

# **FARMERS CHOICE NON-WITHDRAWABLE DEPOSIT TAKING SACCO LIMITED**

## **INVESTMENT POLICY**

## Table of Contents

DEFINITIONS AND ACRONYMS.....	5
Definitions.....	5
1.0 Purpose.....	7
1.2 Objectives.....	7
2.0 Scope of the Policy.....	7
3.0 Investment Risk.....	8
<b>3.1 Investment Risk Management.....</b>	<b>8</b>
4.0 General Policies and Procedures.....	9
5.0 Investment Considerations.....	10
6.0 Roles & Responsibilities.....	10
6.1 Investment committee.....	10
6.2 Chief Executive Officer.....	11
6.3 Liquid Assets.....	11
6.4 Shares and Stocks.....	12
6.5 Property/Real Estate.....	13
6.6 Disposal of investments.....	13
6.7 Limits on Property, Equipment and Financial Assets.....	13
6.8 Compliance with Investment Policy.....	14
6.9 Restricted investment transactions.....	14
7.0 Prohibited Investments.....	14
8.0 Investments return.....	15
9.0 Measuring Performance and Reviewing.....	15

6.0 Overall Investment Principles.....	15
7.0 REVIEW.....	15
8.0 AFFIRMATION.....	16

## DEFINITIONS AND ACRONYMS

### Definitions

**Investment** means acquisition by own or borrowed funds of long-term assets, intended for promotion of the economic interests of the Society and its members.

**Board of Directors**, in this document, shall refer to the Board of Directors elected by members of Farmers Choice Non-Withdrawable Deposit Taking SACCO to oversee the running of the Society on their behalf.

**Management**, in this document, shall refer to the staff in higher position executing official tasks for the SACCO.

**Procedure** is a specific administrative directive prescribing the process or sequential manner in which a repetitive activity has to be initiated, carried out and completed in a goal-oriented manner.

**Policy** is a guideline for making decisions and taking actions. It designates the authority on which a decision can be made to the relevant organs or persons who shall be responsible and accountable for those actions. They are meant to save time in decision making, encourage faith in the organization, aid continuity, provide uniformity and consistency and assign responsibility and accountability.

## **Acronyms**

- 1.** SASRA: SACCO Societies Regulatory Authority
- 2.** BOSA: Back Office Service Activities
- 3.** Board: Board of Directors
- 4.** CEO: Chief Executive Officer
- 5.** FM: Finance Manager
- 6.** SLY Safety, Liquidity and Yield

## **1.0 Purpose**

In compliance with the Sacco Societies (Non-Deposit Taking Business) Regulations 2020, the Board of Directors of Farmers Choice Non-Withdrawable Deposit Taking Sacco (the society) has developed this investment policy. This investment policy aims at providing a framework that fosters adherence to prudent decision making, observance of the principles of effective risk management, as well as adherence to the philosophy of safety, liquidity, and yield (SLY) in all investment decisions and activities. The policy also aims at ensuring that

- i. Investment and liquidity risks are effectively mitigated.
- ii. Safety is achieved by restricting investment activities to only those financial instruments that possess little or no credit risk.
- iii. Optimal risk/return balance is achieved.

## **1.2 Objectives**

The objectives of this Investment Policy are to;

- i) Ensure compliance with the SACCO Societies Act and any other relevant laws and regulations.
- ii) Safeguard and optimize returns on investment.
- iii) Ensure investment risk is effectively managed.
- iv) Provide members with rates of return higher or comparable with existing market rates.
- v) Achieve economies of scale and optimize administrative costs of investments.
- vi) Preserve capital and limit downside risk while achieving a reasonable rate of return.

## **2.0 Scope of the Policy**

This policy applies to the following transactions involving investments in:

- i. Land and buildings.
- ii. Listed shares.
- iii. Government treasury bills and bonds.
- iv. Corporate bonds and commercial paper.
- v. Bank fixed and call deposit accounts.
- vi. Derivative instruments
- vii. Mutual funds.
- viii. Collective investment schemes.

- ix. Subsidiaries including housing and other cooperatives.
- x. Joint investment initiatives with other entities.

### **3.0 Investment Risk**

In pursuit of its investment objectives, the society shall take into account the following risks and factors:

- i. **Interest rate risk:** The probability that a decline in interest rates may erode long-term value or future cash flows of a financial asset.
- ii. **Credit Risk:** The probability that counter-party may default on its payment obligations in an investment.
- iii. **Price Risk:** Probability that decline in the market price of an asset may erode the purchasing power of funds invested.
- iv. **Liquidity:** The ease with which an investment can be converted into cash.
- v. **Yield:** The total income from an investment as a percentage of total funds invested.
- vi. **Due diligence:** Investments shall be acquired only after thorough and careful assessment of their viability has been established. In this regard, external professional advice and input may be sought.
- vii. **Ethics and Conflict of Interest:** Employees and board members shall refrain from recommending investments within which they, their relatives, business partners or associates have personal or collective business interest. They will also be duty bound to avoid circumstances that may impair their judgment. Where conflict of interest arises, the affected employee or director shall disclose the same and refrain from being involved in the decision making process.

### **3.1 Investment Risk Management**

The following measures shall be taken to manage investment risk:

- i. **Portfolio limits:** The board and management shall be guided by the limits set out under section 4.3 of this policy.
- ii. **Portfolio diversification:** Management and board shall take steps to ensure that no single investment or category of investments account for more than 50% of total investments.
- iii. **Gap analysis:** Board and management shall on a quarterly basis, review the impact on investment income and cash flows caused by maturity and re-pricing of investments.

Where effects are negative, the board and management shall review their investment decisions accordingly.

- iv. **Audit:** Internal and external auditors shall review investment risk and make recommendations on appropriate steps to be taken by the board of directors.
- v. **Vetting of investment service providers:** Service providers shall be evaluated in regard to their ability to provide quality services and advise. Due diligence shall cover but not be limited to:
  - a. Qualifications and experience
  - b. Legal status.
  - c. Financial stability.
  - d. Past record
  - e. Adherence to service turnaround times
- vi. **Due Diligence:** Thorough analysis shall be conducted to establish the viability of each investment before the society's funds are committed to it. Due diligence shall involve but not be limited to:
  - a. Legal validity of documents of title.
  - b. Legal status of any legal persons involved in investment decisions.
  - c. Character and creditworthiness of the counter-parties.
  - d. Historical returns on investment relating to each asset.
  - e. Impact on cash flows.
- vii. **Performance evaluation:** A quarterly evaluation of the performance of each investment shall be conducted in line with the template attached under Appendix 1.

#### **4.0 General Policies and Procedures**

- i) The society shall adhere to the strategy of matching amounts, maturities and interest rates, sources and uses of funds to the extent feasible. Investment maturities will specifically be dictated by the stability of the sources of funds i.e., currency stability and inflation. Safety of principal and interest shall be the primary consideration in all decisions on investment
- ii) Due to changes in economic conditions, the society shall ensure that resources are not tied up in one type of asset. Inflation could as well result in deterioration of the value of a particular asset. There could be a decline in the markets or difficulties could be

experienced in a particular area of investment. Diversification of investment portfolio will therefore cushion any negative effects in any one area.

- iii) The society will not invest in non-earning assets or property and equipment in excess of 10% of total assets, of which land and buildings shall not exceed five percent (5%) unless a waiver to that effect has been obtained from SASRA. Donated assets and foreclosed assets will be excluded in arriving at this percentage.
- iv) The request for waivers shall include a detailed investment appraisal showing the cost and justification for the investment, including how it will improve members' service and any analysis of expected impact of the profitability and capital adequacy requirements.
- v) Any investment in property meant for future expansion shall be disposed of, if the property remains unutilized for two years from the date of acquisition. However, an extension request may be sought from the General Meeting or SASRA
- vi) No investment will be made in non-government securities in excess of forty percent (40%) of the Society's core capital or five percent (5%) of its total deposits' liabilities.
- vii) The society is formed for purposes of improving the economic well-being of its members. The recommended mix on types of investments as a percentage of total assets should be as follows;

Loans to Members	70% - 80%
Financial Investments	10% - 20%
Investments in apex & other organizations	< 0.5 %
Non-Earning Assets	<5%
Non-Earning Liquid Assets	<1%

- viii) The authority to invest is solely vested on the Board of Directors of the Society.

The Board shall decide on: -

- a) The particular financial institution(s), class of institution(s), or class of investments in which to invest the society's funds.
- b) Proportion in which funds can be invested in any one financial institution or class of institution or class of investment.
- c) The institution investment portfolio taking into consideration between risk and returns.

## **5.0 Investment Considerations**

The following factors will guide the society's investment decision of its funds:

- a) **Risk Vs Returns:** The society shall endeavor to minimize risks on all investment portfolios; however, where there are higher risks, higher returns shall be expected.
- b) **Source of Funds and Cash Flow:** The source of funds will determine whether to invest long term or short term. Where funds will be demanded on short notice, investments will be made in short term securities. Where the funds to be invested are not required within a short period, funds will be invested in long term ventures or securities.
- c) **Custody of Investment Titles:** The society shall keep all original investment documentation both hard and soft copy in a fire-proof safe and shall maintain a disaster recovery site. A register of the same shall be maintained. All the original investment documentations shall be scanned and stored in electronic form.

## **6.0 Roles & Responsibilities**

### **6.1 Investment committee**

- i) The Board of Directors shall delegate to the Finance and Investment committee the responsibility of reviewing on a monthly basis Society's investment activity to assure compliance with set investment policies.
- ii) The Committee shall consist of three members from the Board including the treasurer who shall serve as its Chairperson.
- iii) The Committee chairman will advise the Board, on a monthly basis regarding the compliance of the SACCO's investment activities to these policies. Issues involving noncompliance and their recommended remedies will be documented in the official minutes of the respective Executive Committee and Board meetings that address these issues.

### **6.2 Chief Executive Officer**

The /Chief Executive Officer will have the responsibility for the day-to-day management of the investment portfolio of the society, within the guidelines laid down. He/she will be responsible of the following;

- i) Ensuring that all transactions are properly accounted for

- ii) Ensuring that an updated listing of all short-term investments is kept containing; date of investment and maturity dates, institutions invested in, investment number, amount and monthly earnings of each investment
- iii) Ensuring that earnings from every investment are properly accounted for
- iv) Ensuring that funds are invested only in the approved list of financial institutions
- v) Consulting with the investment committee for the placement of investments
- vi) Making recommendations to the investment committee on new institutions in which the SACCO can place investments
- vii) Developing a rating system for institutions which establish financial stability in accordance with the guidelines set.
- viii) Ensuring that investment committee recommendations are approved and reviewed by the full board.

### **6.3 Liquid Assets**

Liquid assets include bank deposits and other short-term deposits in money market products as well as marketable financial assets with a maturity of 91 days or less. The following policies shall apply:

- i) The society shall maintain at least 15% of its deposit liabilities in liquid assets, which shall include; cash, deposits in licensed commercial banks, SACCOs and Kenya Union of Savings and Credit Cooperatives, Treasury bills, Units in unit trusts, Approved insurance company's investment portfolios, Call deposits, Savings accounts and Current accounts.
- ii) No more than 20% of the society's investment portfolio shall be invested in any one private financial institution
- iii) A list of institutions in which liquid assets can be invested and cash deposited shall be developed by the investment committee for approval by the Board of Directors
- iv) The society's Investment in any one financial institution shall not exceed 50% of the total of all investment in that class of assets.
- v) A minimum of 10% of the society's liquid assets portfolio or the equivalent of 10% of the amount held by members in deposits accounts and shares whichever is greater shall be held in cash or deposits on call.
- vi) No more than 50% of the liquid assets' portfolio shall be in instruments that will mature over six (6) months from the point in time of review at any one time.

## **6.4 Shares and Stocks**

- i) The society shall not invest in shares that are not listed on the Nairobi Securities Exchange with the exception of shares in a cooperative society or Cooperative Bank of Kenya Class A shares.
- ii) The society will only invest in stocks and shares listed at the Nairobi Securities Exchange that have a medium to long term prospect for growth and revenue or strategic interest to be determined by the Board of Directors.
- iii) Investments in stocks in non-co-operative organizations shall not exceed 10% of total investments in this category
- iv) No more than 10% of the portfolio in stocks and shares should be invested in any one company's or group of companies' stocks and shares except in cases where the Board of Directors decides that it is of strategic interest to the society.
- v) Any decision to invest in stocks and shares should be at least be made at the Investment Committee level and ratified by the Board of Directors
- vi) Stocks and shares should be valued annually and any loss or growth over the last period brought to book through the Asset Revaluation Reserve and not taken to the Income Statement. This will constitute a capital gain to the society.
- vii) Where shares or stocks are traded on the stock market, the quoted price will be used in valuation.

## **6.5 Property/Real Estate**

- i) Investment in property/ real estate should not be encouraged as it will erode resources designated for loaning purpose.
- ii) The society may invest in real estate/land for purposes of expanding its operations. In such a case, the Board will have to ensure that proper feasibility studies are done and funds set aside for such projects preferably from Zero cost capital such as reserves.
- iii) Investment in land and property shall not exceed 5% of core capital or the limits set by SASRA whichever is higher.
- iv) Any other investment in property/real estate where considerably amount of resources will be required should be carried out by a separate legal entity. Such decisions shall not jeopardize the safety and soundness of the society's financial stability.

## **6.6 Disposal of investments**

- i. The Chief Executive Officer in consultation with the Investment Committee will provide the necessary guidance on disposal of investments.
- ii. There will be a monthly report on the status of all investments presented to the Board of Directors, which will be used as a guide towards decision of; either to liquidate or enhance investment portfolios depending on the liquidity position of the Society and the overall business plan.
- iii. Disposal/liquidation of investments shall be approved by the board.

## **6.7 Limits on Property, Equipment and Financial Assets**

- i. Non-earning assets or property and equipment: Not more than 10% of total assets.
- ii. Land and buildings: Not more than 5% of core capital
- iii. Financial investments: Not more than 40% of core capital or 5% of total deposits' liabilities. For the purposes of the Investments Policy, financial investment means investments in government securities, shares and stocks, deposits in institutions licensed under the banking Act, and licensed SACCO societies.
- iv. Donated assets and foreclosed assets shall be excluded in arriving at limits percentages.

## **6.8 Compliance with Investment Policy**

- i) The society shall make financial investments with the intention of "holding to maturity". At no time shall the portfolio be used to trade securities for profit, placing the society's capital at risk.
- ii) Each investment shall have a subsidiary ledger detailing the type of investment, amount, interest rate, maturity and parties that approved the investment.
- iii) The society shall keep all original investment documentation in a fire-proof safe.

## **6.9 Restricted investment transactions**

The society shall not acquire, sell or lease premises without the prior written approval of SASRA to or from the following:

- i) A board member, supervisory committee member, employee or immediate family member of any such individual.
- ii) Businesses in which any of the persons named in (i) is an officer, partner or has an interest of greater than 10% in the entity or partnership.

- iii) Any person who would be classified as an insider borrower under the society's by-laws or credit policy
- iv) All transactions with business associates or family members not specifically prohibited must be fully disclosed, conducted at arm's length and in the best interest of the SACCO society.

## **7.0 Prohibited Investments**

The following investments are prohibited under this policy:

- i. Land and buildings domiciled outside the Republic of Kenya
- ii. Purchase of land and buildings from a board member.
- iii. Derivative instruments such as currency, interest rate and commodity forward contracts, options and swaps.
- iv. Shares and stocks not listed on the stock exchange with the exception of Cooperative Bank Class A shares.
- v. Speculative investments.
- vi. Investments that violate regulatory requirements such as:
  - a. Investment in land and buildings and equipment in excess of 10% of the total assets of the Sacco
  - b. Investment in land and buildings in excess of 5% of the total assets of the Sacco.
  - c. Financial investments in excess of 40% of the core capital of the Sacco.
  - d. Investments in equities of any single legal entity or a derivative issued by any legal entity in excess of 8% of core capital i.e. 20% of prescribed limit of financial investments.
  - e. Investments in collective investment schemes, bonds, commercial papers and notes, in excess of 12% of core capital i.e. 30% of the prescribed limit for financial investments.
  - f. Investments in equities of a subsidiary or related entity in excess of 20% of core capital i.e. 50% of the prescribed limit for financial investments.

## **8.0 Statutory Investments Return**

The society shall submit to the Authority a return on its investments at the end of every quarter to be received on or before the 15<sup>th</sup> day of the following month as set out in Form 5 in annex 2 to the Regulations.

## **9.0 Measuring Performance and Reviewing**

The investment policy shall be reviewed from time to time in order to adapt to changes taking place in the operating environment. The aim of the investment policy is to help the society invest in a way that shall maximize returns without exposing risk to member deposits and contributions.

## **6.0 Overall Investment Principles**

FARMERS CHOICE NWDT SACCO LIMITED shall apply the Principles of a Successful Investor in all its transactions:

- i. Every investment decision must take into account suitability of the investment
- ii. Every investment shall be free from the effects of financial or other crisis. No investment shall be sold at a loss. There shall be a thorough analysis of unforeseen circumstances likely to influence security
- iii. Investments shall be flexible and readily realizable
- iv. Investments shall be diversified in types and across the industry
- v. There shall be correct timing of the investment. That is, when to buy and when to sell
- vi. The society shall have a balanced view of things. If things show a trend of change, the society shall be willing to adopt a different view even though it runs against its norms.

## **7.0 REVIEW**

This policy shall be reviewed at least once every year or whenever changes in laws and regulations necessitate amendment. Such changes shall be supported by a minute of the board.

## 8.0 AFFIRMATION

This Investment Policy is adopted by the Board of Directors as the Investment Policy for Farmers Choice Non-Withdrawable Deposit Taking Sacco Limited on the \_\_\_\_ Day of \_\_\_\_\_ year 2024.

TITLE	NAME	I.D NO	SIGNATURE
Chairman			
Vice Chairman			
Secretary			
Treasurer			