



Statement of Investment Policy, Objectives and Guidelines of the Upper-Tana Nairobi Water Fund

SCOPE OF THIS INVESTMENT POLICY

This statement of Investment Policy reflects the policy, objectives, and conditions for the investment of the assets of the Upper Tana-Nairobi Water Fund (hereafter referred to as the “Water Fund”).

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of Investment Policy is approved and adopted by the Trustees and the Management Board (hereafter referred to as the “Board”) of the Upper Tana-Nairobi Water Fund in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of the Water Fund’s Endowment.
3. Offer guidance and limitations to all investment consultants and investment managers regarding the investment of the Water Fund’s Endowment.
4. Establish a basis for evaluating investment results.
5. Manage the Water Fund’s Endowment according to prudent standards.
6. Establish the relevant investment horizon for which the Water Fund’s Endowment will be managed.

The purpose of this statement is to outline a policy, objectives and guidelines that will guide the investment of the Water Fund’s Endowment toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DELEGATION OF AUTHORITY

The Trustees and the Board of the Upper Tana-Nairobi Water Fund are fiduciaries, they and are responsible for directing and monitoring the management of the Water Fund's Endowment. Articles 6 and 17 of the Water Fund's Trust Deed delegate to the Water Fund's Management Board (the "Board") the authority to select internationally recognised investment consultants or investment managers through a transparent and competitive public tender process, subject to the approval of a Special Majority Vote of the Board.

An **Investment Management Consultant** is a fee-based advisor operating under a non-discretionary arrangement who can provide guidance on portfolio theory, asset allocation, manager search and selection, investment policy and performance measurement. The role of the Investment Management Consultant is to provide independent advice, and the consultant's primary responsibility is to his/her client. Investment Management Consultants can help to review the performance of Investment Managers relative to the investment goals of the client and may give the client advice on which investment managers to hire and fire.

An **investment manager** is a specialist in managing a portfolio or investments in a specific type of asset, such as medium quality corporate bonds, large-cap value equities, or emerging market governments' debt. Mutual fund managers, portfolio managers, and hedge fund managers are examples of this. Investment managers act with their own *discretion* to buy and sell investments or hire other asset managers within the parameters specified by the investment guidelines.

The Board may also direct the Secretariat to hire additional specialists such as custodians, tax attorneys, auditors, and others to assist the trustees and the Management Board in meeting their responsibilities and obligations to administer the Water Fund's endowment prudently.

ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Management Board

The Board shall manage the investment of the assets of the Water Fund solely in the interest of the Water Fund, with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character with like aims. The specific responsibilities of the Board relating to the investment of the Water Fund's assets include:

1. Establishing reasonable and consistent investment objectives, policies and guidelines, which will direct the investment of the assets of the Water Fund's endowment. These are identified in this document.
2. Evaluating the Water Fund's financial needs and communicating those needs to the investment manager on a timely basis.
3. Adhering to all applicable laws and regulations.
4. Prudently and diligently selecting qualified investment professionals, including investment consultants, managers, and custodians.
5. Regularly reviewing at least quarterly (either by the full Board or by the Board's Investment Committee) the performance of the investments to assure adherence to policy guidelines and monitor progress in achieving investment objectives.
6. Developing and enacting proper control procedures with the investment managers or investment management consultants, i.e. replacing investment managers due to fundamental change in the investment management process, deleterious change in personnel at the investment management firms or failure to comply with established guidelines.

Responsibility of the Investment Management Consultant

Investment advice concerning the investment management of Water Fund's assets is offered by an investment management consultant and will be consistent with the investment objectives, policies, guidelines, and constraints as established in this statement. Specific responsibilities of an investment management consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Monitoring the performance of the Water Fund's investments to provide the Board with the ability to determine the progress toward the investment objectives.
3. Discussing matters of investment policy and investment manager performance with the Board or the Board's Investment Committee at least quarterly, either face to face or by conference call or video conference.
4. Reviewing the Water Fund's investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Board.
5. Personally attending at least one meeting of the Board each year to review the past year's progress and discuss issues relevant to the investment management and spending of the Water Fund.

Responsibility of the Investment Manager(s)

Each investment manager will have full discretion to make all investment decisions for the assets placed under its direct management, while observing and operating within all policies, guidelines, and constraints as outlined in this statement. Specific responsibilities of the investment manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors that affect implementation of investment process of the Water Fund's investment management.

4. Informing the Board regarding any qualitative change to the investment manager's organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Instruction on voting of stock proxies, as indicated by the Board of Directors, on behalf of the Water Fund, and communicating such voting records to the Board on a timely basis.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the Water Fund.
2. The Water Fund's assets shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a Water Fund of like character and with like aims.
3. Investment of the Water Fund shall be sufficiently diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to diversify.
4. Cash is to be always employed productively, by investment in short-term cash equivalents to provide safety, liquidity, and return.

INVESTMENT MANAGEMENT POLICY

1. Preservation of Purchasing Power - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve the Endowment's capital, understanding that losses may occur in individual securities and that accounts in more volatile asset classes will fluctuate in value. Preservation of capital for this purpose means preserving principal plus achieving growth in excess of the rate of inflation.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Water Fund's objectives. However, investment managers employed by the Water Fund are to make reasonable efforts to control risk and will be evaluated regularly by the Board to ensure that the risk assumed is commensurate with the given investment style and objectives.

3. Adherence to Investment Philosophy - Investment managers are expected to adhere to the investment management philosophies for which they were hired. Managers will be evaluated for adherence to those investment philosophies.

GOAL OF THE FUND

The Board believes that the Water Fund's Endowment is intended to exist in perpetuity, and therefore, should provide for grant making in perpetuity. To attain this goal, the long-term objective of the Water Fund is to maintain the Endowment's purchasing power, and when possible to increase the Endowment's capital in excess of inflation. That is, net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the Endowment's investment horizon. Performance will be benchmarked against relevant index measures to provide a comparative framework. The primary goal is positive absolute return in order to fulfill the purposes of the Water Fund, cover the Water Fund's expenses, and compensate for long-term inflation.

DISBURSEMENT POLICY

The Board will set disbursement of up to 5% of the previous three years' average portfolio value determined at the end of each fiscal year minus new donations received, and minus the rate of inflation for each currency in which the Water Fund's investments are made.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Water Fund will emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

The primary objective in the investment management of the Water Fund's assets shall be:

To Provide Current Income – a quarterly draw will be made from the portfolio to finance the regular spending needs of the Water Fund.

The secondary objective in the investment management of Water Fund's assets shall be:

Preservation of Purchasing Power After Spending - to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of the Water Fund's assets. Risk control is an important element in the investment of the Water Fund's assets.

SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, the goal of investing the Water Fund's aggregate assets is to meet or exceed the following return net of investment fees and expenses:

An absolute rate of return of 6% measured in US dollars, using a three-year rolling average.

The investment goal above is the objective of the aggregate Water Fund, and is not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

- 1. Meet or exceed the market index or blended market index agreed upon by the Board that most closely corresponds to the investment manager's philosophy of investment management.**
- 2. Display an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.**

DEFINITION OF RISK

The Board realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Water Fund's assets understands how it defines risk so that the assets are managed in a manner consistent with the Water Fund's objectives and investment strategy.

The Board defines risk primarily as:

Not maintaining purchasing power over the Water Fund's investment time horizon. Purchasing power is defined as value of principal adjusted for US dollar-denominated inflation.

The Board of Directors defines risk secondarily as:

Unacceptable fluctuation in the value of Water Fund's assets during a one-year period. This is defined as an 8% down or 20% up change in value (measured in US dollars) over a one-year time horizon. Either limit, if exceeded, will indicate that the portfolio is subject to excessive volatility risk. When the measure is triggered it will require a complete review of investment strategy with the investment consultant and/or investment managers. Some level of corrective action is required to prevent further out-of limits volatility.

LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Board will periodically provide the investment manager with an estimate of expected net cash flow. The Board will notify the investment manager in a timely manner, to allow sufficient time to build up necessary liquid reserves.

To maintain the ability to deal with unplanned cash requirements that might arise, the Board requires that a minimum of ½ of 1% of Water Fund's assets shall be maintained in cash or cash equivalents, including money market funds or short-term Treasury Bills.

MARKETABILITY OF ASSETS

The Board requires that 90% or more of Water Fund's assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Water Fund, with minimal impact on market price.

INVESTMENT GUIDELINES

Allowable Asset Classes include the following financial instruments issued by national governments or private sector institutions:

1. Cash Equivalents allowed:
 - Government Treasury Bills
 - Money Market Funds
 - Certificates of Deposit

2. Fixed Income Securities allowed include the following:
 - Fixed Income Securities rated B or higher by Moody's or Standard & Poor's

- Corporate Notes and Bonds and Preferred Stock of companies rated B+++ or higher by Moody's or Standard & Poor's
3. Equity Securities allowed include the following:
 - Stocks of Companies rated B or higher by Moody's or Standard & Poor's (Ordinary Shares)
 - Convertible Notes and Bonds and Convertible Preferred Stock of companies rated B or higher by Moody's or Standard & Poor's
 4. Mutual Water Funds allowed include the following:
 - Open-end Mutual Water Funds that invest in securities as allowed in this statement
 - Closed-end Mutual Water Funds that invest in securities as allowed in this statement
 5. Alternative Investments allowed include the following:
 - Guaranteed Investment Contracts (GICs)
 - Highly diversified Real Estate Investment Funds

Prohibited Asset Classes

Prohibited investments include, but are not limited to the following:

1. Derivative Securities (defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities)
2. Hedge Funds
3. Commodities and Futures Contracts
4. Private Placements
5. Options
6. Private, Non-registered Limited Partnerships
7. Venture-Capital Investments

Social and Environmental Screening

Companies and industry categories may be excluded from investment due to social or environmental screening preferences. The Board may instruct the Investment Managers to impose screening on the management of assets including the exclusion of investment due to social and environmental preferences. This is to be done on a "best efforts" basis. Any such requirements will be agreed upon by the Board and conveyed in writing to the investment managers, who will be responsible for assuring compliance for all investments made by investment managers on behalf of the Water Fund.

Asset Allocation Guidelines

Investment management of the assets of the Water Fund shall be in accordance with the following asset allocation guidelines:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities	30%	70%	55%
Fixed Income	20%	60%	35%
Alternative Investments	0%	10%	5%
Cash and Equivalents	.5 of 1%	20%	5%

2. The Board may employ investment managers whose investment philosophies require investment outside the above asset allocation guidelines. However, taken as a component of the aggregate Water Fund, such investment philosophies must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the Board of Directors regarding specific objectives and guidelines.
3. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Board will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible.

Diversification for Investment Managers

It is not necessary that securities held in the Water Fund represent a cross section of the world economy. However, in order to achieve a prudent level of portfolio diversification, the equity securities of any one company should not exceed 3% of the Endowment's total assets, and no more than 20% of the Endowment's total assets should be invested in any one industry.

Currency Exposure Management

The Water Fund's Board or its Investment Committee will carefully monitor the exposure of the Water Fund to different currencies. The value of the Water Fund's assets will be reported to the Board in both U.S. dollars and Kenyan Shillings. The Water Fund's Board may decide to diversify exposure to different currencies in order to protect the value of the Water Fund's assets, with the objective of maintaining global purchasing power. No more than 30% of the value of the total Water Fund should be invested in investments denominated in Kenyan shillings. In general, over 70% of the Water Fund's investments should be denominated in US dollars or other currencies of OECD countries.

Guidelines for Fixed Income Investments and Cash Equivalents

1. Water Fund's assets may be invested only in investment grade bonds rated B (or equivalent) or better. High-Yield Bond and Convertible Bond Investments up to 5% of portfolio value are exempt from this requirement and allowable but must be managed by a well-established firm with a high degree of capability in credit analysis and invested in a portfolio with a record of competent credit management.
2. Fixed income maturity restrictions are as follows:
 - Maximum maturity for any single security is 30 years.
 - Weighted average portfolio maturity may not exceed 15 years.
3. Money Market Water Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's and/or Moody's.

SELECTION OF INVESTMENT MANAGEMENT CONSULTANTS

The Board's selection of investment management consultants must be based on prudent due diligence procedures. A qualifying investment management consultant must be a bank or insurance company, or if in the United States, a registered investment advisor under the US Investment Advisors Act of 1940.

INVESTMENT CONSULTANT AND INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the investment consultant and investment managers shall be compiled quarterly and communicated to the Board for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks.

Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate investment managers and investment management consultants for any reason including the following:

1. Investment performance that is significantly less than anticipated given the investment philosophy employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.

3. Significant qualitative changes to the investment management organization.

Investment managers and investment management consultants shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status, and capital markets expectations as established in this framework statement of investment policy, the Board shall review investment policy at least annually.

This statement of investment policy is adopted on _____, 2021 by the Management Board of the Upper Tana – Nairobi Water Fund Trust.