<b>Support for SMEs</b>	✓	✗	✓	✓
<b>Investments by industry (top 4)</b>	Financial intermediation 40.0% Energy and water supply 12% Consumer goods 9.0% Healthcare 9.0%	Consumer goods and Services (B2C) 44.3% Healthcare 16.3% IT 14.5% Business Products and Services (B2B) 12.6%	Financial sector 32.0% Infrastructure (energy) 14.0% Industry/manufacturing 13.0% Infrastructure (other) 8.0%	Transport and logistics 36.2% Food products 22.0% Energy 16.0% Construction and chemicals 5.0% each
<b>ESG Principles</b>	✓	✓	✓	✓
<b>Number of funds</b>	76	13	173	17
<b>AUM</b>	\$0.7 billion	\$276 billion	\$7.4 billion	\$0.5 billion

As a rule, the above organizations have a wide range of investment and geographical mandate. The investment focus of these organizations is constantly being improved in order to eliminate market imbalances and search for additional opportunities for growth. Their activities are carried out taking into account the ESG principles.

**Swiss Development Finance Institution** (hereinafter – SIFEM) is owned by the Swiss government and is an integral part of the instruments of cooperation in the field

<sup>30</sup> Open data SIFEM, Mubadala, DEG

of economic development. In general, SIFEM is an independent institution in terms of organizing and managing its business.

SIFEM invests in local or regional risk capital funds and provides credit lines to local banks and other financial institutions, often in cooperation with other financial institutions and private investors. SIFEM cooperates with fund managers and financial institutions not only to provide appropriate financial solutions, but also to increase the value of local businesses. SIFEM's role goes beyond providing long-term financing and is aimed at strengthening the capacity of local fund managers and financial institutions to manage environmental, social and managerial risks at the level of their underlying portfolios.

The portfolio consists mainly of DIF investing in growing companies and SMEs (60%), infrastructure (3%) and current income funds (15%). Investments in microfinance account for 8%, and in other financial intermediaries – 14% of the portfolio.

**Deutsche Investments- und Entwicklungsgesellschaft GmbH** (hereinafter – DEG) – a KfW subsidiary invests in private companies operating in developing countries and emerging market economies. DEG finances economically and from the point of view of development sustainable, socially and environmentally sound projects of private sector enterprises.

DEG provides companies with long-term investment capital in the form of loans or equity, which is often difficult to obtain in developing and emerging market economies.

The DEG portfolio is represented by client clusters and consists of a DIF (28%) and three client clusters (project financing (17%), corporations (28%) and financial institutions (27%)). Each cluster includes both private debt and private equity transactions.

**Mubadala Investment Company** (hereinafter – Mubadala) is an Emirati state-owned holding company operating as a sovereign wealth fund. Mubadala's mission is to contribute to the diversification of Abu Dhabi's economy by investing in the United Arab Emirates Oil Fund and managing a diverse portfolio of assets and investments in the United Arab Emirates and abroad to generate sustainable financial returns for its shareholder, the Government of Abu Dhabi.

Results of Mubadala's activities by the end of 2021:

Assets under management – \$284 billion;

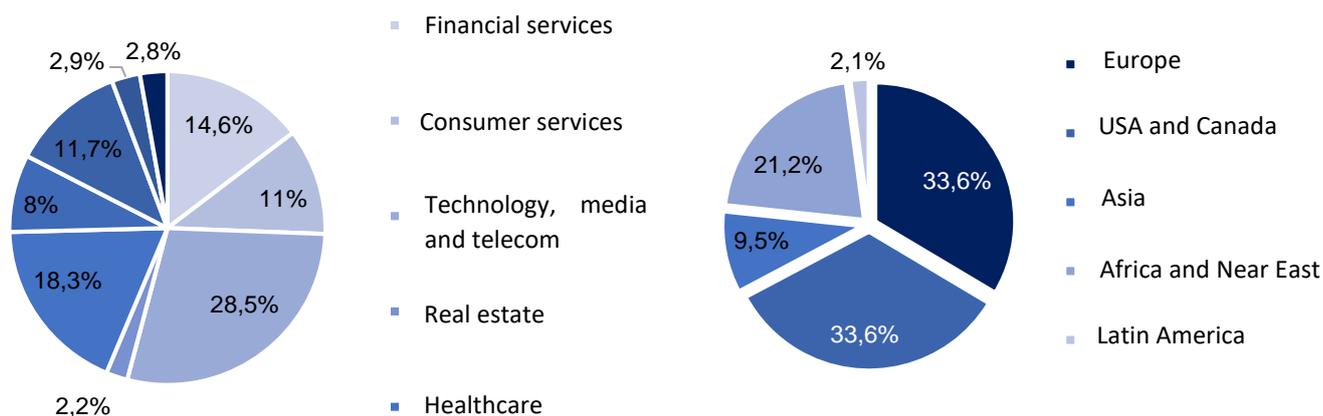
Assets – \$134 billion;

Liabilities – \$51 billion;

Capital – \$83 billion;

Net profit – \$10 US billion.

**Chart 23: Mubadala indicators**



The company's portfolio by asset class consists of private equity (36%), public equity (27%), alternative investments (16%), real estate and infrastructure investments (15%) and debt instruments (6%).

#### **1.4. The main directions of the state economic policy and strategy of NMH “Baiterek” JSC**

Within the framework of the Development Strategy, QIC is guided by the main directions of state policy in the field of industrial and innovative development, attracting investments in non-primary sectors of the economy, the development of micro, small and medium-sized enterprises, the development of the agro-industrial complex, as well as other tasks set by the President and the Government of the Republic of Kazakhstan.

In order to determine the main vectors of the state's development, the Concept for Kazakhstan's entry into the top 30 most developed countries of the world, as well as the National Development Plan of the Republic of Kazakhstan until 2025 dated February 15, 2018, outlined a number of strategic directions and national priorities, the implementation of which will contribute to Kazakhstan's entry into the number of the most developed countries in the world.

In particular, NMH “Baiterek” JSC and its subsidiaries are involved in the implementation of the following strategic directions:

- 1) development of human capital – the main engine of innovation;
- 2) improving the institutional environment that provides favorable conditions for business development and entrepreneurial initiatives;
- 3) the development of knowledge-based economy sectors by adopting a step-by-step approach based on the formation of the necessary industry base for the transition to a knowledge-based economy in the long term;

4) accelerated formation of infrastructure supporting the creation of a knowledge-based economy through the creation of a national innovation system, infrastructure modernization and energy efficiency improvement;

5) deepening integration into the system of international relations.

As well as in the following national priorities:

1) fair social policy;

2) a new model of public administration;

3) building a diversified and innovative economy;

4) balanced territorial development.

The Concept of Kazakhstan's entry into the top 30 most developed countries of the world defines the main elements of a developed economy – investment and entrepreneurship.

The basis for economic growth should be long-term labor productivity growth, diversification of production and exports, as well as the development of the country's business sectors by attracting external and internal resources and their active use.

As part of the Holding's mission to develop a competitive business, provide housing and strengthen food security based on the principles of responsibility to the society, QIC participates in the implementation of key tasks set out in the Holding's Development Strategy, including:

1) development of non-primary sectors of the economy;

2) entrepreneurship development;

3) development of the manufacturing industry;

4) support for export of non-primary products;

5) improving labor productivity;

6) development of a competitive agro-industrial complex;

7) increasing the investment attractiveness of the economy;

8) improving the welfare of the population.

As part of the Holding's Development Strategy, QIC's active participation is envisaged through PI tools in strategic areas: “Entrepreneurship Support” and “Development of the Equity Financing ecosystem”.

Thus, within the framework of entrepreneurship support, QIC, using the mechanism of equity investment, carries out the DIs through the DIFs in accordance with the industry priorities established by the national projects of the Republic of Kazakhstan.

In addition, the QIC's portfolio private equity funds have the opportunity to attract additional investments from international institutional investors under co-investment agreements, which allows other investors to participate in potentially high-yield investments.

Within the framework of increasing the export potential of the country, QIC, together with other subsidiaries of NMH “Baiterek” JSC “KazakhExport”, DBK, ACC, Damu, will continue to provide package support in order to increase the pool of Kazakhstani exporters, as well as open new markets for existing exporters.

Also, as part of the implementation of the strategic direction for the development of the equity financing ecosystem, the QIC will continue its work on the development of venture financing markets, equity financing, stress assets and infrastructure assets.

In order to further improve the effectiveness of the Holding as an evolving development institution, a structural transformation of the group of companies will be carried out, including the creation of a Single Investment Institute based on QIC with a mandate for foreign markets to expand partnership with large international funds.

**1.5. SWOT analysis**

SWOT analysis is a strategic planning tool and is used to assess a company's competitive positioning and develop its further development strategy. This analysis evaluates internal and external factors affecting the current state of QIC's activities, and summarizes the risks and opportunities that stand in the way of QIC's institutional development.

*Table 10: SWOT analysis*

Strengths:	Opportunities
<ul style="list-style-type: none"> <li>• Being a subsidiary of Baiterek Holding responsible for direct investments, we enjoy significant support from the shareholder and the state</li> <li>• The only institutional investor in the Republic of Kazakhstan with 16 years of experience in the local alternative asset market and extensive experience in creating and participating in international DIFs</li> <li>• Extensive network of international investors and management companies (including private players and MFOs)</li> <li>• Effective management of investment and treasury portfolios</li> <li>• Operator of state industrial development programs (permanent source of budget financing)</li> <li>• Experience in joint investments with international institutional investors</li> <li>• Implementation of the concept of "responsible investment"</li> <li>• The opportunity to participate in the formation of the legal foundations of the DI's market in the Republic of Kazakhstan</li> </ul>	<ul style="list-style-type: none"> <li>• Local companies' demand for alternative sources of financing, such as direct investment</li> <li>• The opportunity to become a global player in the DI's market, expanding the company's presence in new markets</li> <li>• Kazakhstan's unique position as a gateway to the Central Asian region, where QIC can become a key strategic institutional partner for new international investors</li> <li>• Active development of the market of distressed assets and implementation of the instructions of the President on the return of stressful assets into economic circulation</li> <li>• Active development of the venture ecosystem in Kazakhstan</li> <li>• The need to further improve the competitiveness of local SMEs</li> <li>• Ability to attract liquidity from non-state sources</li> <li>• The need to increase the inflow of investments in the development and modernization of infrastructure</li> <li>• Assistance in stimulating the liquidity of the local capital market by stimulating local projects to IPO on KASE/AIX</li> <li>• Exchange of experience and capacity building through a business network of contacts</li> </ul>
Weaknesses:	Threats:
<ul style="list-style-type: none"> <li>• The country's investment attractiveness largely depends on the current geopolitical situation in Eurasia</li> </ul>	<ul style="list-style-type: none"> <li>• The deterioration of the macroeconomic situation in the country due to geopolitical factors will have a direct impact on the</li> </ul>

<ul style="list-style-type: none"> <li>• The investment portfolio is concentrated in Kazakhstan, there is no geographical diversification of the portfolio</li> <li>• Limited financial resources/liquidity</li> <li>• Passive investment strategy of captive funds</li> <li>• Lack of employees, heavy workload</li> <li>• Highly bureaucratic processes</li> <li>• Lack of government support for the PE market</li> <li>• Disadvantages of local legislation on PE and alternative investments</li> <li>• Low liquidity of capital markets and limited exit opportunities</li> </ul>	<p>investment attractiveness of the Republic of Kazakhstan</p> <ul style="list-style-type: none"> <li>• Currency risks and devaluation of the national currency. Decrease in the profitability of local investments in US dollars</li> <li>• Limited number of high-quality investment projects</li> <li>• Credit rating downgrade (RK, Baiterek, QIC)</li> </ul>
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QIC will continue to use its unique investment mandate in the field of PE and significant investment experience to increase the volume of investments in the non-resource sector of the economy by assisting in the implementation of major government programs and participating in the development of export-oriented projects, thereby developing enterprises with great potential to enter the regional market.

In addition, the QIC will focus on increasing the level of profitability and diversification of capital sources through participation in PEF investing in alternative asset classes that have the potential for development in the market of Kazakhstan and Central Asia (infrastructure projects, stressful assets and venture financing).

## **2. QIC's Mission and Vision**

**The mission of QIC** is to take a leading role in the development of the PE ecosystem in Kazakhstan and Central Asia, to contribute to the modernization and growth of the economy through strategic asset allocation and investment in global innovation projects.

**The vision of the QIC** - an international player in the private equity market with a stable and progressive portfolio of projects and an extensive network of investment partners, striving to introduce the concept of responsible investment, innovation and increase cross-country investment flows.

## **3. Strategic directions of development, goals and objectives of QIC**

In order to realize the mission and vision, the QIC will develop in the following areas:

1. Development of the private equity ecosystem in Kazakhstan;
2. Development of the alternative asset market in Central Asia;
3. Global strategic asset allocation.

**Table 11: Strategic directions, goals and objectives of QIC**

No.	Strategic directions	Purpose	Objectives
1	Development of the direct investment ecosystem in Kazakhstan	Development of the DI market infrastructure	Development of the institutional framework for the effective and transparent functioning of the DI market in Kazakhstan
			Popularization and awareness raising about the equity financing tool among local entrepreneurs
		Entrepreneurship support	Providing financial support through captive funds for economic diversification
		Support of the agro-industrial complex	Financing of MSME projects in the agricultural sector in rural areas and cities through the Apex Fund
Attracting investments in agriculture and food production to promote the country's food security			
2	Development of the alternative investment market in Central Asia	To take the role of a key investment player and strategic partner in the Central Asian region	Development of the venture capital market
			Development of the stress asset market
			Development of the infrastructure projects market
			Development of the local and regional DI market
3	Global strategic asset allocation	Strategic asset allocation in different geographical regions and investment directions for technology/innovation transfer/experience and creation of added value of investments	Expanding partnership with the international PE community
			Investments in PEF under the management of experienced international management companies focused on global megatrends
			Further integration of the concept of "responsible investment" in QIC

For each of the strategic directions, section 4 of this Development Strategy provides strategic key performance indicators of QIC with the definition of a target value for 2033.

Detailed subtasks with annual interim targets and activities will be provided within the framework of the QIC Development Plan approved by the QIC Board of Directors for five years.

### ***3.1. Strategic direction 1 "Development of the private equity ecosystem in Kazakhstan"***

***Objective: Development of the infrastructure of the direct investment market***

QIC is the driver of the private equity market in Kazakhstan and focuses on the development of the market infrastructure. Due to the fact that the local PE market is at the stage of formation, it is necessary to create an institutional framework in accordance with international standards. In addition, a series of economic crises has once again exposed the problems of the real sector of the economy: low margin of safety,

creditworthiness, shortage of working capital during periods of economic downturn. Thereby escalated the need for alternative financing methods, namely equity financing. To solve this problem, the Corporation will raise awareness about the PE market and the equity financing tool among the local cluster of entrepreneurs.

The main tasks within the framework of the strategic goal are:

1. active participation in the development of the legal and institutional framework to ensure the transparent and effective functioning of the local private equity market in accordance with international standards.
2. popularization and awareness-raising about the equity financing tool among local entrepreneurs.

***Purpose: Support for entrepreneurship***

In order to support business entities, QIC will continue to use its unique investment mandate in the field of private equity and significant investment experience.

The Corporation will provide returnable financial support measures through captive PEF by raising funds from the republican budget, as well as from the external and internal debt capital markets. These funds will be used to finance enterprises in non-resource sectors of the economy, including projects in the manufacturing industry, social infrastructure, sustainable energy, agriculture, as well as projects with large export potential and aimed at leveling regional development imbalances.

QIC is the operator of the Manufacturing Industry Development Concept for 2023-2029, as amended by the Decree of the Government of the Republic of Kazakhstan dated March 28, 2023 No. 259 – "Investment in manufacturing enterprises through equity and mezzanine financing instruments".

The purpose of the program is to implement the state policy on economic diversification by supporting existing projects and new industries without experience in conducting similar business in the manufacturing industry.

Also, under the Comprehensive Plan "Program for increasing incomes of the population until 2029", approved by the Decree of the Government of the Republic of Kazakhstan dated April 14, 2022 No. 218, QIC is a co-executor of measures to stimulate entrepreneurial initiatives by providing state support in the form of subsidizing part of the interest rate and loan guarantees, as well as the introduction of state support tools for the development of creative industries.

In this connection, QIC will continue to work within the framework of the Creative Capital Fund, which is being created, together with the Akimat of Almaty. The purpose of the fund is to finance projects of the creative industry in the city of Almaty to promote talented Kazakh youth on the world market.

In the current global macroeconomic environment affecting the internal economic processes in Kazakhstan, QIC will move to proactive search and formation of a "pool" of promising projects through active interaction with various specialized organizations and partners.

QIC will also invest its own capital in non-resource sectors, such as the production of innovative technologies, "green" technologies, renewable energy sources, social projects.

In order to develop the local public capital market and increase its liquidity, QIC will expand cooperation with local stock exchanges (KASE/AIX) and encourage project companies at the exit stage to consider the possibility of an IPO. In addition to increasing the liquidity of stock exchanges and transparency of the private sector, QIC will be able to provide itself with an additional option to exit portfolio companies on market terms, in accordance with international PE market practice.

In addition, QIC will provide cross-portfolio support for the implementation of technological and innovative solutions in order to modernize, optimize production processes and improve the technological equipment of portfolio companies.

For this purpose, QIC will implement a number of measures aimed at non-financial support of domestic startups through a subsidiary of the PC "BGlobal Ventures Ltd.", the main purpose of which is to develop the venture ecosystem in the Republic of Kazakhstan and the Central Asian region. Acceleration programs of BGlobal Ventures will provide access to new technological solutions and form a pipeline of projects for existing QIC venture funds. These solutions are planned to be implemented in the processes of funded projects within the framework of the Concept of development of the manufacturing industry of the Republic of Kazakhstan for 2023-2029. This will contribute to the development of regional startups, generate demand for their product, contribute to the modernization of local industries such as AgriTech, BioTech, EduTech and increase the efficiency of project companies.

Special attention will be paid to the development of human capital by increasing the experience/expertise of captive teams. Further integration of ESG factors into operational and investment business processes will also be continued in order to improve the quality of the QIC portfolio.

**Purpose:** *Support of the agro-industrial complex*

In order to support the agro-industrial complex, QIC's activities will be aimed at solving the following tasks:

1. Financing of MSME projects in the agricultural sector in rural areas and cities within the framework of the Apex Fund;
2. Attracting investments in agriculture and food production to promote the country's food security.

The agricultural sector is a strategically important branch of any state striving for a high level of food security. At present, there are limited sources and volumes of funding for credit partnerships, as well as the absence of large anchor investors, which causes barriers to the development of the agro-industrial industry in the country. The main element of production support is the mechanisms of state support.

To solve this problem, QIC will act as an anchor investor in the Apex Fund. The Fund will invest in credit partnerships and microfinance organizations for the purpose of their subsequent financing of micro, small and medium-sized businesses, including, but not limited to the agro-industrial complex, on the territory of the Republic of Kazakhstan, mainly in rural areas and single-industry towns.

This mechanism will ensure the availability of financing in the regions, increase the productivity of agricultural enterprises and SMEs, create new jobs in rural areas and reduce the country's import dependence on food.

In order to strengthen food security and develop the export potential of the QIC country, the issue of the possibility of creating a private equity fund with a focus on agriculture together with an international management company and a consortium of international investors will be worked out.

### ***3.2. Strategic direction 2 "Development of the alternative asset market in Central Asia"***

**Goal:** *To take the role of a key investment player and strategic partner in the Central Asian region.*

Taking into account the strategic geographical location of Kazakhstan, economic development indicators, ongoing economic reforms, favorable conditions for entrepreneurship and the advantages of the AIFC based on English law, Kazakhstan has great potential to occupy the role of an investment hub in Central Asia.

In the context of the growing investment attractiveness of the region, using the accumulated experience in the segment of an alternative asset class and local expertise, the support of the Sole Shareholder in the person of the Baiterek Holding and the Government of the Republic of Kazakhstan, the Corporation should assume the leading role of a key investment player and strategic partner in the Central Asian region for international investors and the Management Company and facilitate the inflow of PEF.

To this end, the Corporation's activities will focus on the development of the alternative asset class market.

#### *1. Development of the venture capital market.*

In world practice, venture business is the main source of financing for innovative development and commercialization of technologies. At the same time, the key role in the development of the venture capital market in the world at the first stages is carried out by the state through co-financing venture funds, providing benefits and reducing the tax burden for innovative firms and venture enterprises.

QIC, as an international fund of PE funds, is an investor in venture funds with international partners to improve access to financing for regional startups at different stages of development.

The portfolio of venture capital funds with the participation of QIC should be balanced. Due to the fact that investments at the seed stages of the project are risky and have a high percentage of failures, QIC will participate in venture PEF with a mandate to invest in the post-sowing period and at the stage of project entry/scaling into new markets.

In order to develop the ecosystem of the venture market, the subsidiary of QIC - BGlobal Ventures will work in the following areas:

- 1) acceleration programs for bringing technological startup projects to the world market and forming a market for private domestic investors;
- 2) creating a venture community to raise awareness of target groups, build the capacity of business angels and investors;
- 3) acceleration programs for beginners MC;
- 4) improving the legal framework of the venture capital market.

QIC will strengthen cooperation with Astana Hub and other private players to promote the further development of the regional ecosystem of startups and promote the growth of export-oriented IT projects in the region.

*Table 12: Main options for QIC participation in the venture financing market*

	<b>Joining as a co-GP together with international management companies and making investments with available capital</b>	<b>Joining venture funds with existing capital as an LP/ raising additional capital from a shareholder</b>	<b>Creation of own venture funds with additional capital from the shareholder/state and third parties</b>
<b>Description</b>	To gain experience and knowledge in the field of venture financing, it is possible to consider a partnership as a co-GP with recognized and reputable CC/venture funds. Since joint management requires a practical approach, QIC has the opportunity to work closely with leading venture capital companies to establish deeper relationships and a better understanding of their investment strategies, structures and processes.	With a deeper understanding of the specifics of investing in venture funds, it is possible to invest in international venture funds as an LP in order to increase investment income and increase business contacts with leading international players.	Having gained experience and understanding of the strategy and processes of venture financing, QIC has the opportunity to create its own venture funds, together with a strategic partner (for example, a joint venture with an experienced regional GP). For example, it is possible to create a fund in the amount of \$ 2-3 million with participation of the state, for the development of entrepreneurship and innovation in Kazakhstan.
<b>Ownership</b>	N/A	• Minority shares (10-20%) in the fund	• Minority shareholder
<b>Geography and stage</b>	<ul style="list-style-type: none"> <li>• Focus on the Kazakhstan market</li> <li>• Post-seed round of investments. It is advisable to invest in subsequent rounds of investments</li> </ul>	• Focus on regional funds with a presence in Central Asia	<ul style="list-style-type: none"> <li>• Focus on Kazakhstan and the Central Asia region</li> <li>• Rounds after the seeding stage</li> </ul>
<b>Partner</b>	<ul style="list-style-type: none"> <li>• Investing together with experienced GP to gain more experience (this option will help QIC work on a business network in the venture financing market, as well as build internal competencies as a GP)</li> </ul>	• Fund with a good track record and an experienced GP.	• Partnership with an experienced GP in the venture financing market

## *2. Development of the stress asset market.*

Today, systematic work is being carried out in the Republic of Kazakhstan to develop market mechanisms for the sale of stressful assets, the main purpose of which is to involve stressful assets in economic turnover through the creation of institutional conditions for the emergence of private investors and managers in the market of stressful assets, as well as to increase the transparency of the transaction process through the creation of a specialized digital platform. To this end, appropriate amendments were made to the legislation on the development of the stress asset market, which involve expanding the existing list of authorized buyers of stress assets by including private investors, including non-residents, as well as the creation of an institute of service companies that will provide services to investors for servicing and managing non-performing loans.

In order to improve the market of stressful assets and their subsequent involvement in economic turnover, it is advisable to create a regional PEF/JV with the anchor participation of QIC and the involvement of an international GP with extensive experience in this segment. PEF/JV will invest in stressful assets/projects with a reliable business model and significant intrinsic value in order to improve the asset and make a profit through restructuring.

*Table 13: Main options for QIC participation in the stress asset market*

	<b>Creation of a joint venture with regional and/or international GP to manage a new fund with capital from a shareholder</b>	<b>Hiring an experienced team to manage a new fund with capital from a shareholder</b>	<b>Participation as an LP in the stress asset fund with additional funds from the shareholder</b>
<b>Description</b>	<p>Taking into account QIC's lack of experience in managing stressful assets and the associated level of risk, the possibility of creating a joint venture with a regional/international GP in which GP would manage a fund for QIC should be considered:</p> <p><b>Ownership:</b> separation of a controlling stake with a joint venture partner</p> <p><b>Geography:</b> focus on Kazakhstan</p> <p><b>Partner:</b> Partnering with an experienced GP in the international stress asset market to manage the fund. Taking into account the specifics and complexities in the management of this asset class, cooperation with an experienced GP is a key component (i.e. a high level of knowledge in the field of valuation, restructuring, law and bankruptcy management is required).</p>	<p>To gain experience in the stress asset market, you should consider hiring an experienced team (4-5 people) with extensive knowledge in the field of distressed bank debts, bankruptcy management, as well as in areas such as law, banking, valuation and restructuring.</p> <p>This investment team will manage the available capital or a specially allocated pool of funds. At the same time, the captive QIC team can be engaged as a co-GP to provide expertise of the local market and projects. This will increase QIC's internal competencies for managing funds of stressful assets.</p>	<p>In the longer term, after the development of the distressed asset market and if there are active fund managers in the Kazakhstan market, the option of participating in the market as an LP should be considered, following the criteria below:</p> <p><b>Ownership:</b> minority stake in the fund (10-20%)</p> <p><b>Geography:</b> Kazakhstan and Central Asia</p> <p><b>Target Fund:</b> Fund with a good history and an experienced GP. The selection of the fund should be carried out on the basis of a properly conducted Due diligence process.</p>

### *3. Development of infrastructure projects.*

QIC, as a development institution, will continue to participate in the development of the infrastructure projects market, as investments in this asset class contribute to solving acute socio-infrastructure problems. Infrastructure projects are capital intensive and belong to a class of assets with a long lifespan. This type of investment is characterized by a relatively low level of risk, generating a stable cash flow due to long-term contracts and, in many cases, a monopoly position in the market, which also protects investors from large losses.

Infrastructure is one of the fastest growing asset classes in private markets and is expected to soon exceed \$1 trillion in assets under management.<sup>31</sup> In recent years, the volume of fundraising by infrastructure funds has varied in the range of 120 – 140 billion dollars. However, in 2022, management companies were able to attract about \$ 160 billion.

In Kazakhstan, there is an increase in the activity of the infrastructure investment market in all directions and sectors, including transit infrastructure, energy, green and social infrastructure, as well as municipal construction. Due to the favourable geographical location of the country, the presence of road, railway and water channels, transit infrastructure is one of the most promising areas of infrastructure construction.

The growing demand for social infrastructure also opens up opportunities for the implementation of projects in the medical and educational spheres. Current projects in the field of hospital construction offer investors favourable conditions, including fixed and budget-protected compensation for capital expenditures, operational and management fees, as well as various tax subsidies.

It is also worth noting that sustainable energy remains a key long-term priority for the state and currently the Government offers attractive investment conditions in the renewable energy sector for private investors.

The main trends and drivers of infrastructure investments in the global market are:

- increase in the world population;
- decarbonization;
- digitalization;
- regional development.

Considering the potential of the market for further development, QIC will contribute to the development of the infrastructure assets market through the creation of regional funds/platforms focused on financing infrastructure projects (including PPP projects) in the above industries with the involvement of local institutional investors and/or international financial organizations.

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<sup>31</sup> Infrastructure Investor: Fundraising Reports

*Table 14: Main options for QIC participation in the infrastructure asset market*

	<p><b>Creation of fund/platform focused on projects in the field of mitigation and adaptation to climate change, with the involvement of institutional investors and/or international financial organizations</b></p>	<p><b>Creation of fund/platform with institutional investors for investments in healthcare, education and other socially significant industries</b></p>
<p><b>Description</b></p>	<p>In order to reduce the expenditure of public funds on projects in the field of mitigation and adaptation to climate change, it is necessary to create a fund/platform with the involvement of institutional investors under the management of a special team consisting of specialists with significant experience in the field of project financing:</p> <ul style="list-style-type: none"> <li>• <b>Ownership:</b> share in the fund/platform, the rest of the fund should be attracted by institutional investors and IFO</li> <li>• <b>Geography:</b> Kazakhstan/Central Asia</li> <li>• <b>Role:</b> taking an active part in creating conditions conducive to the implementation of infrastructure projects (including PPP)</li> <li>• <b>Investment tool:</b> equity financing. This initiative will help QIC to mobilize capital for the implementation of specific initiatives, as well as develop greater expertise in the infrastructure sector.</li> </ul>	<p>To reduce the cost of public funds, it is recommended to create an investment mechanism or fund with the involvement of institutional investors and management company with experience in the infrastructure market:</p> <ul style="list-style-type: none"> <li>• <b>Ownership:</b> minority stake in the fund (10-20%)</li> <li>• <b>Geography:</b> Kazakhstan/Central Asia</li> <li>• <b>Investment instrument:</b> Equity financing, interim financing.</li> </ul> <p>This will help QIC to mobilize local capital and increase its attractiveness to other investors with the potential for large investments, as well as increase expertise in the field of infrastructure.</p>

#### 4. *Development of the local and regional DI market*

QIC will continue to strengthen cooperation with the global investment community through the creation of new PEF and the search for opportunities for co-investment with major international investors.

Work will continue on launching new initiatives aimed at developing the local and regional PE market, including attracting additional funding from international financial organizations and the global investment community.

At the same time, the focus will be on attracting private investors to participate in regional funds designed to solve the socio-economic problems of the region and achieve sustainable development goals.

### 3.3. *Strategic direction 3 "Global strategic asset allocation"*

**Objective:** *Strategic asset allocation in various geographical regions and investment areas for technology/innovation transfer/experience and creation of added value of investments.*

In order to strategically distribute assets in various geographical regions and investment directions for investing in sources of economic growth, including global demand, innovation and value creation, the Corporation will focus on solving the following tasks:

- 1) expanding partnership with the international investment community;
- 2) investing in PEF under the management of experienced international management companies, with a focus on investing in global megatrends;
- 3) further integration of the concept of "responsible investment" into QIC.

As part of these tasks, the Corporation will expand cooperation with the global investment community to gain access to fundraising of promising international funds and improve the experience and competencies of the QIC team.

QIC will invest in international PEF focused on creating a high-quality and sustainable portfolio of projects, in accordance with the current global "megatrends".

There are a number of megatrends that the Corporation will focus on investing in:

- *sustainable investment*: decarbonization, waste management, water conservation and measures to reduce environmental pollution;
- *urbanization and mobility*: the growth of megacities, the need for improved infrastructure and new ways of transportation;
- *expansion of interaction opportunities*: digital transformation, global logistics, computer network, sharing economy (online platforms);
- *technologies and innovations*: Big Data and analytics, robotics and automation, innovative business model (BMI);
- *demographic changes*: projects aimed at adapting to demographic trends, namely the growth of the middle class in emerging markets, aging and population growth, as well as changing consumer habits.

The main purpose of participation in the international PEF of this cluster and investing in promising / advanced projects is to stimulate the subsequent localization

of advanced technologies / know-how and their production in the Republic of Kazakhstan with the involvement of global strategic partners from these PEF. In addition, participation in international PEF will contribute to the opening of new export markets for Kazakhstani projects by stimulating demand for domestic goods/services in portfolio companies of international PEF.

The global capital market is reorienting investment flows to sectors/industries/companies that take a responsible approach to environmental issues, society and corporate governance and are aimed at positive environmental and social results. Refusing to take into account the ESG agenda is an obvious way to close the capital markets both in the medium and long term, for the whole country and individual companies. Thus, the formation of favorable investment climate through the implementation/compliance with ESG principles is one of the important directions for the further development of the investment ecosystem of Kazakhstan.

Currently, the state is taking active measures to decarbonize the economy of Kazakhstan. In order to fulfill its obligations under the Paris Agreement, the Government of Kazakhstan in early 2023 adopted a Strategy to achieve carbon neutrality by 2060. In accordance with this strategy, Kazakhstan aims to reduce greenhouse gas emissions by 15% compared to 1990 levels by 2030 (an unconditional goal) or by 25%, subject to receiving international investments in order to decarbonize the economy (conditional goal).

The following measures will be taken to attract international investment in order to decarbonize the economy:

- development of transparent ESG criteria for projects that meet the Sustainable Development Goals;
- development of a favorable legislative and institutional environment;
- implementation of international “green” standards in construction, transport and other sectors.

Also, the provisions of the Environmental Code of Kazakhstan and the Concept of Investment Policy pay great attention to attracting foreign investment, the exchange of “green” technologies and state support for attracting such investments and technologies.

In turn, QIC, as part of the further integration of the concept of “responsible investment”, will continue to increase the portfolio of “green” investments. Investing in sustainable “green” projects directly affects the achievement of Kazakhstan's strategic goals to improve the climate situation in the region and attract international financial institutions, as well as promote FDI.

In accordance with the Holding's Development Plan, QIC will continue to work in the following areas:

- increased transparency, including ESG transparency, and more active engagement with key stakeholders;
- integration of ESG risks into the broader QIC risk management system;
- assessment of ESG factors at all stages of the investment process - project search, investment decision-making, monitoring of funded projects and exit from the project;

- further improvement of personnel policy in accordance with ESG principles;

- promoting sustainable procurement.

To enhance the image of QIC on the world stage, create favorable conditions for cooperation for investors and develop cross-country investment flows, the Corporation will continue to implement/comply with ESG principles.

As part of QIC's accession to the leading international network of institutional investors of the UN Association “Principles for Responsible Investment” (UN Principles for Responsible Investment) and the UN Global Compact, work will continue on active interaction in order to develop the concept of “responsible” investment and integrate ESG principles into the Corporation's activities. Also, QIC will continue the practice of disclosing information in sustainable development reports in accordance with the Guidelines for Reporting in the Field of Sustainable Development of the Global Reporting Initiative GRI (Global Reporting Initiative).

Every 5 years, QIC will involve an international rating agency to obtain a sustainable development rating to assess the effectiveness of implementing ESG principles in the Corporation's activities, identify problematic issues and plan further actions to eliminate them.

#### 4. Expected results

As part of each strategic direction, QIC will conduct regular monitoring of the achievement of the tasks set using efficiency.

*Table 15: Key performance indicators and methodology for calculating indicators*

No.	Strategic key performance indicator	Unit of measurement	Calculation methodology	Value 2033	Data source
<b>Strategic direction 1 "Development of the private equity ecosystem in Kazakhstan"</b>					
1.	The share of the investment portfolio in total QIC assets (excluding treasury operations)	%	$D = I/A$ , where D = share of the investment portfolio of total assets; I = QIC investment portfolio (excluding Treasury operations); A = total assets at the end of the reporting period (cons.).	73.15	Financial statements/ Report on the implementation of the Development Plan for the reporting year QIC /QIC data
2.	Volume of new investments per year (including captive funds)	billion tenge	The amount of serviced payment requirements from PEF and Subsidiary ("cash calls") for the reporting period, minus refunds of unused funds for projects for the reporting period	65.5	Financial statements/ Report on the implementation of the Development Plan for the reporting year QIC /QIC data
3.	The volume of investments in fixed assets in the agricultural sector (per year), including: - in agriculture; - in food production industry	billion KZT	The amount of financing (according to the cash-basis method) for the purpose of purchasing fixed assets by agribusiness entities and conducting SMR at the expense of direct investments of the PEF	4.2	Financial statements/ Report on the implementation of the Development Plan for the reporting year QIC /QIC data

4.	Number of unique MSME entities supported through QIC tools (cumulative from 2024)	unit.cum	Number of MSME subjects supported	235	QIC Data
<b>Strategic direction 2 "Development of the alternative asset market in Central Asia"</b>					
5.	The ratio of attracted investments in the Republic of Kazakhstan to the unit of funds QIC (annual)	ratio	$K = X/Y,$ <p>where K = the coefficient of attracted investments in the Republic of Kazakhstan to the unit of funds QIC;  X = the actual volume of investments in projects of the Republic of Kazakhstan carried out over the entire period of the life of the PEF with foreign participation, including foreign investments under co-investment agreements, minus QIC investments in the PEF;  Y = the actual volume of QIC investments in projects of the Republic of Kazakhstan through the PEF carried out over the entire period of the life of the PEF</p>	at least 2	Financial statements/ Report on the implementation of the Development Plan for the reporting year QIC /QIC data
6.	Number of new QIC initiatives in PE market	unit.cum	Number of officially launched new initiatives (programs or investment platforms/funds)	10	Report on the implementation of the Development Plan for the reporting year QIC /QIC data

**Strategic direction 3 "Global strategic asset allocation"**

7.	Sustainable Development Rating	rating	Rating agency evaluation results	B/65%/65 points	Report on the evaluation results of the rating agency
8.	Total Cost per invested capital (Total Value to Paid-in Capital, TVPI)	ratio	<p>Total Value – the sum of total returns from the QIC investment portfolio and the current book value of the QIC investment portfolio (excluding treasury operations)</p> <p>Paid-In Capital – total amount of invested QIC investments</p> <p>*the calculation does not take into account the indicators of private equity funds (FPI) created before 2020 (except for captive funds), as well as PEF, the participation in which was transferred to QIC</p>	1.50	Financial statements/ Report on the implementation of the Development Plan for the reporting year QIC /QIC data

## 5. Attachments:

### Appendix No. 1. List of sources used

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## Appendix No. 2. Glossary

Term	Meaning
CAGR	Average annual growth rate taking into account compound interest
COVID-19	Infectious disease
Due diligence	The stage of the investment process at which all aspects of the activities of the company applying for investment are checked
ESG (environmental, social and governance factors)	A set of standards for the company's activities that socially conscious investors use to screen out potential investments.
Family office	A private company that manages investments and capital for wealthy families
Private equity	For the purposes of this Strategy, the following definition is formulated: investments in the capital of private companies that have a medium-term investment horizon and are aimed at generating income from capital gains and increasing the value for shareholders (shareholder value)
Venture Capital	A type of private capital aimed at risky investments in companies with significant growth potential
General Partner	The co-founder or co-investor of the fund, who is responsible for all the obligations of the private equity fund, usually the fund's management companies act as the General Partner
Investment portfolio	Includes the strategic and liquid portfolio of QIC
Key performance indicators	Indicators of the company's activity or its individual divisions, which enable the organization to achieve its strategic and tactical goals.
Liquid portfolio	Money on current accounts and short-term deposits of QIC in banks, refined precious metals, corporate and government securities, financial instruments, structural products
Non-resource sector of the economy	Branches of the economy not related to the extraction and sale of mineral raw materials and geological exploration
Limited Partner (LP)	A co-founder or co-investor of the private equity fund, who is responsible for its obligations and risks only within the amount of funds contributed to the fund by him
FDI	A category of international investments, as a result of which investors - residents of one economy - gain significant control or the ability to influence the management of investment objects that are residents of another economy
Fair value	The amount for which an asset can be exchanged or an obligation can be fulfilled when performing a transaction between knowledgeable, willing to perform such an operation by independent parties
Strategic portfolio	The totality of the accepted QIC's obligations to invest in investment funds, investment projects and project companies by acquiring deposits, shares, portions, units and other types of property rights certifying the participation of QIC
Sustainable development	It is a strategic approach to development, which is aimed at meeting the current needs of the society without compromising the ability of future generations to meet their own needs. It includes a balanced combination of economic, social and environmental development, striving to preserve natural resources and maintain social justice.

The World Bank	It is an international financial organization founded to promote the development of member countries by providing financial and technical assistance. The Bank finances various projects aimed at reducing poverty, developing social infrastructure, supporting education and healthcare, as well as promoting sustainable economic growth and maintaining the natural environment.
International Monetary Fund	An interstate organization established with the aim of ensuring global financial stability, facilitating international trade and stimulating sustainable economic growth and development.
"Growth" assets	Investments in companies or financial instruments that have the potential for a significant increase in value in the future due to a high rate of growth in profits or the value of shares.
Buyouts	Mean transactions in which a company or part of it is bought out from the current owners in order to acquire control over the business.
Fundraising	The process of collecting funds from people, organizations, or the community in order to support a specific initiative, project, or organization.
Quasi-public sector	Sector of the economy that includes organizations that are formally independent of the state, but have strong state influence.
REPO	Mean transaction between two parties in which one party sells securities to the other party with an obligation to buy them back at a previously agreed price and term.
Big Data	A term denoting huge amounts of information that require special methods of analysis and processing due to its scale and complexity.
Dry powder	Unused capital that is ready to be invested in certain opportunities, but has not yet been invested in specific assets or projects.

### Appendix No. 3. List of abbreviations

ACC	Agricultural Credit Corporation
JSC	Joint stock company
AIC	Agro-industrial complex
STB	Second-tier banks
DBK	Development Bank of Kazakhstan
GDP	Gross domestic product
PPP	Public-private partnership
SDs	Subsidiaries
ECA	Europe and Central Asia
IC	Investment Committee
KPI	Key performance indicators
MSME	Micro, small and medium enterprises
SMEs	Small and medium-sized businesses
IFOs	International financial organizations
AIFC	Astana International Financial Center
NMH	National Managing Holding
UAE	United Arab Emirates
UN	United Nations
DI	Direct investments
FDI	Foreign direct investment
RK	Republic of Kazakhstan
Media	Mass media
CIW	Construction and installation works
US dollars.	United States of America
SEZ	Special economic zones
LLP	Limited Liability Partnership
MC	Management company
PEF	Private equity funds
PLF	Problem Loans Fund JSC
PC	Private company
ACAF	Aureos Central Asia Fund L.L.C.
ADB	Asian Development Bank
AIX	Astana International Exchange
AUM	Assets Under Management
B2B	Business-to-business
BMI	Business model innovation
BVF	Baiterek Venture Fund JSC
CKIF	CITIC Kazyna Investment Fund I L.P.
CAAEF	Central Asian-American Enterprise Fund
DBK EF	Development Bank of Kazakhstan Equity Fund C.V.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EBRD	The European Bank for Reconstruction and Development
ESG	Environmental, social, and corporate governance
EY	Ernst & Young
FGF	Falah Growth Fund L.P.
GP	General partner

GRI	Global Reporting Initiative
IFC	International Finance Corporation
IPO	Initial public offering
IT	Information Technology
KAGF	Kazakhstan Hungarian Investment Private Equity Fund C.V.
KASE	Kazakhstan Stock Exchange JSC
KCM SDF	KCM Sustainable Development Fund I C.V.
KCRF	Kazakhstan Capital Restructuring Fund C.V.
KFW DEG	Deutsche Investitions- und Entwicklungsgesellschaft GmbH
KGF	Kazakhstan Growth Fund L.P.
KIF	Kazakhstan Infrastructure Fund C.V.
L.L.C.	Limited liability company
LP	Limited partner
MRIF	Macquarie Russia and CIS Infrastructure Fund C.V.
PRI	Principles of responsible investments
QIC	Qazaqstan Investment Corporation
RKFN	Russian-Kazakhstan Nanotechnology Fund
SIFEM	Swiss Development Finance Institution
SWOT	Strengths, Weaknesses, Opportunities, Threats
S&P	Standard & Poor's
UN	United Nations

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