



EASTERN ARC MOUNTAINS CONSERVATION ENDOWMENT FUND
(EAMCEF)

MFUKO WA HIFADHI YA MILIMA YA TAO LA MASHARIKI

Statement of Investment Policy, Objectives & Guidelines

Eastern Arc Mountains Conservation Endowment Fund
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GENERAL INFORMATION AND GUIDING PRINCIPLES OF THE TRUST

The Eastern Arc Mountains Conservation Endowment Fund (EAMCEF) is a Trust Fund that was established as a mechanism to provide long-term reliable funding support for Community Development, Conservation Projects and Research Activities, which promote the biological diversity, ecological functions and sustainable use of natural resources in the Eastern Arc Mountains of Tanzania. Activities which contribute to the promotion of economic development and social welfare of the local communities in the target areas, while ensuring the conservation of biodiversity of the Eastern Arc Mountains, are given high priority for funding by EAMCEF.

Major Mountain blocks of the Eastern Arc spread over fifteen districts in five regions of Tanzania namely; Tanga (East and West Usambara, and Nguu Mountains), Kilimanjaro (North and South Pare Mountains), Morogoro (Nguru, Uluguru, Ukaguru, Udzungwa, Malundwe, Mahenge and Rubeho Mountains), Dodoma (Rubeho Mountains) and Iringa (Udzungwa Mountains). The mountain blocks in Tanzania cover a total land area of approximately 5350 km².

The Eastern Arc is recognized globally as part of one of the 34 biodiversity hotspots characterized by high concentrations of endemic species currently under great threat. The biodiversity of the Eastern Arc Mountains is of great value locally for mitigating the impacts of rural poverty. Forest and woodland products such as firewood, construction material, medicinal herbs, wild fruits and other food materials account for about 40% of total household consumption in some forest adjacent communities in the Eastern Arc Mountains. Nationally, the Eastern Arc Mountain forests form major catchment areas, which collectively provide water for most of the nation's coastal communities accounting for about 25% of Mainland Tanzania's population and most of the major industries in the country. Hydro-electricity energy production in Tanzania is heavily dependant on maintaining the integrity of these forests. About 60% of Tanzania's electricity is generated from water sources originating in the Eastern Arc Mountain Forests, e.g. Kidatu, Mtera and Kihansi hydropower stations.

EAMCEF was officially registered in Tanzania on 6th June, 2001 under the Trustees' Incorporation Ordinance No. 375 of 1956. Governed by a Board of Trustees, the Fund operates as a Not-for-Profit Non-Governmental Organization with its day to day operations being run by the Endowment Fund Secretariat which is headed by an Executive Director.

The Board manages and administers the Fund to address the need for a long-term sustainable approach to funding the conservation of forest biodiversity in this important ecosystem. The approach recognizes the importance of gaining community support for conservation initiatives and in finding creative and innovative ways to finance priority community projects while linking that project financing to biodiversity conservation. Success requires building effective local institutions and ensuring that communities understand the importance of conservation to their economic and social well-being. These efforts require a long-term investment.

SCOPE OF THIS INVESTMENT POLICY

This Statement of Investment Policy reflects the investment policy, objectives and constraints of the entire Eastern Arc Mountains Conservation Endowment Fund.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This Statement of Investment Policy is set forth by the Board of Trustees of the Eastern Arc Mountains Conservation Endowment Fund 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 Fund assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of the Fund assets.
4. Establish a basis for evaluating investment results.
5. Manage the Fund assets according to prudent standards.
6. Establish the relevant investment horizon for which the Fund assets will be managed.

The purpose of this Statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DELEGATION OF AUTHORITY

The Board of Trustees of the Eastern Arc Mountains Conservation Endowment Fund (BOT) is a fiduciary and is responsible for directing and monitoring the investment management of the Fund assets. As such, the BOT is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. **Investment Management Consultant.** The consultant shall assist the Board of Trustees in: establishing and reviewing investment policy, objectives and guidelines; selecting investment managers; reviewing such managers over time and measuring and evaluating investment performance.
2. **Investment Managers.** Each investment manager has discretion to purchase, sell, or hold specific securities that will be used to meet the Fund's investment objectives. It is acknowledged that investment managers will be contracted for investment of portions of the total Fund to manage assets in their specialized area of expertise. Investment managers in each category are expected to adhere to that category of investment, and each manager's performance will be compared to relevant benchmarks.

3. **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.
4. **Additional specialists** such as tax attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Board of Trustees to assist in meeting its responsibilities and obligations to administer the Fund assets prudently.

All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

The Board of Trustees will not reserve any control over investment decisions, with the exception of specific limitations described in this Statement. The Investment Management Consultant and Individual Asset Managers will be held responsible and accountable to make every effort to achieve the objectives herein stated. While it is not believed that the limitations will hamper the investment managers, each manager should request for modifications that they deem appropriate.

DEFINITIONS

1. "Fund" shall mean the Eastern Arc Mountains Conservation Endowment Fund.
2. "Board of Trustees" shall refer to the governing board established to administer the Fund as specified by applicable laws.
3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all, or a portion of the Fund assets.
6. "Securities" shall refer to the investment securities that are defined as acceptable in this Statement.
7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this Statement, are expected to be met. The immediate investment horizon for this Fund is 10 years with a long-term horizon of perpetuity.

ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Investment Consultant

The Investment Consultant's role is that of a non-discretionary advisor to the Board of Trustees of the Eastern Arc Mountains Conservation Endowment Fund. Investment advice concerning the investment management of the Fund assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this Statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of the investment policy.
2. Conducting investment manager reviews at least annually and new manager searches when requested by the Board of Trustees.
3. Providing "Due Diligence", or research, on Investment Manager(s) including a peer manager review performed on an ongoing basis, no less than annually.
4. Monitoring the performance of the Investment Manager(s) to provide the Board of Trustees with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the Board of Trustees.
6. Advising the Board of Trustees of changes in economic and market conditions. The Consultant should advise of the recommendations to make modifications to the investment portfolio in order to meet overall investment objectives.
7. Reviewing the Fund investment history, historical capital markets performance and the contents of this Investment Policy Statement to any newly appointed members of the Board of Trustees.
8. Attend an annual meeting of the Board of Trustees to review past year progress and discuss issues relevant to the investment management and spending of the EAMCEF.

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, constraints, and philosophies 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 Fund's investment management.
4. Informing the Board of Trustees through the Investment Consultant regarding any qualitative change to investment management 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 Trustees, through the Investment Consultant to communicate with the individual asset managers, on behalf of the Fund. Also, communicating such voting records to the Board of Trustees on a timely basis.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the beneficiaries of the Fund.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man/woman acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to diversify.
4. The Board of Trustees, through the Investment Consultant, may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, 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 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 of Trustees recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly by the Investment Consultant to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly by the Investment Consultant for adherence to investment discipline.

GOAL OF THE TRUST

The Board of Trustees believes this Fund is intended to exist in perpetuity, and therefore, should provide for grant making in perpetuity. To attain this goal, the long-term objective of this Fund is to maintain purchasing power, and when possible to increase principal 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 Fund investment horizon. Therefore, expectations may be expressed by the following equation:

$$\text{Increase in Purchasing Power} = (\text{Total Return} + \text{Gifts Received}) - (\text{Spending} + \text{Expenses} + \text{Inflation})$$

Performance will be benchmarked against relevant index measures to provide a comparative framework. The primary goal over the years 2006-2008 is moderate growth to increase the purchasing power of the EAMCEF fund. The primary goal from 2009 forward is positive absolute return in order to fulfill the annual programme needs of EAMCEF, cover the Fund expenses and compensate for long-term inflation.

SPENDING POLICY

This Fund places the highest emphasis during the accrual period of 2006-2008 on capital growth. This indicates an investment approach balanced between stocks and bonds, that allows holdings of riskier investments to provide growth potential during the accrual period. From 2009 forward (the income period) the highest emphasis will be on meeting its grant making obligations. As such, the Board of Trustees regards spending in dollar terms from 2009 on as inflexible. Therefore, beginning in 2009 in order to reduce the likelihood of underperformance and excessive deterioration of real principal during such periods, this Fund must tend toward a more conservative investment strategy than might be the case if grant making from year to year were more flexible. **The Board of Trustees will set spending of up to 5.0% of the portfolio value determined at the end of each fiscal year less gifts received.** The Spending equation can be expressed as:

$$\text{Expenses} - \text{Gifts Received} = \text{Withdrawals from EAMCEF Fund}$$

while

$$\text{Total Return} - \text{Withdrawals} - \text{Inflation} = \text{Increase in Purchasing Power of the Fund}$$

ATTITUDE TOWARD GIFTS RECEIVED

Future giving (contributions) to this Fund is expected to be inconsistent, and therefore, unpredictable. As a result, the Board of Trustees has set an investment strategy with the objective of maintaining the purchasing power of the Fund assets before consideration of gifts. Accordingly, unrestricted future giving will serve to reduce spending, thus increasing purchasing power.

Gifts will be carefully monitored and documented by the responsible officer of the Board of Trustees to comply with international anti-money laundering regulations. All gifts of real and tangible property to EAMCEF will be subject to review by the responsible officer and may be rejected and returned to the donor if it is deemed that the gift was inappropriate or is accompanied by a significant environmental or economic liability.

Gifts of securities and money funds to the EAMCEF from domestic (Tanzania) and international (non-Tanzania) donors are welcome subject to approval on the guidelines stated above. Donors from the United States are advised to make gifts through an approved 501(C)(3) U.S. Charitable organization, which shall serve as a conduit for such gifts. The responsible officer of the partner U.S. Charitable Organization will provide instructions for transfer of gifts to the EAMCEF Investment Account.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Eastern Arc Mountains Conservation Endowment Fund is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary objective in the investment management for the Fund assets *during the accrual period* shall be:

To Provide Long-Term Capital Growth – the fund balance should grow at a higher rate until income is required to fund program needs of the Eastern Arc Mountains Conservation Endowment Fund.

The secondary objective in the investment management of Fund assets *during the accrual period* shall be:

Capital appreciation in excess of the rate of inflation - to achieve returns in excess of the rate of inflation (measured by U.S. dollar adjusted inflation in Tanzania) in order to maintain the real purchasing power of the Fund assets. Risk control is an important element in the investment of the Fund assets as the full funding of the Trust will be derived from income produced by the fund after the accrual period.

Specifically, the primary objective in the investment management for the Fund assets *during the income period* shall be:

To Provide Current Income – a quarterly draw will be made from the portfolio to meet the regular program needs of the Eastern Arc Mountains Conservation Endowment Fund.

The secondary objective in the investment management of the Fund assets *during the income period* 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 purchasing power of the Fund assets. Risk control is an important element in the investment of the Fund assets.

SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this Statement, it is the goal of the aggregate Fund assets *during the accrual period* to meet or exceed the following return net of investment expenses:

An absolute rate of return of 7.5%, using a three-year rolling average.

It is the goal of the aggregate Fund assets *during the income period* to meet or exceed the following return net of investment expenses:

An absolute rate of return of 7.0%, using a three-year rolling average.

The investment goal above is the objective of the aggregate 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 of Trustees that most closely corresponds to the style of the 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 of Trustees realizes that there are many ways to define risk. It believes that it is important that any person or organization involved in the process of managing the Eastern Arc Mountains Conservation Endowment Fund assets understands how it defines risk. This is, so that the assets are managed in a manner consistent with the Fund's objectives and investment strategy.

The Board of Trustees defines risk primarily as:

Not maintaining purchasing power over the Fund's 10-year investment time horizon. Purchasing power is defined as value of principal adjusted for dollar-denominated inflation.

The Board of Trustees defines risk secondarily as:

Unacceptable fluctuation in the value of the Fund assets during a one-year period. This is defined as a 8% down or 20% up change in value 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 the investment strategy with the investment consultant. 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 of Trustees will periodically provide investment counsel with an estimate of expected net cash flow. The Board of Trustees will notify the investment consultant 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 of Trustees requires that a minimum of ¼ of 1% of the Fund assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury Bills.

MARKETABILITY OF ASSETS

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

INVESTMENT GUIDELINES

Allowable Asset Classes

1. Cash Equivalents allowed include the following:
 - Treasury Bills
 - Money Market Funds
 - Commercial Paper
 - Banker's Acceptances
 - Repurchase Agreements
 - Certificates of Deposit
2. Fixed Income Securities allowed include the following:
 - Fixed Income Securities of Foreign Governments and Corporations
 - U.S. Corporate Notes and Bonds
 - Government and Agency Securities
 - Mortgage Backed Bonds and Planned Amortization Class Collateralized Mortgage Obligations
 - Preferred Stocks
3. Equity Securities allowed include the following:
 - Stocks of Non-U.S. Companies (Ordinary Shares)
 - American Depository Receipts (ADRs) of Non-U.S. Companies
 - Common Stocks of U.S Companies
 - Convertible Notes and Bonds
 - Convertible Preferred Stocks
4. Mutual Funds allowed include the following:
 - Open-end Mutual Funds that invest in securities as allowed in this Statement.
 - Closed-end Funds which invest in securities as allowed in this Statement.

5. Alternative Investments allowed include the following:
 - Guaranteed Investment Contracts (GIC's)
 - Low-Volatility Hedge Funds
 - Managed Commodities and Futures Funds
 - Real Estate Investment Trusts

Derivative Investments

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The Board of Trustees observes that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles. Due to this uncertainty, the Board of Trustees will take a conservative posture on derivative securities in order to maintain its risk adverse nature.

Prohibited Asset Classes

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

1. Individual (non-managed) Commodities and Futures Contracts
2. Private Placements
3. Options
4. Private, Non-registered Limited Partnerships
5. 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 of Trustees has instructed (via a social and environmental screening preferences ranking list) the Investment Consultant 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 of Trustees and conveyed in writing to the Investment Consultant, who will be responsible for assuring compliance for all investments made by the asset managers on behalf of EAMCEF.

Asset Allocation Guidelines

Investment management of the assets of the Eastern Arc Mountains Conservation Endowment Fund shall be in accordance with the following asset allocation guidelines:

1. a Aggregate Fund Asset Allocation Guidelines (at market value) *accrual period*:

Asset Class	Minimum	Maximum	Preferred
Equities	25%	75%	70%
Fixed Income	25%	75%	27.5%
Alternative Investments	0%	15%	2%
Cash and Equivalents	.25 of 1%	20%	.25 of 1%

1. b Aggregate Fund Asset Allocation Guidelines (at market value) *income period*:

Asset Class	Minimum	Maximum	Preferred
Equities	10%	65%	55%
Fixed Income	35%	75%	42.5%
Alternative Investments	0%	15%	2%
Cash and Equivalents	.5 of 1%	20%	.5 of 1%

- The Board of Trustees may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this Statement.
- In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Board of Trustees will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Board of Trustees expects that the Investment Consultant will advise to bring the portfolio into compliance with these guidelines as promptly and prudently as possible.

Diversification for Investment Managers

The Board of Trustees does not believe it is necessary or desirable that securities held in the 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 5% of the total Fund, and no more than 20% of the total Fund should be invested in any one industry. Individual government-issued securities may represent 5% of the total Fund, while the total allocation to treasury bonds and notes of any single country's issue may represent up to 50% of the Fund's aggregate bond position.

Guidelines for Fixed Income Investments and Cash Equivalents

- Fund assets may be invested only in investment grade bonds rated BBB (or equivalent) or better. High-Yield Bond and Convertible Bond Investments are specifically exempt from this requirement 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 Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.

SELECTION OF INVESTMENT MANAGERS

The Board of Trustees's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a bank or insurance company, or in the United States, a registered investment advisor under the Investment Advisors Act of 1940.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant shall be compiled quarterly and communicated to the Board of Trustees 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 of Trustees intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason including the following:








1. Investment performance that is significantly less than anticipated given the discipline 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 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 Statement of Investment Policy, the Board of Trustees plans to review the investment policy at least annually and as the need arises.

This Statement of Investment Policy is adopted on 24th July, 2006 by the Board of Trustees of the Eastern Arc Mountains Conservation Endowment Fund whose signatures appear below.

NAME	SIGNATURE
Professor Said Iddi	
Dr. Magnus Ngoile	
Dr. Hermann Mwageni	
Professor Kallunde Pilly Sibuga	
Mr. Paul Nnyiti	
Mr. Paul Kunert	
Mr. Clement Kapya	
Ms. Julista Blazy	