

THE SETTLEMENT GUARANTEE FUND INVESTMENT POLICY STATEMENT

Policy Statement

This Policy is intended to assist the Guarantee Fund and CDSC in effectively managing, supervising, monitoring, and evaluating the management of the assets in the Fund. The Guarantee Fund and its stakeholders understand that past performance is no guarantee of future performance, and that achievement of investment goals and objectives is properly measured against the stated objectives of the Fund and not against short-term market fluctuations.

Establishment of the Fund

The Guarantee Fund was established under section 60B and managed pursuant to the Rules established by Section 5A of the Central Depositories Act, 2000 (the Act). Under section 60B(2) of the Act, the Fund shall consist of:

- (a) Initial contributions by Central Depository Agents (CDAs) as set out in the Guarantee Fund Procedures.
- (b) A levy for every transaction on the securities exchange of which CDSC is the central depository.
- (c) a variable risk-based contribution, to be determined by the central depository, in consultation with the Authority, and payable by central depository agents who are involved in settlement.
- (d) all penalties and fines imposed by a central depository under the Act.
- (e) such sums of money as may accrue from interest and profits from investing the moneys of the Fund.
- (f) such revenue from contributions of a central depository as its Board of Directors may, from time to time, determine.
- (g) such other funds as the Board of the central depository may, with the approval of the Authority, determine.

The main purpose and core objective of the Fund is to guarantee funds settlement for participants in instances of inability to meet settlement obligations.

Management of the Fund

The Fund is established, managed, and duly registered as a Trust. Pursuant to Section 60C of the Act, Central Depository and Settlement Corporation (CDSC) Ltd is the Corporate Trustee, which has put in place a Guarantee Fund Investment Policy, which is intended to assist the Fund Administrator in effectively managing, supervising, monitoring, and evaluating the management of the assets in the Fund.

Investment Objectives

The Fund shall be invested for the Short to Medium-term tenor; it is understood that this should mean an investment horizon of not more than 5 years.

Return Target

The Fund Administrator shall aim to preserve and grow participants' investments; the Fund shall aim to deliver a return higher than 5% annualized gain and the prevailing average Kenya inflation rate over 12 months.

Asset Allocations

The asset allocation policy shall reflect a proper balance between the Fund's financial and investment objectives, risk tolerance, and need for liquidity. The asset allocation policy adopted by the Fund for its investments specifies diversification by institutions, investment products, and the economic sector. The purpose of diversification is to provide reasonable assurance that no institution, class of assets, or individual holding will have a disproportionate impact on the Fund's aggregate results.

Decisions as to individual asset class selection, institutions, and quality will be left to fund administrator discretion, subject to this policy and standards of fiduciary prudence.

To achieve investment objectives, the Fund shall be invested primarily in Government securities, Tier 1 commercial bank deposits (fixed and call), and other money market instruments as approved by the Trustee. Investments in any foreign currency, speculative or long-term assets (such as equity) are prohibited unless specifically approved by the Trustee.

Borrowing Power

The Fund or Fund Administrator, with the approval of the Trustee, is allowed to borrow/secure a facility from a bank to caution against delays in selling or immediate liquidation of money and capital market instruments in case of settlement failure.

Investment Concentration

The purpose of diversification by the fund administrator is to provide reasonable assurance that no investment could have a disproportionately negative impact on the Fund's aggregate results. Therefore, exposure to a single financial institution will be limited to 30% of the Fund assets.

Investment in Government Securities will not be subject to the 30% upper limit. The fund administrator may invest up to 50% of the investible funds in Government Securities (Bills and Bonds), subject to approval by the Trustee.

Investment Rebalancing

The portfolio's actual asset allocation can vary from its target allocation as a result of the varying periodic returns earned on its investments or any other reason. The fund administrator will review the portfolio regularly to determine any deviation from target weightings.

Fund Administration Fee

The Fund administrator will charge a fund administration fee to manage the Fund. No fund administration fee will be deducted from invested funds.

Fund reporting

The Fund Administrator shall report to the performance of the Fund on a quarterly basis to the Trustee and the CDAs. Additionally, the Act requires that the Fund be independently audited annually.

The CDSC Guarantee Fund shall, on an annual basis formally declare an annual return in which the CDAs' contributions to the GF accrue income but the fund can only be paid or drawn by CDAs upon liquidation or withdrawal from participation in the trading activities as per Rule 13(2) of the Central Depositories (Guarantee Fund) Rules 2019.

Review and Revision of Investment Policy

The fund administrator shall review the Investment Policy document every two years or sooner as may be necessary.