



**ALLIANCE HIGH SCHOOL
ENDOWMENT FUND TRUST**

Investment Policy Statement

This Investment Policy Statement (“Policy”) is intended to govern the investment practices of the assets of the Alliance High School Endowment Fund Trust (“AHSEFT”), so that all individuals with either direct or indirect responsibility may understand and manage AHSEFT investment assets, hereafter referred to as the “Funds”.

Investment Committee

Version 1.0

Adopted: [15/09/2018]

A. POLICY STATEMENT

Funds' assets will be managed on a total return basis while taking into account the level of liquidity required. The Investment Committee ('IC') recognizes the importance of the long-term preservation of capital, the IC also adheres to the principle that varying degrees of investment risk are generally rewarded with commensurate returns over the long term. Therefore, investments with different types and degrees of risk are appropriate for the Funds, provided that such risks are regularly identified and managed.

B. AHSEFT'S FINANCIAL ASSETS

AHSEFT's financial assets consist or will consist of:

- 1) funds intended to be used to cover its short-term operating expenses (the "**Operating Fund**"),
- 2) funds to be held in reserve to support AHSEFT's future operations, serve as a resource during economic downturns or provide an additional source of income to support and further AHSEFT's mission (the "**Reserve Funds**"),
- 3) funds which have been restricted by the donor or AHSEFT's Board of Trustees (the "Board of Trustees" or the "Trustees") for a specific purpose, but which do not have a restriction as to the timing of their expenditure (the "**Restricted Funds**"), and
- 4) funds received by the AHSEFT pursuant to a gift instrument¹ that are not wholly expendable by the AHSEFT on a current basis (the "**Endowment Funds**" and together with the "Operating & Program Fund," the "Reserve Funds" and the "Restricted Funds," the "**Funds**").

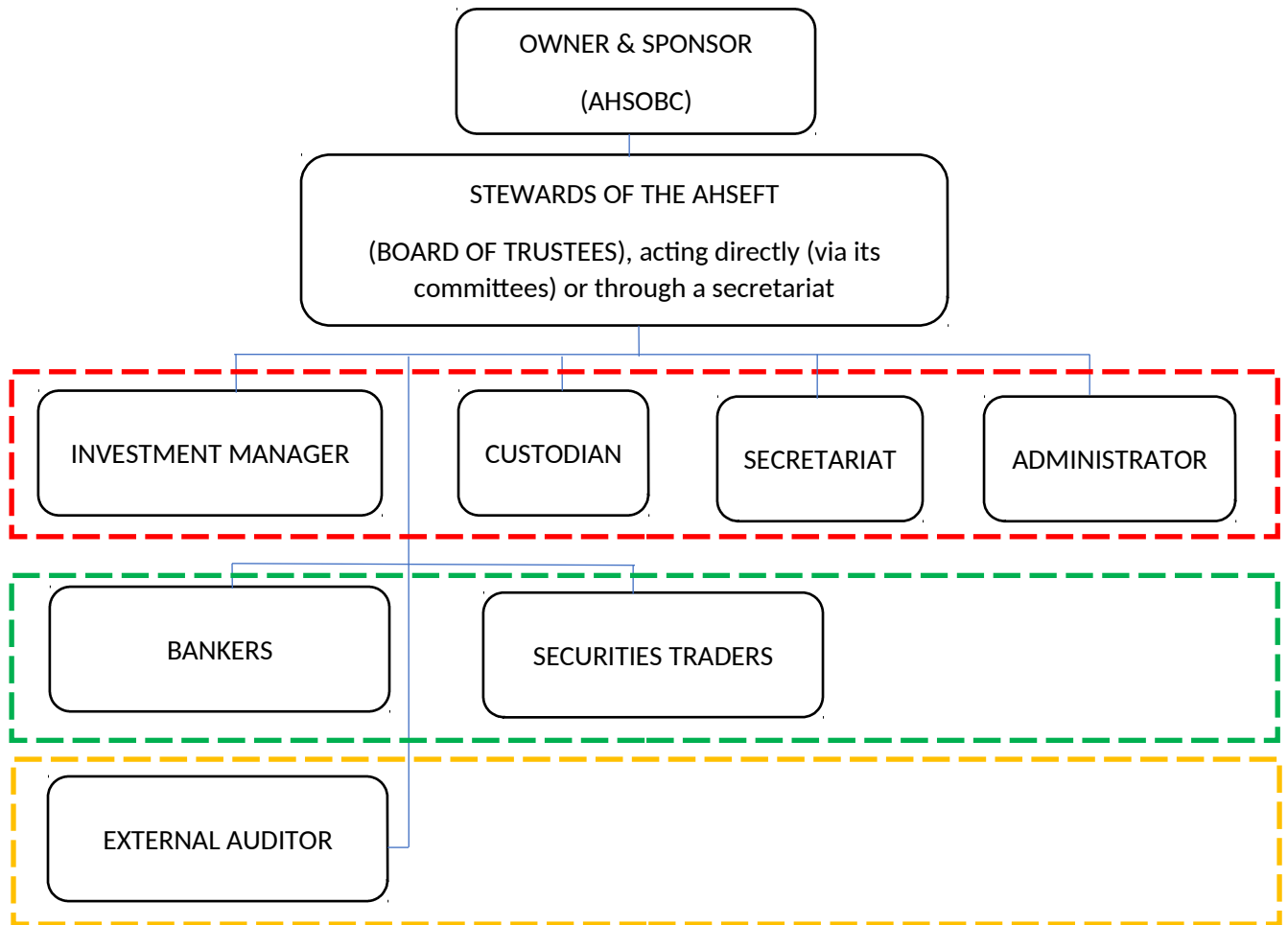
Financial assets subject to a specific donor restriction as to the investment, management, use or expenditure of such assets shall be invested, managed, used and spent in accordance with the donor's restriction.

¹ In the context of an endowment fund, a gift instrument may be:

- i. a gift agreement between the donor and AHSEFT creating or contributing to an endowment fund;
- ii. AHSEFT's solicitation materials in which AHSEFT represents that funds received from the solicitation will be endowed funds;
- iii. minutes of a Board of Trustees meeting at which a donor's gift of endowed funds is announced; or
- iv. any other record under which a fund is granted, transferred or conveyed to AHSEFT containing a directive from the donor that makes the fund an endowment.

Note: Funds that are not restricted as to expenditure under the terms of a gift instrument but have been so restricted by action of the AHSEFT's Board of Trustees are not endowment funds (but rather, restricted funds).

C. ROLES AND RESPONSIBILITIES



1. Owner & Sponsor

The Alliance High School Old Boys Club is the founder, ultimate owner of the AHSEFT, and therefore owns the assets of and bears the liabilities of the AHSEFT.

2. Stewards

The Board of Trustees of the AHSEFT has the responsibility of among others:

- i. Mobilizing funds for the Funds;
- ii. Investing the assets of the Funds;
- iii. Regulating spending from the Funds;
- iv. Ensuring that the Funds comply with all legal and regulatory requirements; and
- v. Reporting to stakeholders of the Funds.

a) Responsibilities of the Board of Directors in Managing and Investing AHSEFT's Financial Assets

In managing the financial assets of AHSEFT, the Board of Trustees will act in good faith and with the care an ordinarily prudent person in like position would exercise under similar circumstances. When making investment and management decisions, the Board shall consider AHSEFT's purposes, as well as the purposes of the specific Funds.

In making decisions regarding management and investment of AHSEFT's financial assets, the Board of Trustees, as may be required by any applicable law, shall consider the following factors, if relevant:

- i. general economic conditions;
- ii. the possible effect of inflation or deflation;
- iii. the expected tax consequences, if any, of investment decisions or strategies;
- iv. the role that each investment or course of action plays within the overall investment portfolio of the specific Fund;
- v. the expected total return from income and the appreciation of its investments;
- vi. other resources of the AHSEFT;
- vii. the needs of AHSEFT and the specific Fund to make distributions and to preserve capital; and
- viii. an asset's special relationship or special value, if any, to the purposes of AHSEFT.

The Board of Trustees shall not make management and investment decisions regarding an individual asset in isolation but rather in the context of the specific Fund's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Fund and AHSEFT. The Board shall make reasonable efforts to verify facts relevant to the management and investment of the Funds and may incur only costs that are appropriate and reasonable in relation to the assets, the purpose of AHSEFT and the skills available to AHSEFT.

Within a reasonable time after AHSEFT's receipt of a gift of property or other financial assets, the Board shall make and carry out decisions regarding retaining or disposing of the property, or the rebalancing of the Fund or Funds applicable to such gift in order to ensure compliance with the purposes, terms, and distribution requirements of AHSEFT (including the diversification requirements and other aspects of this policy) as necessary to meet other circumstances of AHSEFT and the requirements of applicable law, subject to any restrictions imposed by the terms of the gift.

The Board may delegate one or more of its responsibilities with respect to the management and investment of AHSEFT's financial assets to a committee of the Board or an officer or employee of AHSEFT. Any such committee or individual to whom such responsibility is delegated shall report to the Board on a regular basis and shall be subject to direction by the Board.

If such responsibilities are delegated to a committee or individual, the rights and obligations set forth in this policy applicable to the Board (other than the right to amend this policy) shall also apply to such committee or individual, subject to the right of the Board to review and revise any decision of such committee or individual, and reports required under this policy to be made to the Board may instead be made to the committee or individual, which or who shall in turn report to the Board on a regular basis.

b) Delegation of Management and Investment Authority to an External Agent

To the extent it considers prudent, the Board may delegate management and investment decisions to one or more external agents, such as a bank, investment advisor, investment manager or custodian, except where prohibited by the terms of a gift instrument.

The Board will act in good faith and with the care an ordinarily prudent person in like position would exercise under similar circumstances in:

- i. selecting, continuing or terminating any external agent (including assessing the agent's independence, including any conflicts of interest such agent has or may have²;
- ii. establishing the scope and terms of the delegation, including the compensation to be paid; and
- iii. monitoring the agent's performance and compliance with the scope and terms of the delegation.

The Board, in making the decision as to whether to delegate such functions to a specific external agent, shall conduct such due diligence as the Board deems appropriate, such as reviewing information regarding the external agent's experience, personnel, track record and proposed compensation as compared to appropriate peers.

Any external agent to which management and investment authority is delegated owes a duty to AHSEFT to exercise reasonable care, skill and caution to comply with the scope and terms of the delegation.

Any external agents shall provide the Board with reports on investment performance on a quarterly basis, at a minimum, and more frequently if so requested by the Board. The Board will assess at least annually the performance and independence of any external agent, including any conflicts of interest it may have.

Any actual or potential conflicts of interest involving a member of the Board or officer or key employee of AHSEFT with respect to the external agent must be disclosed and resolved pursuant to the AHSEFT's conflict of interest policy and any conflicts of interest the agent may have involving service to the AHSEFT must also be disclosed to AHSEFT.

Any contract between AHSEFT and an external agent involving delegation of investment authority shall be terminable by the AHSEFT at any time, without penalty, upon no more than 60 days' notice.

The Board of Trustees will also review from time to time the Corporation's arrangements with any investment managers, investment advisors, custodians and the banks and other entities with which the AHSEFT maintains its financial assets to ensure that the costs and fees associated with each such arrangement are appropriate and reasonable in relation to the assets, AHSEFT's purposes and the skills available to AHSEFT.

AHSEFT will seek to ensure that any investment managers retained by AHSEFT invest AHSEFT's investment assets in accordance with this policy and any specific guidelines for the investment manager established by the Board of Trustees, which may include return and risk expectations, asset allocations and investment strategies (including allowed and prohibited investments). Specific guidelines established for investment managers will be reviewed from time to time by the Board of Trustees and

² For example, the Board of Trustees should consider whether any trustee, officer or key employee has any business or personal relationships with the external agent that the Board might reasonably expect to interfere with the Board's ability to properly monitor or assess the external agent's performance or receive independent investment advice from the external agent.

revised as necessary. Decisions as to the selection of individual investments, security size and quality, number of industries and holdings shall be left to the broad discretion of the investment manager, within the limits set forth in this policy and any specific guidelines established by the Board.

3. Investment Committee

The Investment Committee (“IC”) is a committee of the Board of Trustees that is authorized by the Board of Trustees of AHSEFT to act on its behalf subject to this Policy Statement.

The Investment Committee, in turn, is authorized to delegate certain responsibilities to professional experts in various fields, including the flexibility to retain, terminate, or replace an external Investment Manager(s) (“IM”). This delegation of authority allows for sufficient flexibility in the management process to capture investment opportunities as they arise.

The IC is responsible for:

- a) Establishing and maintaining the Investment Policy Statement and Target Asset Allocation.
- b) Monitoring the performance and risk profile of the Funds.
- c) Reviewing the external IM’s implementation of the investment program.
- d) Hiring, terminating, or replacing the external IM.
- e) Reviewing and addressing all potential conflicts of interest.
- f) Selecting, rebalancing, terminating, and making tactical shifts to allocations to the IM.
- g) Continuous review of the appropriateness of AHSEFT’s investment strategies, philosophies, and objectives.
- h) Monitoring the investment performance compared to the benchmark established for the IM.
- i) Overseeing AHSEFT investment assets and reporting on the status of the investments to the Board of Trustees

4. Investment Manager

The external IM is responsible for:

- a) Selecting, rebalancing, terminating, and making tactical shifts to allocations to the IM.
- b) Continuous review of the appropriateness of AHSEFT’s investment strategies, philosophies, and objectives.
- c) Monitoring the investment performance compared to the benchmark established for the IM.
- d) Overseeing AHSEFT investment assets and reporting on the status of the investments to the Board of Trustees.

5. Custodian

The Custodian shall keep custody of all of the Funds’ assets.

AHSEFT shall, directly or through the IM, appoint a custodian from among suitably qualified institutions licensed by the Capital Markets Authority of Kenya and Retirement Benefits Authority of Kenya to provide financial assets custodial services.

The Custodian may not be related, through equity ownership of common ownership, to the IM.

The Custodian’s mandate will be documented in a suitably structured custodial services agreement.

6. Administrator

The Administrator shall keep record of all of the Funds' transactions, and facilitate reporting of performance of the Funds to the Trustees and other stakeholders (including benefactors).

AHSEFT shall, directly or through the IM, appoint an administrator from among suitably qualified institutions licensed by the Capital Markets Authority of Kenya and Retirement Benefits Authority of Kenya to provide fund administration services.

The Administrator may not be related, through equity ownership of common ownership, to the IM.

The Administrator's mandate will be documented in a suitably structured fund administration services agreement.

7. Secretariat

The Trustees may create or higher the services of a secretariat to assist them run the day to day operations of the AHSEFT, including but not limited to:

- a) Communication;
- b) Liaison with service providers and stakeholders; and
- c) Running meetings of the AHSEFT.

8. Bankers

Bankers to the AHEFT and its Funds shall provide customary banking services as may be required by AHSEFT and its Funds.

AHSEFT shall, directly or through the IM, appoint bankers from among institutions licensed by the Central Bank of Kenya.

9. Securities Traders

Providers of securities trading services to the AHEFT and its Funds shall provide securities trading services as may be required by AHSEFT and its Funds.

AHSEFT shall, directly or through the IM, appoint securities traders from among institutions licensed by the Capital Markets Authority of Kenya.

The Administrator's mandate will be documented in a suitably securities trading services agreement.

10. External Auditor

An independent financial auditor shall be appointed to audited the financial records and statements of AHSEFT and its Funds.

AHSEFT shall appoint an auditor from among firms or individuals who hold appropriate qualifications and are members of good standing with the Institute of Certified Public Accountants of Kenya.

The external auditor must be independent of the AHSEFT, the Trustees and any individual or firm (and its directors and officers) that provides services to the AHSEFT and its Funds.

The external auditor's mandate will be documented in a suitably structured mandate letter.

D. Investment and Management Objectives and Guidelines

1) Operating Fund

The Operating Fund shall be invested with the objective of preserving its assets to cover operating expenses and realizing earnings in a way that allows for immediate liquidity to meet the AHSEFT's ongoing operational needs.

Operating Fund assets may be maintained in the current (or similar) account that AHSEFT uses for day-to-day operations and may be invested in other cash-equivalent investments, such as:

- a) savings accounts;
- b) money market accounts;
- c) bank deposits with maturities appropriate for expected needs;
- d) Treasury bills and other investments that are relatively easy to liquidate.

AHSEFT's IC and secretariat from time to time will review the allocation (or the methodology of allocation) of Operating Fund assets between AHSEFT's current account and its other cash-equivalent investments, determining the appropriate allocation based on AHSEFT's cash-flow needs, and regularly report such allocation to the Board.

The Board may direct that changes be made to such allocation and will also consider from time to time whether AHSEFT's Operating Fund assets are sufficient to allow for the designation of a portion of such assets to the Reserve Funds.

2) Reserve Funds

The Reserve Funds shall be invested with the objective of preserving the long-term real purchasing power of the Funds' assets while realizing appropriate investment income.

Reserve Funds' assets may be invested in:

- a) Bank deposits;
- b) Treasury bills;
- c) mutual funds;
- d) equities traded on a Kenyan public exchange but excluding stocks not publicly traded on a Kenyan exchange, preferred stock and convertible securities;
- e) fixed income securities, and;
- f) cash equivalent investments.

The asset allocation of each of the Reserve Funds shall be determined from time to time by the Board of Trustees, in consultation with any managers or advisors if desired, which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

3) Restricted Funds

The Restricted Funds shall be invested with the objective of preserving and enhancing the purchasing power of the Funds' assets while ensuring that liquidity requirements can be met.

Restricted Funds' assets may be invested in:

- a) Bank deposits;
- b) Treasury bills;
- c) mutual funds;
- d) equities traded on a Kenyan public exchange but excluding stocks not publicly traded on a Kenyan exchange, preferred stock and convertible securities;
- e) fixed income securities, and;
- f) cash equivalent investments.

The asset allocation of each of the Restricted Funds shall be determined from time to time by the Board of Trustees, in consultation with any managers or advisors if desired, which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

4) Endowment Funds

The Endowment Funds shall be invested with the objective of preserving the long-term real purchasing power of the Funds' assets while realizing appropriate investment income.

Endowment Fund assets may be invested in:

- a) Bank deposits;
- b) Treasury bills;
- c) Commercial paper;
- d) Mutual funds;
- e) Equities (including common stock, preferred stock, convertible securities and other equities, whether traded on an exchange or not publicly traded);
- f) Fixed income securities;
- g) Real estate;
- h) Commodities;
- i) Natural-resource related stock;
- j) Hedge funds;
- k) Derivatives;
- l) Alternate investment vehicles, and;
- m) cash equivalent investments.

The asset allocation of each of the Endowment Funds shall be determined from time to time by the Board of Trustees, in consultation with any managers or advisors if desired, which allocation shall reflect a proper balance of such Fund's investment objective, any risk tolerance standard and the need for liquidity.

1. Return targets

The expected return objective for the Funds, measured over rolling three-year and five-year periods, is to provide an annualized total return, net of fees, of:

- a) **2.5%** over the rate of inflation (as measured by the Consumer Price Inflation (“CPI”)) for the Operating Fund.
- b) **5%** over the rate of inflation (as measured by the CPI) for Reserve Funds.
- c) **5%** over the rate of inflation (as measured by the (CPI) for Restricted Funds.
- d) **7.5%** over the rate of inflation (as measured by the CPI) for Endowment Funds.

The Investment Committee has set an additional goal of outperforming, net of all investment expenses, a composite market index which best represents the target asset allocation of the Endowment’s overall investment structure.

| | Fund | Index Composition |
|----|------------------|---|
| a) | Operating Fund | i. 100% : 3-month T-bills |
| b) | Reserve Funds | i. 30%: 3-month T-bills ii. 35% : GoK 10 year Treasury Bonds iii. 35% NSE 20-Share Index |
| c) | Restricted Funds | i. 30% : 3-month T-bills ii. 35% : GoK 10 year Treasury Bonds iii. 35% NSE 20-Share Index |
| d) | Endowment Funds | i. 30% : 3-month T-bills ii. 35% : GoK 10 year Treasury Bonds iii. 35% NSE 20-Share Index |

2. Risk

The Funds should experience risk as measured by volatility or variability of return not materially higher than that of the composite benchmark as defined above.

The investment goals above are the objectives of the respective Funds, and may not be imposed on each Investment Manager (if there is more than one).

E. Asset Allocation

Diversification across asset classes is a core principle of prudent portfolio management. The Investment Committee will evaluate asset allocation targets and ranges for the Funds and will review each annually.

Certain asset classes require substantial time to adjust levels, particularly private equity and real assets, as well as multi-strategy mandates. Consequently, implementation of adjustments to targets and ranges may require several years to achieve.

This policy recognizes that in their earlier stages, when the Funds might be small, it might not be feasible to allocate money across all the asset classes recommended for the Fund in question. In that case, the Trustees/IC working with the IM where appropriate will determine the next best alternative, guided by the principles of capital conservation, need for a return and risk minimization.

1) Endowment Funds - Target Asset Allocation

| | Minimum % | Maximum % | Target % |
|---|-----------|-----------|----------|
| Cash and Equivalents (bank deposits, Treasury Bills, Corporate Paper etc) | 5% | 20% | 10% |
| Fixed Income - Corporate | 5% | 15% | 10% |
| Fixed Income - Treasury | 5% | 30% | 20% |
| Listed Equities | 20% | 50% | 30% |
| Real Assets | 0% | 30% | 20% |
| Others - Private Equity, Mutual Funds etc | 0% | 15% | 10% |

2) Restricted Funds & Reserve Funds - Target Asset Allocation

| | Minimum % | Maximum % | Target % |
|--|-----------|-----------|----------|
| Cash and Equivalents (bank deposits, Treasury Bills etc) | 5% | 30% | 20% |
| Fixed Income - Corporate | 5% | 20% | 15% |
| Fixed Income - Treasury | 5% | 40% | 25% |
| Listed Equities | 20% | 50% | 30% |
| Others - Mutual Funds etc | 0% | 15% | 10% |

3) Operating Fund - Target Asset Allocation

| | Minimum % | Maximum % | Target % |
|--|-----------|-----------|----------|
| Cash and Equivalents (savings accounts, money market accounts, bank deposits with maturities appropriate for expected needs and Treasury bills and other investments that are relatively easy to liquidate.) | 100% | 100% | 100% |

F. Other Important Guidelines

1) Asset Class Guidelines

- a) **Cash** is intended to serve as the principal source of liquidity for operating cash flow for the Funds. It will be invested in only the safest assets including Treasury bills, or very safe money market

instruments that focus on Treasury bills and equivalents. The focus is on safe, highly liquid assets as opposed to generating significant yield.

- b) The purposes of the **Fixed Income** allocation are to:
 - i. provide current income to support operating cash flow; and
 - ii. to create some measure of diversification.

As a result, both credit quality and preservation of principal are a core emphasis of this allocation. A current risk for cash and high quality fixed income is the possibility of negative real returns, or returns which are less than the rate of inflation.

- c) The purpose of the allocation to **Listed Equities** is to provide long-term capital appreciation. Equity managers will be selected with the objective of building a portfolio that is diversified by economic sector, industry, and market capitalization.
- d) The **Hedge Fund** allocation may include investments commonly characterized as “absolute return strategies” and long/short “equity hedge” strategies. Investments in Alternative Assets are generally subject to an initial lock-up of 12 to 24 months or longer and thereafter investors can typically withdraw quarterly or annually with advance notice. Over time, Alternative Assets should generate returns comparable to long-term equity markets but with somewhat lower volatility than equity markets.
- e) **Private Equity** investments encompass diverse strategies including: buyout, growth, venture capital, and control-oriented distressed. These illiquid investments generally have four-to six-year investment periods and approximately 10-year fund lives. Given their illiquidity, private investments are expected to generate higher returns than public market strategies.
- f) **Real Assets** investments may include private real estate, energy, timber, and commodities. Private real estate is comprised of commercial properties in various operating segments, primarily office, retail, hotel, industrial, and multi-family.

2) Cash Flows and Rebalancing

Interest and dividends generated by Trustees and/or Investment Managers will generally be re-invested according to the Trustees’ and/or Investment Manager’s mandate. The IC will be responsible for making choices about additions or withdrawals to or from different Investment Managers.

3) Meeting Schedule

The IC and the IM will meet in person or via conference call to review the performance and Funds’ compliance with objectives and guidelines at least four times per year.

4) Conflict of Interest Policy

Any situation which brings to mind the question of a possible conflict of interest should be brought to the attention of the Investment Committee; members should be sensitive to even the appearance of impropriety.

Generally, a conflict of interest exists whenever litigation, a contract, or other relationship being entered into, reviewed, or modified is:

- a) Between AHSEFT and the member, or the employer, business partner, or immediate family of the member; or

- b) Between AHSEFT and an organization in which the member's employer, business partner, or immediate family is director, officer, or legal representative, or has a material financial interest.

A conflict of interest does not arise simply because directors or members of their families are incidentally benefited as members of a class of persons entitled to benefit from a transaction, policy, or program consistent with purposes and accomplished in good faith.

For these purposes, "family" includes parents, siblings, children, grandchildren, and their spouses.

This policy is not intended to prohibit investing with any firms or investment managers with whom a Board Member or Committee Member is affiliated; rather such relationships must be disclosed and the affiliated Board or Committee Member should recuse himself from any decisions pertaining to the affiliated firm.

5) Policy Review

This Investment Policy Statement will be reviewed annually by the Investment Committee and be either reaffirmed or amended.