



UWEZO FINANCIAL SERVICES LTD

INVESTMENT POLICY

Contents

INVESTMENT POLICY	1
1. INTRODUCTION	5
1.1. General	5
1.2. Statement of purpose	5
2. POLICY OBJECTIVES, RETURNS AND ASSOCIATED RISKS	6
2.1 Policy Objective	6
2.2 Return Objectives	6
2.3 Risk Objective:	7
2.4 Principal Risks.....	7
2.4.1 Volatility Risks.....	7
2.4.2 Investment Style Risk.....	7
2.4.3 Market Risk.....	7
2.4.4 Selection Risk	7
2.4.5 Counterparty Risk.....	7
2.4.6 Interest Risk	7
2.4.7 Inflation Risk.....	7
2.4.8 Liquidity Risk.....	7
2.5 Risk Management	8
2.5.1 Credit Risk.....	8
2.5.2 Interest Risk	8
2.5.3 Inflation Risk.....	8
2.5.4 Liquidity Risk.....	8
2.5.5 Other risks & Limits.....	9
3. INVESTMENT CONSTRAINTS	9
3.1 Liquidity	9
3.2 Time horizon	9
3.3. Tax Concern	9
3.4 Unique needs	9
4. STATEMENT OF DUTIES AND RESPONSIBILITIES	10

4.1 Governance Structure	10
4.2 Duties and Responsibilities.....	10
4.2.1 Board of Directorss.....	10
4.2.2 Audit and Finance Committee.....	10
4.2.3 Managing Director	11
4.2.4 Investment Manager(s).....	11
5. GENERAL INVESTMENT PRINCIPLES	13
6. PORTFOLIO STRUCTURE	13
6.1 Securities Analysis & Portfolio Construction	13
6.2 Portfolio Rebalancing	14
7. CONTROL PROCEDURES	14
7.1 Prudence	14
7.2 Ethics and Conflict of Interest	14
8. INVESTMENT TRANSACTIONS	14
8.1 Permitted Investments	15
8.2 Prohibited Securities and Transactions	15
9. INVESTMENT PERFORMANCE	15
10. INVESTMENT GUIDELINES	15
10.1 Permitted Investments Guidelines	16
10.1.1 The Guidelines on Cash and Cash Equivalent	16
10.1.2 Guidelines on Fixed Income Securities	16
10.1.3 Guidelines on Equity Investment.....	16
10.1.4 Guideline on Investments in Properties	17
10.1.5 Guideline on Investment in Endowment fund.....	17
10.1.6 Guideline on Investment in other asset categories	17
10.2 Investment Allocation Guidelines.....	18
10.2.1 Permission to exceed investment limits.....	18
10.2.2 Single Institution Exposure limits	19
10.3 Portfolio Monitoring and Rebalancing	19
10.3.1 Rebalancing Guidelines.....	19
10.3.2 Investment Approval Procedures/Guidelines.....	20
10.3.3 Managing Director and/or Head of Finance	20

10.3.4 Performance Measurement and Reporting.....	20
10.3.5 Feedback & Reporting Requirements.....	20
10.3.6 Monthly.....	21
10.3.7 Quarterly.....	21
10.3.8 Annually	21
11. SAFEKEEPING AND CUSTODY	21
12. PROCEDURES FOR EVALUATION AND REVIEW OF THE POLICY	22
13. APPROVAL.....	22
APPENDIX A – UFSL Endowment Spending Policy.....	23
APPENDIX B – Properties.....	Error! Bookmark not defined.

1. INTRODUCTION

1.1. General

Uwezo Financial Services Limited (UFSL) is a religious owned financial institution (FI) based in Dar-es-Salaam offering micro, small, and medium sized loans to churches, church-owned institutions and individuals, including groups of individuals. Loans offered are short-term business loans and long-term development loans. UFSL believes in empowering all Tanzanians to meet development challenges and, to this end, it provides services to the marginalized population by providing affordable loans (Uwezo Loans) structured to fit different classes of customers. It operates on low cost basis, thus enabling affordable lending rates to its customers.

While based in Dar-es-Salaam, the UFSL shall be reaching customers in other parts of the country through the right use of technology and agency relationships. To enhance better utilization of facilities offered to its customers, and to achieve high repayment rates, the UFSL puts emphasis on customer orientation and offers entrepreneurial and management training to its customers.

1.2. Statement of purpose

The intention of this Investment Policy Statement is to establish guidelines that will govern the investment activities of Uwezo Financial Services Limited (UFSL).

The policies and guidelines set forth herein are intended to establish philosophies and principles that govern investment management at UFS. They shall be sufficiently specific and meaningful, but flexible to permit the management and Board of Directors to exercise informed discretion necessary, to achieve UFSL investment objectives and satisfy the unique requirements of UFSL as religious financial institution. It also outlines the underlying philosophy and guidelines for the selection, monitoring and the evaluation of the investment options and investment decisions engaged/made by the organization. The same policies will be used in the management of investments under the UFSL endowment Fund. A separate **appendix A** sets forth standards and guidance for the spending and expenditure of UFSL endowment funds.

The ultimate objectives of UFSL investments is to create sufficient income and capital growth to enable the organization to sustainably carry out its purposes consistently year by year with due and proper consideration for future needs and the maintenance of, and if possible, enhancement of the value of the invested funds while they are retained. The UFSL is committed to adhere to fundamentals of risks-return relationship, diversification, and operation practices as contained in the investment guidelines to implement this policy.

2. POLICY OBJECTIVES, RETURNS AND ASSOCIATED RISKS

2.1 Policy Objective

UFSL investments aim at fostering sustainability and growth through a disciplined investment plan within acceptable risks in various financial investments. This investment policy is designed to enable UFSL meet its investment objectives by investing funds to achieve twin purposes of attaining a fair investment return as well as risk management.

More specifically, the objectives of this investment policy are to:-

- i) Define and assign the responsibilities of all involved parties.
- ii) Establish a clear understanding for all involved parties of the investment goals and objectives of the fund assets.
- iii) Offer guidance and limitations to all investment Managers regarding the investment of the fund assets.
- iv) Establish a basis for evaluating investment results.
- v) Manage the fund assets according to prudent standards.
- vi) Establish the relevant investment horizon for which the fund assets will be managed.

2.2 Return Objectives

Without prejudice to investment objectives above, rate of return for UFSL investments will be measured in terms of total return of the portfolio and will be calculated on the basis of a time-weighted rate of return formula. The performance of UFSL's investment portfolio will be measured relative to:

(a) Inflation – The desired real returns on investments will be positive, net of inflation, over the accounting period (unless there are undesirable government policy decisions affecting this requirement). The objective is to preserve the purchasing power of UFSL investments. To be more clear, minimum real return (after inflation) shall not be less than 1%;

(b) Policy benchmark - Any investment different from Treasury instruments shall have return which is not below returns on Treasury Bills at the time of investing, depending on the maturity;

If, in any case, UFSL management or its advisor or its fund manager intends to invest in assets with yields lower than those prescribed in (a) and (b) above shall seek for prior approval of the Board of Directors.

2.3 Risk Objective:

(a) UFSL's investments may take on relatively low to medium level of risk in seeking to meet returns requirements.

(b) Despite (a) above, UFSL investments should be well diversified with respect to asset classes and concentration of positions within asset class to control the risk of catastrophic loss.

2.4 Principal Risks

2.4.1 Volatility Risks– This is the risk arising from changes in the volatility of price movements in interest rates, equity prices, yields on fixed income instruments, etc. Stock markets are volatile. The price of equity securities fluctuates based on changes in the company's financial condition and the overall market and economic conditions.

2.4.2 Investment Style Risk– Since different kinds of securities go in and out of favor depending on market conditions, UFSL's investment performance may be better or worse than other investments with different investment styles (e.g. growth vs. income)

2.4.3 Market Risk– Market risk is the risk that the market and securities in which UFSL invests will go down in value, including the possibility that markets will go down sharply and unpredictably.

2.4.4 Selection Risk– Selection risk is the risk that the securities selected by UFSL will underperform in the markets, the relevant indices or the securities selected by other investors with similar investment objectives and investment strategies. This means UFSL may lose money.

2.4.5 Counterparty Risk– It is the risk that the counterparty to a transaction will fail to carry out his side of the agreement.

2.4.6 Interest Risk- It is the risk that the market value of securities in the portfolio will fall due to adverse movements in interest rates.

2.4.7 Inflation Risk–The risk that there is a possibility that the value of assets or income will decrease as inflation shrinks the purchasing power of a local currency, e.g. because of their relative safety, bonds tend not to offer high returns. That makes them particularly vulnerable when inflation rises.

2.4.8 Liquidity Risk- This is the risk that a given securities or assets cannot be traded quickly enough in the market to prevent a loss (or make the required profit) i.e. the market for bonds is considerable thinner than for stock, when a bond is sold on the secondary market, there's not always a buyer. Liquidity risk describes the danger that the Organization will struggle when selling its securities.

2.5 Risk Management

Risk management will be an important part of the portfolio construction process. UFSL's risk tolerance will be set out in each of its mandates to be in line with this policy. The Managing Director must make sure that the invested assets and the portfolio constructed is consistent with it. She/he will follow a diversification of portfolio approach/perspective to safeguard the investment. The safety of the principal value of each investment is the foremost objective of UFSL's investment approach, programme, and investment plan. Investments shall be undertaken in a manner that seeks to ensure that there is a right balance between investments growth, returns generated and risk management. Risk management approaches to be considered are as follows:

2.5.1 Credit Risk

UFSL will seek to minimize credit risk (risk of loss due to failure of the security issuer counterpart) by:

- Pre-qualifying the financial institutions and other intermediaries with whom UFSL will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized.
- Limiting exposures to individual counterparties.

2.5.2 Interest Risk

UFSL will seek to minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

- Structuring the investment portfolio in such a way that the portfolio's duration conforms to the desired risk tolerance.
- Investing operating funds primarily in shorter-term securities.

2.5.3 Inflation Risk

UFSL will endeavor to ensure that the investment is structured in such a way that it seeks to attain real rate of return maximization that is periodically in line with inflation during the investment horizon, taking into account investment risk constraints and liquidity needs.

2.5.4 Liquidity Risk

The invested portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio in such a way that it allows securities' maturity to concur with cash needs to meet anticipated cash demand (static liquidity). Furthermore, since not all possible cash demand can accurately be anticipated, the portfolio should include a sufficient number of investments that are predominantly liquid such as: cash on call.

2.5.5 Other risks & Limits

Other forms of risks (i.e. counterparty risk, volatility risk, selection risk, market risk, etc) will be managed / controlled in other various ways, i.e. by setting suitable operating procedures and systems for reporting and monitoring positions. A structure for controlling risk is to set various limits on exposure or transaction volumes.

UFSL's structuring of limits for various risks largely depends on: (i) regulatory requirements, (ii) internal policies and (iii) management judgment. A limit structure aims at setting maximum permissible exposures or transaction volumes.

3. INVESTMENT CONSTRAINTS

3.1 Liquidity

The invested assets consists of funds that have to be used for UFSL core function, therefore there will be a general need for liquidity in the short to medium term, so that when liquidity requirements arises, funds have to be available within a minimal time frame. This may constraint UFSL from investing in other assets classes with relatively higher returns but whose liquidity can in some cases be a challenge.

3.2 Time horizon

Following the nature of UFSL mandate, investment will be made with short to medium term horizon. UFSL intends to utilize invested assets to meet its core function related obligations, at which time funds will be drawn from the investments to meet these obligations. Investments that need longer time horizons like real estate are not the main focus of this policy. These must be specifically approved by the Board of Directors and they will be managed separately from the mandate of this policy.

3.3. Tax Concern

Tax status varies among investors and among investment assets. Some investors and invested assets are subject to taxation on investment returns and some are not. Some investors and assets classes face various rates of tax on income (dividends and interest payments) than they do on capital gains (associated with increases in asset prices). Typically, income is taxed more highly than gains, i.e. gains on investments on shares that are listed at the Dar es Salaam Stock Exchange are subject to a lower rate of tax or part or all of the gain may be exempted from taxation. Furthermore, income may be taxed when they are earned, whereas gains may be taxed when they are realized. Hence, in such cases there is a time value of money benefit in the deferment of taxation of gains relative to income. In any case, during portfolio construction by UFSL, the portfolio should reflect the tax status of UFSL and based on the above tax status, may constraint UFSL from executing its investment objectives.

3.4 Unique needs

Also sometimes UFSL sponsors may have their unique considerations in terms of asset classes that UFSL may invest in, durations of investments, percentage to be invested in UFSL's core business versus non-core invested assets. These institutional unique needs

may constraint UFSL from reaching its investment objectives.

4. STATEMENT OF DUTIES AND RESPONSIBILITIES

4.1 Governance Structure

The governance structure for investment of the UFSL assets shall be based on an appropriate segregation of duties and delegation of responsibilities and authority from the Board to the management in the following framework:

- i. The Board of Directors
- ii. Audit and Finance Committee
- iii. Managing Director
- iv. Investment Manager/ Finance Manager (s)

4.2 Duties and Responsibilities

To ensure the implementation of the prudent investment policy – the concept of segregation of duties in the investment process shall be understood and carried out accordingly. The Board and management will ensure that at all stages of the investment process and portfolio construction, UFSL avails itself of the professional expertise for:

- An optimal investment result
- An accurate management of the investment
- The control of risks associated with investment

In this regard, UFSL's investment policy implementation will follow the following structure with duties and responsibilities:

4.2.1 Board of Directors

The Board has overall authority for UFSL's investment policy and hereby delegates to the Audit and Finance Committee the responsibility for administration of the policy. The Board will maintain oversight authority for the overall investment management process. The Audit and Finance Committee members, Managing Director, Head of Finance and any other individual (s) as appointed by the Board from time to time will have important roles in managing UFSL investments.

4.2.2 Audit and Finance Committee

The Committee shall have responsibility for: (i) formulating investment strategies, (ii) authorizing the acquisition and/or disposition of investments, (iii) appointing Investment Managers for segregated accounts held by UFSL to manage assets and/or provide investment advice regarding such assets, (iv) monitoring the portfolio for compliance with the approved policies and guidelines, (v) recommending changes and revisions to the policies and guidelines, and (vi) reporting to the Board on all material matters relating to the portfolio.

The Board recognizes that no policy can anticipate all situations, conditions and opportunities that may arise. Therefore, the Committee may prudently deviate from this policy with such actions reported at the next regular meeting of the Board.

4.2.3 Managing Director

The Managing Director, with the assistance of the Head of Finance has the responsibility and authority to:

- Assist the Board and Committee in formulating investment policy;
- Implement the policies and programmes established by the Board;
- Report to the Board/Committee on the status of the investment portfolio and the operations of UFSL investments; and
- Assist/report to the Board/Committee all matters that are related to investment activities of UFSL.
- The Head of Finance, directly or indirectly, will have discretion to purchase, sell, or hold specific investment assets authorized by the Board/Committee to meet the policy's investment objectives. The Head of Finance shall be responsible for:
- Management of UFSL's investment portfolio – including all purchases, sales, and trading activities;
- Adequately diversifying the portfolio among asset classes and securities to minimize unsystematic risk;
- Structuring UFSL's investment portfolio to meet liquidity requirements;
- Recommending investment guidelines and, presenting short-term investment recommendations to the Board/ Committee;
- Preparation and presentation of a comprehensive set of management reports designed to keep the Board fully informed of all investment transactions and current status of UFSL's investment portfolio;
- Ensuring that proper operational controls are in place and that, procedures are followed to protect/guarantee the integrity and security of the invested portfolio;
- Invest UFSL funds according to respective investment policies and mandates;
- Overseeing and ensuring that the Management team will physically maintain title of investments owned by UFSL, collect interest, coupon and dividend payments, and redeem maturing securities, and effect receipt and delivery following purchases and sales. The finance team may also perform regular accounting of all assets owned, purchased and sold.

4.2.4 Investment Manager(s)

Whenever the operation and financial circumstances permits UFSL may seek and retain services of the professional advisory and/or investment manager to manage UFSL funds. In such case where services of the professional investment manager are procured, provisions below will guide the activities of the Investment Manager: The investment manager or advisory manager will be procured competitively in accordance with UFSL procurement regulations and must be approved by the Audit and Finance Committee. The investment manager (s) must be registered by the Capital Markets and

Securities Authority of Tanzania (CMSA).

The Investment Manager may not deviate from this policy without prior written approval from the Board of Directors. The Audit and Finance Committee may approve prudent deviations from this policy with such actions reported at the next regular meeting of the Board. An Investment Manager shall be characterized either as an “Advisory Manager” (hired to provide investment advice) or as a “Discretionary Manager” (hired to manage assets on a discretionary basis).

A. Advisory Manager: Each Investment Manager hired only to provide investment advice shall be referred to as an Advisory Manager. Each Advisory Manager must acknowledge, in writing, his/her acceptance of responsibility as described in this policy. Specific Responsibilities of an Advisory Manager include:

- Prompt execution of trades in accordance with instructions by UFSL.
- Prompt liquidation of assets in accordance with instructions by UFSL.
- Execute investment advice regarding changes to the portfolio based on this Investment Policy Statement and the goals of the investment account.
- Reporting investment performance results of the investment account to UFSL, on at least a quarterly basis. Such report shall include an overall summary of the market during the reporting period including the performance of any relevant benchmark for the account.
- Providing monthly valuation of the investment portfolio based on the previous month’s closing prices.
- Communicating any major changes in the economic outlook, investment strategy or any other factor that may affect implementation of the investment programme, or affect the achievement of the investment objectives established by UFSL.
- Informing UFSL of any qualitative change in the investment management organization, such as changes in portfolio management personnel, ownership structure, investment philosophy, etc.

B. Discretionary Manager: Each Investment Manager hired to provide discretionary management of assets shall be referred to as a Discretionary Manager. Each Discretionary Manager must acknowledge, in writing, his/her acceptance of responsibility as a fiduciary and as further described in this policy.

Each Discretionary Manager shall have full discretion to make all investment decisions for the assets placed under his/her jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this Statement. Other specific responsibilities of a Discretionary Manager include:

- Discretionary investment management, including decisions to buy or sell individual securities and to alter asset allocation within the guidelines and investment objectives established by the Audit and Finance Committee.
- Monitoring the cash position and, when necessary, liquidating investments in a timely manner to satisfy grant requests, fees and other authorized disbursements.
- Reporting investment performance results of the investment account to UFSL, on

at least a quarterly basis. Such report shall include an overall summary of the market during the reporting period including the performance of any relevant benchmark for the account.

- Providing monthly valuation of the investment portfolio based on the previous month's closing prices.
- Communicating any major changes in the economic outlook, investment strategy, or any other factors that may affect implementation of the investment programme, or affect the achievement of the investment objectives established by UFSL.
- Informing UFSL of any qualitative change in the investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

5. GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the best interest of UFSL and consistent with the guidelines and objectives established by the Audit and Finance Committee.
2. The segregated accounts within UFSL and the total portfolio shall be invested with care, skill, prudence, and diligence under the prevailing circumstances that a prudent person in a like position would exercise under similar circumstances and in a manner the Audit and Finance Committee reasonably believes to be in the best interest of UFSL.
3. Investment of UFSL assets shall generally be so diversified as to minimize the risk of large losses. UFSL may employ one or more investment managers of varying styles and philosophies to attain the overall investment objectives.
4. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity and return.

This guideline is specific and exclusive for assets owned by the Organization. Financial assets subject to a specific donor restriction as to the investment, management, use or expenditure of such assets shall be invested, managed, used and spent in accordance with the donor's restriction.

6. PORTFOLIO STRUCTURE

6.1 Securities Analysis & Portfolio Construction

UFSL will use a combination of top down and bottom up insight of security analysis. The Head of Finance and his team will use their detailed knowledge of the institutions they invest in to assess the expected level and risk of the cash flows that each security produces. This knowledge will allow the Head of Finance to assign a valuation to the security and identify preferred investments.

The Head of Finance will then construct the portfolio, taking into account the target asset allocation, security analysis, and UFSL's requirements as set out in the Investment Policy. A key objective will be to achieve the benefits of diversification. Decisions will be taken on the asset class weightings, institutional weightings within the asset class, and the selection and weighting of individual securities or assets.

Risk management is an important part of portfolio construction process. UFSL's risk tolerance will be set out in the investment mandates, and, the Head of Finance will make sure that the portfolio constructed is consistent with the investment mandates and the level of risk tolerance. The Head of Finance will take a diversified portfolio perspective. What is important is not the risk of any single investment, but rather, how all investments perform as a whole (portfolio).

6.2 Portfolio Rebalancing

There may be periodic deviations in the actual asset weights from the policy asset allocation determined by the investment committee. Possible causes for periodic deviations include market movements, while cash flow allocation targets will inevitably alter the expected returns and risks of UFSL portfolio. Accordingly, the Committee authorizes the Management to rebalance the portfolio when necessary to ensure adherence to the Investment Policy and report in the next committee meeting.

7. CONTROL PROCEDURES

7.1 Prudence

The standard of care by investment officials shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy, and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion to the Audit and Finance Committee and the Board. Liquidity and sale of securities should be carried out in accordance with the terms of this policy. Investments shall be made with judgment and care (under circumstances than prevailing persons of prudence, discretion, and intelligence do/have/exercise in the management of their own affairs), not for speculation, but for investment considering the probable safety of the capital as well as the probable income to be derived.

7.2 Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment programme, or that could impair their ability to make impartial decisions. Investment officials shall disclose any material interest in financial institutions with which they conduct business. They shall further disclose any personal financial/investment portfolio. Material interest includes equity holding, employment or a contract of offer/receive services/material for a price. This disclosure shall be made annually or when occurs.

8. INVESTMENT TRANSACTIONS

Investment will be made by selection of instruments from permitted investments (see 8.1) only, unless otherwise approved by the Board.

8.1 Permitted Investments

Funds shall be invested in the following instruments:

- Cash equivalents (i.e. Treasury bills, term deposits, cash on call and other money market instruments).
- High yield fixed income whose period to maturity is between 12-24 months.
- High performing listed equities, invested after a thorough research.
- Other long term Investments like investment in real estate are not the main focus of this policy. Based on the associated risk, they must be specifically approved by the Board of Directors and they will be managed by the separate policy related to real estate investments.

8.3 Prohibited Securities and Transactions

The following securities are prohibited for investment of UFSL:

- a. Commodities and futures contracts
- b. Options
- c. Short selling
- d. Speculation
- e. Offshore investments

9. INVESTMENT PERFORMANCE

Without prejudice to risk objectives above, rate of return for UFSL will be measured in terms of total return of the portfolio and will be calculated on the basis of a time-weighted rate of return formula. The performance of UFSL's investment portfolio will be measured relative to:

- Inflation – The desired real returns on investments will be positive, net of inflation, over the accounting period. The objective is to preserve the purchasing power of the UFSL investments. To be more clear, minimum real return (after inflation) shall not be less than 1%;
- Policy benchmark - Any investment different from Treasury instruments shall have return which is over and above return on Treasury Bills and Treasury bonds, at the time of investing, depending on the maturity;
- If, in any case, UFSL management intends to invest in assets with yields lower than those prescribed in (a) and (b) above shall seek for prior approval of the Board.

10. INVESTMENT GUIDELINES

These guidelines are derived from UFSL Investment Policy and are intended to guide the management in their day-to-day investment operations. They are intended to ensure that Investment Policy is followed and to facilitate communication between the Head of Finance, the Managing Director as well as the Board. The Head of Finance shall have full discretion within the applicable guidelines. If the Management believes that a guideline should be altered to improve the overall effectiveness of the investment structure, they may request an alteration.

The guidelines outlines: (a) permitted Investments, (b) prohibited securities and transactions, (c) investment allocation, (d) the performance benchmarks and (e) measurement and reporting.

10.1 Permitted Investments Guidelines

10.1.1 The Guidelines on Cash and Cash Equivalent

Cash and cash equivalent investments shall mean debt obligations with a maturity of 12 months or less at the time of issue.

- As highlighted earlier, cash equivalent investments shall be only in:
 - Cash on Call
 - Treasury bills
 - Bank Term deposits
 - Other money market instruments
- Investment in Treasury bills shall be limited to 50% of the total investment portfolio.
- Investments in commercial banks shall be made following the proper analysis of the financial strength of the bank and returns.

10.1.2 Guidelines on Fixed Income Securities

Fixed income securities shall mean marketable debt securities issued by either the Government or Corporations.

- Investments in debt securities issued by the Government shall be limited to 55% of the total investment portfolio.
- No investments shall be made in corporate bonds.
- No investment shall be made in any security that has a maturity in excess of 2 years from the date of purchase.

10.1.3 Guidelines on Equity Investment

- Equity holdings shall be restricted to readily marketable securities of companies listed at the Dar es Salaam Stock Exchange.
- Investment should not be made in equity securities of issuers which do not have an available track record of operating for at least three years.
- Not more than 30% of the total assets portfolio may be invested in any one company or corporation at any time.

Note:

- i. Equities category shall include ordinary and preference shares of companies listed at the Dar es Salaam Stock Exchange subject to the limits provided under these Guidelines.
- ii. Unlisted shares issued by designated institutions approved by the Board.
- iii. Investments in equities shall be through a Securities Broker(s) and certificates shall be kept by the Head of Finance.

10.1.4 Guideline on Investments in Properties

Real estate properties category shall include properties constructed or acquired for the purpose of leasing to prospective tenants and/or for sale provided that:

- i. All properties either constructed for leasing, outright sale or hire purchase shall be handled by property manager under a special purpose vehicle to manage stake.
- ii. All development of properties shall be through a property Developer as determined by UFSL's Board.
- iii. All benefits arising from the Properties Investment will target to support UFSL objectives.

10.1.5 Guideline on Investment in Endowment fund

- i. UFSL may dedicate part of its investment portfolio into endowment fund.
- ii. The Endowment fund will be invested into different categories of options (e.g. equity, securities, treasury bills etc.) as guided in this policy for the purpose of maximizing the returns.
- iii. The way that endowment funds are invested is not different from other UFSL funds but the difference is on spending. These should be well captured by Endowment Fund policy and guideline.

10.1.6 Guideline on Investment in other asset categories

- i. Investment in asset categories not specified in these Guidelines and not specifically prohibited (Under 8.2) shall be subject to prior approval by the Board of Directors.
- ii. The Board shall, within a reasonable time and upon receipt of complete information, grant or decline approval requested in (i) above and inform the management.

10.2 Investment Allocation Guidelines

Investment by UFSL shall be in accordance with asset allocation guidelines. The target weight is the desired weight for each asset class. The minimum weights and maximum weights are to allow for normal market fluctuations. Management/Investment Manager will remain within the range specified for each asset class and will rebalance the portfolio according to the target weights.

Investment Class	Minimum Weight	Target Weight	Maximum Weight
Deposits with licensed banks and financial institutions with original maturity of at least three months (in call deposits, notice deposits, term deposits and certificate of deposits)	<=50	<=55	<=60
Treasury bills & short term to maturity bonds (up to 2-years)	<=35	<=40	<=50
Treasury Bonds with over three years of maturities	<=0	<=0	<=0
Investment in listed equities	<=5	<=5	<=10
Investment in licensed collective investment Schemes	<=0	<=0	<=10
Investment in unlisted private companies and unlisted corporate debts	<=0	<=0	<=0
Investment in infrastructure projects and real estates	<=0	<=0	<=0
Other investment subject to prior approval by the Board	<=0	<=0	<=5

10.2.1 Permission to exceed investment limits

- a. UFSL may exceed the limits indicated in guideline above in the event of an increase in the market price of assets, bonus issues or transfer of investment from one category of investment to another provided that:
 - Any such excess shall not continue for a period of more than ninety days.
 - Any such excess shall be reported immediately to the Board together with an action plan as to how the management intends to return the UFSL's invested assets within the approved limits.
- b. The Board shall within sixty days of receipt of the action plan advice management in writing if the plan is acceptable or require management to implement the plan subject to such terms and conditions as the Board may deem appropriate.
- c. UFSL may exceed the maximum percentage indicated in the event of revaluation of property provided that any such excess shall be reported immediately to the Board together with an action plan as to how the management intends to return the

scheme within the approved limits.

- d. The Board shall, within thirty days of receipt of the action plan under Guideline above, advise the management in writing if the plan is acceptable or require the management to implement the plan subject to such terms and conditions as the Board may deem appropriate.

10.2.2 Single Institution Exposure limits

Investment in the above categories shall be made subject to the following considerations:

- i. Any single holding other than central Government debt (including any single property) shall not exceed 40 per cent of the total assets of UFSL.
- ii. Exposure in fixed deposit receipts balances with any single bank or financial institution may exceed 50% of the total fixed deposit receipts balances of UFSL with all banks and financial institutions if considered secure.
- iii. Investment in the unquoted equity of any one company shall not exceed five per cent of the total assets.
- iv. Holding of any given security as a percentage of total issue shall not exceed ten percent of the security issued and subscribed by the public.
- v. Loans to Local Government and Central Government shall not be given at this point.
- vi. UFSL shall limit its investments in corporate bonds to those issues which have been listed on the Dar es Salaam Stock Exchange.
- vii. UFSL will not invest in non-listed corporate bonds.
- viii. Investments in collective investments schemes managed by any one body shall not exceed ten percent of total assets of UFSL.

10.3 Portfolio Monitoring and Rebalancing

Once the portfolio has been constructed, it will be monitored and reviewed, and the composition revised as the security analysis changes because of the changes in securities prices and other fundamental factors. When security and assets weightings have drifted from the intended levels as a result of market movements, rebalancing will be required.

10.3.1 Rebalancing Guidelines

Returns on various assets classes are likely to be affected by economic conditions; e.g. equities may do well when economic growth is unexpectedly strong whereas money market assets and bonds may do poorly if inflation increases.

Investments allocation will therefore be maintained as close to the target allocation as reasonably possible. Unanticipated market shift or changes in economic conditions or cash flows may cause asset mix to fall outside of policy range. The Managing Director/Head of Finance shall assess and manage the trade-off between the costs of rebalancing active risk associated with the deviation from the policy asset weights. With the approval of the Board, the Managing Director/Head of Finance may delay a

rebalancing programme if they believe that the delay is in the best interest of UFSL.

10.3.2 Investment Approval Procedures/Guidelines

Investment decisions require approval from appropriate authorities. The approval level differs from one investment to another depending on the nature of investment. For the purpose of these guidelines, applicable limits shall be as follows:

10.3.3 Managing Director and/or Head of Finance

- Shall have discretion to purchase, sell, or hold the specific investments authorized by the Board/Committee to the policy objectives.
- Shall be authorized to make placements with banks and/or treasury bills and/or treasury bonds up to TZS 5 billion and for secondary market equity and bonds trading an amount not exceeding TZS 2.5 billion per single transaction.
- Shall have no authority to approve the following investments *without Board approval*:
 - i. Listed equity shares
 - ii. Listed Corporate Bonds
 - iii. Listed Corporate Loans

All other investments shall require the Board's approval.

10.3.4 Performance Measurement and Reporting

The performance of UFSL portfolio will be measured through assessments of whether the client's objectives have been met, i.e. the investor(s) has to know whether the return requirements have been achieved and how the portfolio performed relative to benchmarks that have been set. Analysis from the performance may suggest that the client's objective need to be reviewed and perhaps changes made to the Mandate.

The Investment Management Consultant will include a report on compliance with the Investment Policy in the quarterly report to the UFSL Finance and Audit/Investment Committee. This will include a summary of overall asset allocation and commentary on adherence to allocation guidelines. It will also state whether there is any exposure to prohibited investments or whether any investment category is in excess of the stated guidelines. The Investment Management Consultant will also report on any advised changes in risk management.

Performance reporting will be made for the combined investment fund and separately for each of the investment managers engaged to manage separate strategies. The Investment Management Consultant is expected to provide an analysis of how the combined fund and managers performed in comparison to benchmarks and to provide objective advice on whether to retain or replace under-performing managers. The Investment Management Consultant should also report on the status of reaching the overall, long term performance goals of the endowment fund.

10.3.5 Feedback & Reporting Requirements

The feedback phase of the investment management will assist the Head of Finance

rebalance the portfolio to match changes in market conditions or circumstances of UFSL. Reporting of the portfolio shall be done on a monthly, quarterly and on annual basis. The Audit and Finance/Investment committee shall determine the form and content of the reports.

10.3.6 Monthly

The Head of Finance will provide the committee, through the Managing Director, with a monthly written statement containing all pertinent transactions details for investment for the preceding month, including:

- The name and quantity of each security purchased, or sold, with the price and transaction date;
- An analysis of each security: its description, percentage of total portfolio, purchase date, quantity, average cost basis, current market value, realized or unrealized gain or loss, realized income and yield, etc. and
- An analysis for the entire portfolio of the current asset allocation by the investment category (equities, fixed income, money market).

10.3.7 Quarterly

The Head of Finance will provide the committee (through the Managing Director) with detailed information about: *asset allocation, investment performance, future investment strategies, and other matters of interest to the Committee /Board.*

10.3.8 Annually

The Head of Finance will provide through the Managing Director an annual summary of all transactions in each fiscal year, together with a report of investment performance for the year, by portfolio to the Board. Investment objectives will be reviewed to determine if they are being met.

11. SAFEKEEPING AND CUSTODY

All investment securities purchased by each Investment Manager or held as collateral on deposit or investment shall be held in third-party safekeeping preferred, at an insured depository. All securities in segregated accounts shall be held in the name of Uwezo Financial Service Limited and shall be free and clear of any liens. The depository will also provide reports that list all securities held for UFSL as required by the Board of Directors.

The Audit and Finance/Investment Committee on behalf of the Board will assess at least annually the performance and independence of any external agent (e.g. Fund manager(s)), including any conflicts of interest. Any actual or potential conflicts of interest involving a member of the Board or officer or key employee of the Organization with respect to the external agent must be disclosed and resolved pursuant to the Organization's conflict of interest policy and any conflicts of interest the agent may have involving service to the Organization (e.g., investment in deposits of a bank owned by the agent's brother) must also be disclosed to the Organization.

Any contract between the Organization and an external agent involving delegation of investment authority shall be terminable by the Organization at any time, without penalty, upon no more than 30 days' notice.

12. PROCEDURES FOR EVALUATION AND REVIEW OF THE POLICY

The investment policy shall be reviewed and revised as may be necessary. Normally, absence of major changes in the fiscal and monetary policies of the government would not generate significant changes in the investment environment. Under such circumstances, major review of the investment policy can be done after three years. However, the Managing Director shall review it at least annually, to incorporate minor changes that emanate from the dynamism of the operating environment. The Board shall approve any modifications or amendments made thereto.

13. APPROVAL

This Investment Policy Statement provides a framework for the management of its investment assets. It is operational from the date approved by the Board of Directors as shown hereunder.

Approved by the Chairman of the Board



Signed Chairman ...

Dated

Endorsed by the Board of Directors

Dated

APPENDIX A –UFSL Endowment Spending Policy

I. Purpose

Endowment Fund entails creation of a fund that is invested and only the income earned may be spent for a specific functions of the organization. This is a capital fund established to provide regular unrestricted income to an organization.

The purpose of this Endowment Spending Policy is to set forth the standards and guidelines governing spending from the endowment funds of the UFSL.

An endowment fund is any fund, or a part of a fund, that is not wholly expendable by the Organization on a current basis, as well as funds that are not restricted as to expenditure under the terms of a gift instrument but have been so restricted by action of the Organization's Board of Directors.

II. Appropriating Endowment Fund expenditure

All spending from each of the UFSL endowment funds will comply with UFSL policies. All decisions regarding expenditures from an endowment fund restricted as to purpose must comply with restrictions set by the UFSL Board of Directors and/or set policies. Expenditures from endowment funds that are not restricted as to purpose must comply with the guideline on the use of endowment approved by the Board, and should be solely for the purposes of the Organization.

III. Ceiling

Under UFSL, an annual distribution from an endowment fund created on or after November 2019 shall be NIL in the first two (2) years and will not exceed ten (10) percent of the fair market value of the fund for the next 5 years or the total accumulated interest whichever is lower. This intends to enable the smooth growth of the Fund.

UFSL Endowment Fund may be used for the following:

- Support Remuneration and Benefits of UFSL core staff as well as the organization's oversights costs;
- Support UFSL operational running costs
- Support scale up of UFSL financial support in areas identified with great needs.
- Co-invest to generate income for scaling up organization capacity as per this investment policy.

