RWANDA SOCIAL SECURITY BOARD (RSSB)

INVESTMENT POLICY STATEMENT FOR PENSION AND OCCUPATIONAL HAZARDS SCHEMES

Name of policy	**Investment Policy Statement**
Author	**RSSB**
Policy approved by	**Board of Directors**
Approval date	
Policy effective date	
Policy edition	

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1. INTRODUCTION

1.1 Establishment of the Rwanda Social Security Board

The Rwanda Social Security Board (RSSB) was established by the law No.45/2010 of 14/12/2010 in 2010, revised by the law N° 009/2021 of 16/02/2021, to administer social security in the country. Under this mandate, RSSB administers the Pension Scheme and the Occupational Hazards (together with other schemes which are not subject of this Policy).
RSSB is regulated and is supervised by the National Bank of Rwanda in terms of the banking law N°55/2007 of 30/11/2007 whereas its activities are overseen by the Ministry of Finance and Economic Planning.

1.2 RSSB's vision and missions

Vision: RSSB envisions a comprehensive social security system that addresses all social security needs of Rwandans.

Mission: RSSB's mandate revolves around the collection of contributions from members, the payment of benefits to members and the management of the accumulated funds for funded schemes.

1.3 Schemes concerned by the Policy

This Policy relates to the investment activities of the RSSB's Pension Scheme and Occupational Hazards Scheme.
As such, this policy complies with the law N° 05/2015 of 30/03/2015 governing the organization of pension schemes and the BNR regulation N° 05/2016 of 26/09/2016 establishing operational and other requirements for pension schemes.

1.4 Pension Scheme

The Pension Scheme is a mandatory Defined Benefits (DB) scheme with contribution of 6% of gross salary of each registered employee, paid equally by both employer (3%) and employee (3%). Benefits paid by the scheme include old age benefits, early retirement benefits, non-occupational disability benefits and survivorship benefits. While the mandatory retirement age is 65 years, early retirement at 60 years is allowable with at least 15 years of pensionable service.

1.5. Occupational Hazard Scheme

The Occupational Hazard Scheme is financed exclusively by employees at the rate of 2% of each employee’s gross salary. The benefits payable under the scheme include permanent disability benefits, survivorship benefits, work related injuries/diseases benefits and daily sickness allowances benefits.

1.6 Stakeholders of the Schemes

In preparing this Investment Policy Statement, the Board considered the interests of the following key stakeholders:

i. **Government of Rwanda** as the “sponsor” of the pension scheme, bears all the risks associated with the funds particularly the investment and the funding risks.

ii. **Employers** are legally liable to make part contribution for their employees.

iii. **Contributing Members** makes contributions to the schemes and expect to receive promised benefits when the benefits are due.

iv. **Pensioners and Other Beneficiaries:** Pensioners and other beneficiaries of the pension scheme expect to continue receiving their promised benefit payments throughout their eligible life as applicable given the type of benefit they are receiving: e.g., pension, disability, or other benefits to orphans, widows etc.

Therefore, the Board manages the schemes in a way that promotes stability of the scheme, capital preservation, a strong funding level, long term capital growth, and sufficient liquidity in line with the interests of the Schemes’ key stakeholders.

2. OBJECTIVES OF THE INVESTMENT POLICY STATEMENT

The **objectives of the Investment Policy Statement** are the following:

i. **Define the investment philosophy and the risk tolerance of the Board** on the different schemes.

ii. **Establish the governance framework** for the effective and prudent management of the Schemes' investment portfolio.

iii. **Define the risks covered** by this Policy, to which the Schemes are exposed.

iv. **Define the metrics and limits on the risks covered** by this Policy.

v. **Set performance indicators on the investment portfolio**.

3. INVESTMENT PHILOSOPHY

RSSB's investment approach is based on the following pillars:

i. **Act in the best interest of the members of the Schemes**

ii. Investing with the view to **generate measurable effects on the lives of the Rwandans and the development of the economy**, without losing sight of the expected financial returns.

iii. **Investing in a well-diversified portfolio that enable the Schemes to maximize the risk adjusted returns** while complying with the established laws, regulations and policies.

iv. **Becoming an active equity investor** that will be pro-active in providing advice and support to companies in which we invest with a view to helping them achieve stronger results that can be converted into a better dividend yield and capital growth for our fund. As the biggest investor in Rwanda, RSSB has to be present on the equity asset class to support the emergence of future Rwandan champions and its subsequent high return potential.

v. **Having a well-structured governance**, which clearly identify responsibilities and roles of each Committee, that enables effective decision-making in a timely manner.

vi. Developing a proper framework to **monitor inherent risks of the asset portfolio**.

4. THE RISK TOLERANCE OF THE SCHEMES

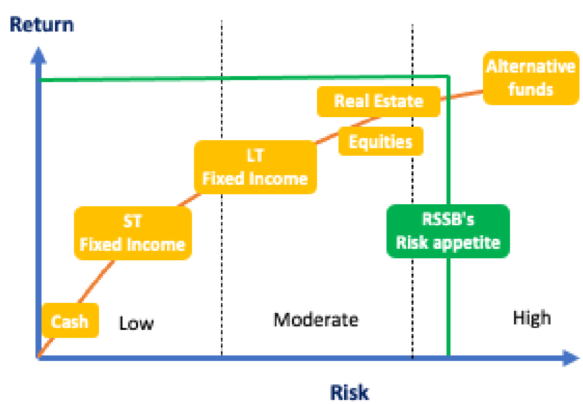
The Board has determined the Schemes' risk tolerance to lie between Moderate to High due to the following factors:

Moderate Risk Tolerance

- Defined Benefit Fund Structure where both the funding risk and the investment risk is borne by the Government of Rwanda;
- Allowable early retirement;
- Strong funding ratio and financial status;
- High administration costs; and
- High replacement ratios.

High Risk Tolerance

- Relatively young average age of active members; and
- Current low dependency ratio;
- Important returns on investment are required to support the future benefits due to Rwandans



The investment universe of RSSB includes then notably fixed-income, real estate and equity investments. Highly volatile investments such as investments in hedge funds should be excluded.

The Board shall, on a continuous basis, assess the risk profile of the Schemes and adjust the risk tolerance accordingly.

5. INVESTMENT GOVERNANCE OF THE SCHEMES

5.1 The Board of Directors

The Board of Directors is accountable for the definitions of RSSB's investment philosophy and risk appetite.

The RSSB's Management should report key indicators and provide relevant information to the Board, on a quarterly basis at least, for monitoring purposes.
Hence the Board can ensure RSSB's Management steers investments with respect of the defined risk appetite and its subsequent metrics and limits.

The Board of Directors gives a full delegation of authority to the Board and Cash Management Investment Committee (cf. next section) regarding the effective approval of the definitions of RSSB's investment philosophy and risk appetite, and of the effective monitoring of the risk appetite (e.g., the approval of investments carried out by RSSB, the Investment Policy Statement, etc.).

Hence, the Board of Directors and the Board and Cash Management Investment Committee are both entitled to take decisions regarding investments.

5.2 The Board Investment and Cash Management Committee

The Board Investment and Cash Management Committee (BIC) is composed of Board Members dedicated to assess investment and cash management topics. The Management has the responsibility to provide sufficient and accurate information to BIC members so that the BIC can make informed decisions. The Management present to the BIC should be composed of the Director General, the Deputy Director General in charge of Fund Management, the Director of the Investment Department, the Director of the Finance and Contributions Department, the Legal Advisor and the Investment Expert: if required, RSSB staff can be invited to the BIC in order to provide information on specific topics.

Given the full delegation of authority provided by the Board of Directors, the BIC is mainly responsible for:

i. Defining RSSB's investment philosophy and risk appetite.

ii. Monitoring the financial steering of the Schemes through key indicators produced by the RSSB's management.

iii. Monitoring the correct implementation of past decisions taken by the Board and Cash Management Investment Committee.

iv. Deciding corrective steps to be taken in case of any limit breach.

v. Approving all investment decisions in i) local corporate bonds over RWF 15 billion, ii) foreign bonds, iii) listed equities over RWF 5 billion, iv) non-listed equities and v) real estate investments.

   For information, the Internal Investment Committee (cf. next section) has the authority to approve fixed income instruments dealing with the local government and financial counterparties over RWF 15 billion, local corporate bonds below RWF 15 billion and listed equity companies below RWF 5 billion.

   The approved investment decisions should be in compliance with the present Investment Policy Statement.

vi. Monitoring limit breach on key indicators and assessing corrective measures taken by the Internal Investment Committee.

vii. Approving the appointment or removal of significant external investment service providers and monitoring their performances (for instance asset managers, investment advisory companies, etc.).

The Board and Cash Management Investment Committee should meet at least on a quarterly basis and should report decisions taken to the Board of Directors.

5.3 The Internal Investment Committee

The Internal Investment Committee (IIC) shall be composed of the Director General, the Deputy Director General in charge of Fund Management, the Director of Investment Department, the Director of the Finance and Contributions Department, the Legal Advisor, the Investment Expert, the Director of Corporate Planning Division, the Director of Finance and Contributions Department.

The IIC is mainly responsible for:

i. Assessing the financial performance of investments carried out in the Schemes through key indicators that should respect the present Investment Policy Statement and more particularly the defined risk appetite.

ii. Reporting limit breach on key indicators to the Board and Cash Management Investment Committee and taking corrective measures in order to solve the situation.

iii. Analyzing investment opportunities and giving approval for submission to the BIC regarding investment decisions requiring BIC's final decision to be executed (local corporate bonds over RWF 15 billion, foreign bonds, listed equities over RWF 5 billion, non-listed equities, real estate investments).

Proper due diligences and evaluations on the investment opportunity and on the counterparty have to be conducted on each investment proposal.

iv. Working hand in hand with the Treasury Management Committee, and the Finance and Contributions Department, to ensure availability of necessary funds to execute the transaction before presenting the proposal to the BIC.

v. Approving investment decisions in i) fixed income instruments dealing with the local government and financial counterparties over RWF 15 billion, ii) local corporate bonds below RWF 15 billion and iii) listed equity companies below RWF 5 billion.

   For information, the Treasury Management Committee (cf. next section) has the authority to approve fixed income instruments dealing with the local government and financial counterparties over RWF 15 billion.

vi. Recommending the appointment or removal of significant external investment service providers and evaluating their performances (for instance asset managers, investment advisory companies, etc.).

vii. Ensuring the absence of conflict of interest of any kind among individuals involved in the analysis of the investment proposal.

The Internal Investment Committee should meet at least on a quarterly basis and should report decisions taken to the Board and Cash Management Investment Committee.

5.4 The Treasury Management Committee

The Treasury Management Committee (TMC) shall be composed of the Deputy Director General in charge of Fund Management, the Director of Investment Department, the Director of Finance and Contributions Department, the Director of Portfolio Management Division, the Director of Finance Division, the Director of Budget and Treasury Unit, the Director of Fixed Income Investments Unit.

The TMC is mainly responsible for:

i. Approving investment decisions in fixed income instruments dealing with the local government and financial counterparties below RWF 15 billion.

ii. Presenting the liquidity situation of the Schemes which depends mostly on cashflows stemming mostly from investments and benefits. For information, future benefits are modelled by independent actuaries.

iii. Assessing the financial performance of treasury management investments carried out in the Schemes that should respect the present Investment Policy Statement and more particularly the defined risk appetite

iv. Analyzing investment opportunities. Proper due diligences and evaluations on the investment opportunity and on the counterparty have to be conducted on each investment proposal.

v. Ensuring the absence of conflict of interest of any kind among individuals involved in the analysis of the investment proposal.

The Treasury Management Committee should meet at least on a quarterly basis and should report decisions taken to the Internal Investment Committee.

5.5 The Investment Department

The Investment Department is mainly responsible for:

i. Identifying, analyzing and making investment proposals for consideration and action by the different Management Committees and Board Committees.

ii. Undertaking necessary and required due diligence on potential investments.

iii. Undertaking technical studies of real estate projects and recommend actions.

iv. Creating and keeping up to date financial models of current and prospective investments.

v. Undertaking periodic industry and economic studies.

vi. Reporting periodically the performance of the investment portfolio and advising on required rebalancing operations given economic conditions if required.

vii. Working with the Finance Department in analyzing and managing liquidity requirements.

6. INVESTMENT PRINCIPLES

6.1. Diversification on investments realized by the Schemes

Subjects to the legal and regulatory investments provisions, the schemes shall invest in a diversified portfolio consisting of a wide range of assets and strategies including foreign and local listed and unlisted equities, government and non-government bonds, property investments, infrastructure, currencies, commodities, cash and money market instruments and pooled investments.

6.2. Adequate targeted returns compared to the underlying assumed risks

The Schemes shall seek for adequate targeted returns compared to risks taken on investments.

Basically, this principle could be represented by a risk premium added to the risk-free rate (for instance, in the Rwandan universe of investments, Rwandan government bonds) that would capture perceived risks on the investment such as the counterparty risk, the liquidity risk, the market risk, etc.

Only strategic assets don't necessarily meet this principle as non-financial elements are also taken into account (for instance social benefits and/or state investments' priorities)

6.3. Active management of equity investments

RSSB has to manage actively its investments in entities in which it has a significant stake: this means being pro-active in providing advice and support to companies in which we invest with a view to helping them achieve stronger results that can be converted into a better dividend yield and capital growth.

7. INVESTMENT KEY PERFORMANCE INDICATORS (INVESTMENT KPIs)

7.1. Definition of the different asset types used for the KPIs

7.1.1 Direct investments excluding strategic assets

Domestic financial equities: shares of companies in the financial, irrespective from being listed or not.

Domestic non-financial equities: shares of companies operating in the non-financial sector, irrespective from being listed or not.

Foreign equities: shares of companies registered outside of Rwanda.

Local government bonds: issued bonds by National Bank of Rwanda on behalf of the State of Rwanda.

Local corporate bonds: issued bonds by non-financial companies which are registered in Rwanda.

Foreign corporate bonds: issued bonds by non-financial companies which are registered outside of Rwanda.

Cash and cash equivalents: monies available on open accounts, accounts with a maturity below one month or accounts with a withdrawal option making funds available within a month.

Fixed term deposits: deposits that are granted to commercial banks.

Commodities: raw materials or primary agricultural products such as gold.

Real estate and lands: commercial buildings, residential houses and apartments, and lands.

7.1.2 Indirect investments

Indirect investments refer to external management of funds by an asset manager in charge of investing the funds in different financial instruments. This external management is operated through a fund that is operated by the fund manager.

Underlying assets of the funds could be in various asset classes such as fixed income, equities or real estate investments.

As any other investment, proper due diligence should be carried out, with a particular focus on terms defining the relationships between RSSB, the fund manager, the fund and other investors.

These investments operated through funds should comply with the Investment Policy of the Schemes.

7.1.3 Strategic investments

Strategic investments refer to socio-economic investments of national interest. They can consist of any asset class (fixed income, equity, real estate).

Strategic investments are a singular asset type as its **main driver is to contribute first to the economic and social development of Rwanda**, in line with the National Transformational Strategy and other key Policy Documents, **before taking into account any profitability consideration**.

However, strategic investments shall aim at earning reasonable returns.

Strategic investments could be composed of the following items:

i. Public infrastructure (e.g. transport, utilities, communication, energy, etc.).

ii. Environmental sustainability (renewable energy).

iii. Social infrastructure (education facilities, health facilities, wellness facilities, security etc).

iv. Companies of national interest (distressed or not)

v. Any other sector within the National Strategy for Transformation (NST1) scope.

Strategic investments shall have dedicated metrics to measure the socio-economic benefits of these investments.

While presented to the Board or Management Committees, the identified opportunities should be presented with their proposed metrics (given the singularity of a given project, tailored metrics could be proposed).

7.2. Key Performance Indicators

The financial performance of the Schemes' investments is captured through a set of benchmarks regarding different types of assets. The chosen benchmarks take into account the perceived risk on a given type of assets.

Asset Type	Metric	Benchmarks
Domestic Financial Equities	Last available ROE*	- weighted ROE of financial companies listed at the RSE - Rwandan gov. bond 10Y + 4%
Domestic Non-Financial Equities	Last available ROE*	- weighted ROE of non-financial companies listed at the RSE - Rwandan gov. bond 10Y + 4%
Foreign Equities	Last available ROE*	- Rwandan gov. bond 10Y + 4%
Local Government Bonds	Current yield to maturity	- yield to maturity of a synthetic Rwandan gov. bond of the residual average maturity of the portfolio
Foreign Government Bonds	Current yield to maturity	- yield to maturity of a synthetic Rwandan gov. bond of the residual average maturity of the portfolio + spread to be determined depending on the estimated financial risks linked to the security
Local Corporate Bonds (currently exposure to public institutions)	Current yield to maturity	- yield to maturity of a synthetic Rwandan gov. bond of the residual average maturity of the portfolio + 1%
Foreign Corporate Bonds	Current yield to maturity	- yield to maturity of a synthetic Rwandan gov. bond of the residual average maturity of the portfolio + spread to be determined depending on the estimated financial risks linked to the security
Fixed term deposits	Current yield to maturity	- yield to maturity of a synthetic Rwandan gov. bond of the residual average maturity of the portfolio + 1%
Cash and cash equivalents	Current interest rate on accounts	Weighted average rates on interbank rates
Commodities	Financial performance of listed commodities	Gov. Bond of the initial average maturity of the asset type + 4%
Real Estate and Lands	Annualized ROI** computed during last evaluation of buildings and lands	Gov. Bond of the initial average maturity of the asset type + 5%
Indirect investments (private equity funds, fixed-income funds, real estate funds, etc.)	Private equity: estimated or realised IRR of the fund Listed underlying assets: current ROI** of the fund	- yield to maturity of a synthetic Rwandan gov. bond of the residual average maturity of the portfolio + spread to be determined depending on the estimated financial risks linked to the security
Strategic Investments (socio-economic investments of national interest)	Last available ROE*	-

*ROE: return on equity
**ROI: return on investment

NB1: No financial excess performance is expected from strategic investments. The performance of this asset type should be captured through absolute values of socio-economic metrics.

NB2: The performances of several asset types are benchmarked with the performance of Rwandan sovereign bonds as they are considered as "risk-free" investments in RSSB's investment universe. Therefore, the excess performance of other asset types can be evaluated by adding a risk premium to "risk-free" investments to capture additional financial risks taken (for instance liquidity risk, credit risk, etc.).
Investments abroad are also benchmarked to Rwandan asset performances as they result in an intentional decision to invest outside Rwanda: hence, such investments should demonstrate competitiveness in comparison with available Rwandan assets.

The key performance indicators should be computed on a quarterly basis and presented to the IIC, the BIC and the Board.

8. INVESTMENT RESTRICTIONS

Confidentiality: In line with confidentiality practices, the Schemes shall not disclose non-public business information provided by counterparties or third party unless the source of such information consents to the disclosure or if it is under legal obligation to do so.

Exposure on strategic investments*:* exposure on strategic investments of the Scheme should be monitored and disclosed to the governing body.

Overall exposure on a single counterparty*:* exposure to any entity across asset classes shall not exceed 5% of the overall schemes' total assets, except for government exposure and strategic investments.

Exposure by financial institutions on deposits: exposure to any financial institution deposits should not exceed 35% of the total deposits of this financial institution.

Exposure by corporates on fixed income instruments: exposure to any corporate should not exceed 30% of the total value of fixed income securities portfolio value.

Exposure by entities on equity investments: exposure to any entity should not exceed 20% of the total value of total equity portfolio value.

Equity exposure on an entity acquired by RSSB: equity exposure on an entity acquired by RSSB should not exceed 50% of the outstanding voting shares of that entity.

Derivatives: investment in derivatives aren't allowed except for risk hedging purposes. If such an investment is realized, a sensitivity analysis should be done to determine the necessary liquidity buffer to absorb margin calls.

Security Lending: No security should be lent or used as collateral for any reason.

Foreign investments: foreign investments should not exceed 15% of the overall schemes' total assets.

In case of breach of any of these restrictions, the Management would have to report it to the IIC, the BIC and the Board, and would have to propose corrective measures for approval to the BIC and/or to the Board.

9. ASSET ALLOCATION

In order to help RSSB reach its investment objectives, the following targeted asset allocation is proposed:

Pension Scheme			
Asset Type	**Target Allocation**	**Current Allocation**	**Range**
Domestic Financial Equities	6%	6%	2%-10%
Domestic Non-Financial Equities	6%	5%	2%-8%
Foreign Equities	3%	3%	2%-10%
Local Government Bonds	15%	21%	10%-30%
Foreign Government Bonds	3%	0%	0%-5%
Local Corporate Bonds	5%	6%	2%-10%
Foreign Corporate Bonds	0%	0%	0%-3%
Cash and cash equivalents	5%	6%	2%-10%
Fixed term deposits	15%	14%	10%-25%
Commodities	2%	0%	0%-7%
Real Estate and Lands	15%	14%	10%-20%
Indirect Investments (equity funds, fixed income funds, real estate funds, etc)	5%	0%	0%-10%
Strategic Investments (socio-economic investments of national interest)	20%	26%	15%-35%
	100%	**100%**	

The asset allocation should be presented periodically to the IIC, the BIC and to the Board.

10. EXTERNAL INVESTMENT SERVICE PROVIDERS

10.1 Actuaries

The Schemes' actuaries are responsible for identifying and monitoring health related risks, establishing claiming patterns and recommending and benefit levels. They also calculate and review the scheme's long-term funding valuation on a periodical basis, at least five years' basis.

10.2 Fund managers

The fund managers, when appointed, shall have exclusive discretionary authority to manage invested funds according to the terms of the agreement between them and RSSB. Such an agreement shall be approved by the Board and Cash Management Investment Committee or the Board.

The fund managers shall, on a quarterly basis, or at a frequency to be established in the terms of the agreement, submit performance reports to be presented to the Management and Board Committees.

10.3 Custodians

The Custodians are mainly responsible for:

i. Safekeeping of the scheme's assets.

ii. Portfolio accounting.

iii. Collection of income, tax claims corporate administration, including settlement of all transactions and cash management.

iv. Compliance check, valuation of assets and monthly performance reporting.

10.4 Investment advisors

The investment advisor should help RSSB in:

i. Determining the investment strategy, including the strategic asset allocation, choice of benchmarks, investment management structures and processes, etc.
ii. Selecting and appointing of fund managers, custodians and other related service providers.
iii. Monitoring the service providers' performance.

11. CONFLICT OF INTEREST

The Board of Directors, the Board and Cash Management Investment Committee and the Internal Investment Committee members shall take reasonable steps to access the independence of each members of their respective committees at all times. Any conflict of interest shall be dealt with in line with the RSSB Conflict of Interest Policy.

The Investment Department shall ensure that external service providers have a comprehensive Conflict of Interest policy which they unreservedly adhere to at all times.

12. INVESTMENT POLICY REVIEW

This policy shall be reviewed on an annually basis or as and when there is a need, particularly in an event of changes in legislation and economic conditions.

13. ADOPTION OF THE INVESTMENT POLICY STATEMENT

The Board has thoroughly discussed the issues pertaining to the objectives, risk tolerances and constraints with regard to the investment portfolio of the Rwanda Social Security Board, Pension Scheme. The Board confirms this Investment Policy Statement reflects an appropriate methodology to manage the portfolio.

ANNEX I: TERMS OF REFERENCE FOR HIRING AN INVESTMENT ADVISORY COMPANY (PUBLISHED IN 2021)

TERMS OF REFERENCE FOR HIRING AN INVESTMENT ADVISORY COMPANY

1. Introduction

The Rwanda Social Security Board (RSSB) was established in December 2010 through the merger of the Social Security Fund of Rwanda (SSFR) and Rwandaise d'Assurance Maladie (RAMA).

The mandate of the Rwanda Social Security Board (RSSB) is to administer social security in Rwanda by providing occupational hazards, old age pensions and death pensions, retirement benefits and medical insurance benefits to employees of the public and private sector. RSSB aims at ensuring the sustainability and adequacy of the different schemes to protect members' contributions and provide funding for benefits.

In particular, the collection of contributions and payment of benefits are structured around six schemes:

- Pension Scheme
- Occupational Hazards Scheme
- Maternity Leave Benefit Scheme
- Medical Scheme
- Community-Based Health Insurance Scheme (CBHI)
- Ejo Heza, a new scheme for long-term savings

Besides, RSSB is the largest Rwandan investment fund with assets under management over USD 1.2 Billion. RSSB's current holdings are composed of fixed and non-fixed assets, both listed and unlisted. RSSB's assets are confined for each scheme (except for Pension scheme and Occupational Hazards that are merged).

RSSB is seeking to achieve an optimal asset allocation with maximum financial returns based on a well laid out and dynamic investment strategy.

2. Background

RSSB's performance over the years has been below expectation in some asset classes. The investment portfolio in some local equities and real estate has been impacted by a number of quantitative and qualitative aspects, hence the need to realign the investment focus going forward. Based on this, the 2020-2025 strategic plan has been developed with the general objective of increasing efficiency of the organization as well as to increase returns from investments undertaken.

Therefore, the hiring of an experienced investment advisory firm with a proven track record would help RSSB to reach the ambitious investment return targets set in the strategic plan 2020-2025 (SP25) and to act in the best interests of the Fund's beneficiaries by securing members' benefits. The main targets on RSSB's portfolio performance in SP25 are the following:

- ❖ High returns on the whole RSSB's portfolio, to be achieved by June 2025
- ❖ In particular, high average returns on equity investments for the period 2023-25

Besides, a new organizational structure of RSSB is being implemented in order to support delivery on key objectives, including return on invested funds.

It is against this background that we would like to solicit proposals (technical and financial) from various experienced firms from which the most suitable firm will be selected based on the criteria set forth in this document.

3. Objectives

- ❖ Review RSSB's investment policy regarding SP25 objectives
- ❖ Define optimal asset allocations for each RSSB's scheme that fit with SP25 objectives
- ❖ Set an operational plan of actions that will enable RSSB to rebalance its portfolios to meet the defined asset allocations for each RSSB's scheme
- ❖ Bring assistance in the drafting of future ToRs regarding fund managers recruitment and contribute to the selection process
- ❖ Monitor recruited fund managers performance
- ❖ Deliver on a capacity building plan of current RSSB's Investment teams, with concrete milestones, so that they develop advanced skills in funds investment and management
- ❖ Deliver on specific performance reporting regarding local and environmental, social and governance (ESG) investments

4. Deliverables

- ❖ Review RSSB's investment policy regarding SP25 objectives
- ❖ Come up with a suitable investment strategy for the Fund, with efficient asset allocations benchmarked to the best performing funds;

- Define a governance framework for investment decisions benchmarked on best practice, in particular powers and responsibilities of the Board of Directors and the requirement of internal/external advice on investment decisions.
  In particular, determine if the buy process should include due diligences lead by financial advisors to secure financial information for non-listed companies
- Define a methodology, key parameters and thresholds that should be reported to support decision-making process on assets considered in the targeted asset allocation

❖ Define optimal asset allocations for each RSSB's scheme that fit with SP25 objectives

- Identify an array of asset allocations for each RSSB's scheme that fit with SP25 objectives, respecting investment policy and portfolios' constraints (e.g. normative risk appetite of a pension fund, modeled cash-flows on the different schemes proposed by RSSB, etc.). Furthermore :
  - Other investment types than equities, fixed income and real estate could be considered (for instance precious metals, private equity funds, etc.)
  - Other geographical areas than Rwanda could be considered (for instance within the East African region,as well as other African countries, Europe, USA, etc.)
  - returns, volatility, liquidity, market and credit risk of proposed assets should be scored
- Formulate optimal asset allocations for each RSSB's scheme and backtest their performances over the five previous years; the optimal asset allocations should meet SP25 targets, induce a low volatility on returns and the best liquidity possible on invested assets; lead a risk sensitivity analysis regarding shocks on the targeted portfolio as if it were already deployed (e.g. rate risk, currency risk, market risk, credit risk)
- The optimal asset allocations should include local and socially focused investments (redundant with the item included in the "local and ESG Investments" section) : propose a target percentage of the portfolio that should be invested in socially focused investments by the end of June 2025, which respects SP25 performance objectives and considers the social role that should be played by RSSB
- The optimal asset allocation could induce distinct portfolios with different investment strategies

- Determine how the performance of RSSB portfolio/different asset classes should be benchmarked in order to measure excess performance and how should RSSB report on its performance to the Board
- Give an opinion on accounting methods and valuation frequency on the different assets that should be used to meet SP25 objectives (e.g. for non-listed equity investments)

❖ Set an operational plan of actions that will enable RSSB to rebalance its portfolios to meet the defined asset allocations for each RSSB scheme

- Review RSSB existing portfolio and identify a trajectory enabling RSSB to rebalance its portfolios to reach the defined asset allocations for each RSSB scheme (prioritize assets to sell, assets to buy)
- Identify concrete priority investments to be made that could deliver over SP25 targets in a fast manner
- Identify channels RSSB could use to receive periodic key research information from leading fund managers on pertinent markets/asset classes (market trends, opportunities, etc.)
- Formulate an optimal RSSB Investment teams reorganization that suits best to the newly defined asset allocations (e.g. desks specialized by asset classes, by geographical areas, etc.)
- Identify highly correlated non performing investments and formulate exit strategies where possible.

❖ Bring assistance in the drafting of future ToRs regarding fund managers recruitment and contribute to the selection process

- Help RSSB draft future ToRs aiming at recruiting fund managers in order to invest predefined parts of RSSB portfolios. In particular, ToRs should specify terms regarding fund management that should be aligned with the targeted asset allocations
- Set a list of fund managers with proven track record who will manage predefined parts of RSSB portfolios, contributing to reach SP25 objectives
- Provide a mapping of key characteristics of the identified fund managers that will emphasize strategy and performance discrepancies between funds (e.g. return over past years, targeted return in the coming years, underlying asset classes, geographical area of investment, liquidity of the funds, etc.)

❖ Monitor recruited fund managers performance

- Assess fund managers performance compared to each other and to other peers
- Identify key factors of excess performance/underperformance of these funds

❖ Deliver on a capacity building plan of RSSB Investment teams, with concrete milestones, so that they develop advanced skills in funds investment and management

- Assess skills and needs of RSSB Investment teams regarding RSSB's objective to be the best investor in Rwanda and deliver a gap analysis
- Define a tailored and scheduled training program with concrete milestones that should:
  - include not only theoretical but practical training
  - assess periodically progress of the teams
- Make available to RSSB Investment teams presentation materials and calculation templates

❖ Deliver on strategy and specific performance reporting regarding local and ESG investments

- Assess criteria that investments should meet to be considered ESG investments based on international best practice and determine assets in the current RSSB portfolio eligible for this classification
- Formulate a target percentage of the portfolio that should be invested in local and ESG focused investments by the end of June 2025, which respects SP25 performance objectives and considers the social role that should be played by RSSB (redundant with the item included in the "Optimal asset allocations" section)
- Identify local and ESG investment types that could complete existing portfolio and so :
  - emphasize RSSB communication regarding ESG issues
  - position RSSB as a leading financial institution in Africa regarding ESG issues
- Help RSSB produce an annual report on local and ESG investments by defining :
  - the global structure of the report
  - key performance indicators that should be reported, including returns on ESG investments

- Formulate a monitoring framework that RSSB should put in place to steer efficiently local and ESG key performance indicators

5. Qualifications and selection criteria

The investment advisory assignement will be awarded to the company that is capable of fulfilling the following requirements:

- ❖ The company should demonstrate wide experience and proven track record in asset management financial advisory and in particular asset management financial advisory of large pension funds or/and insurance companies. In particular, the company should demonstrate investment strategies that positively contributed to either preserve or increase of value of assets of its clients'companies
- ❖ The company should possess in particular demonstrable experience in cross-asset investment strategies (e.g. fixed income securities, listed and non-listed equities) and operations (buy/sell executions on financial markets)
- ❖ The company should have a strong knowledge of Sub-Saharan capital markets; particular knowledge of the East African and Rwandan capital markets are valuable assets
- ❖ The company should have competent research capacity demonstrated through various research reports produced that have had a positive impact for the investors

6. Evaluation criteria

The following is a summary of the general considerations that will be used to determine the company that will be selected as finalists:

- ❖ Company's capabilities and experience
- ❖ Analytical tools, research and processes
- ❖ Understanding of RSSB's needs
- ❖ Ability to communicate effectively
- ❖ Client and industry references
- ❖ Independence from conflicts of interest
- ❖ Fees and compensation

If interested in providing the specified services, please provide the following information:

- ❖ Complete information about proven experience
- ❖ A list of projects (with proof) which indicate specific background and experience in the area being considered

- ❖ A detailed summary of what you believe RSSB's needs are and how would you meet them (not exceeding 2 pages)
- ❖ Description of the applicable approach to the improvement of your recent client's portfolio (not exceeding 2 pages)
- ❖ Furnish at least three (3) clients (preferably institutional investors) including contact persons and telephone numbers
- ❖ A quotation of the proposed remuneration.
- ❖ Please provide any other items that you believe RSSB should take into account during the selection process

Note: Remuneration will be a primary component in the selection, but will not be the only basis for exclusion or inclusion;

7. Criteria and the points for the evaluation of the technical proposals.

I. General experience, relevant experience, and comprehension of terms of reference and quality of the methodology (max. 55 points)

<u>1º General experience of the firm in the field (max. 10 points)</u>

- ❖ Years of experience : 2 points per year

<u>2º General experience of the professional leading the project (max. 15 points)</u>

- ❖ Years of experience : 0 point to 5 years, then 1 point per year

<u>3º Relevant experience of the firm/professional leading the project demonstrating performance enhancement of 5 similar companies (max. : 15 points)</u>

- ❖ Pension Funds: 3 points per project
- ❖ Large insurance companies, banks or investment funds: 2 points per project

<u>4º Demonstrating understanding of the ToR and methodology assessment</u> (max. 15 points)

- ❖ Demonstrating understanding of the ToR: 10 points
- ❖ Quality and suitability of the methodology**:** 5 points

II. Price (max. 45 points)

Note: The company should be able to speak and write in English.
The minimum technical score required to pass is 70 points

8. Liaison and reporting requirements

The Investment Advisory firm will report to the Head of Investment and to the Director General Fund Management on a weekly basis.

At the end of two weeks from the starting date, the Investment Advisor will submit an inception report showing their work plan of significant tasks to be undertaken during the contract period and the reporting framework which will be approved by the RSSB Management.

The progress report will show achievements and challenges, work program, as well as achieving the goals set out in the inception report. It will be submitted on a monthly and quarterly basis throughout the period of the contract.

At the end of the contract, the company will submit a final report on work undertaken which will include recommendations on how to achieve an optimal asset allocation with maximum financial returns based on a well laid out and dynamic investment strategy.

ANNEX II: INVESTMENT DUE DILIGENCE

Before being submitted to Management and Board Committees, investment opportunities are to be evaluated by the Management through a thorough due diligence process. The following description of a due diligence has been adapted to suit with a company but the same reasoning could be applied to projects.

The main objective of the due diligence in an acquisition process is i) to provide comfort to the purchaser on provided information by the seller and ii) to help the buyer determine a fair price for the acquisition.

The extent of a due diligence should be adapted mainly regarding the complexity of a company, the approximate amount to be invested and the level of confidence on data provided (audited company, listed company, country of residence, etc.).

The following areas covered by a due diligence are indicative and should be adapted to the investment opportunity:

1. **Company overview:** company overall presentation in terms of field of business model, products, customers, historical performance

2. **Industry overview:** industry overall presentation in terms of field of business model, products, customers, historical performance

3. **Competition analysis:** competitors, SWOT analysis, Porter's five forces analysis

4. **Realized performance vs budgeted performance:** analysis of discrepancies between the realized and budgeted performance, analysis of the companies' pipeline

5. **Forecasted performance and cash-flows:** sensitivity analysis on the business plan and the generated cashflows of the company

6. **Customers/Sales:** customers' structure, sales breakdown (products, geographical areas, etc.), profitability by products, customers' satisfaction, seasonality of revenues/accounts receivable, delays of payment

7. **Providers/Cost of sales:** providers' structure, seasonality of cost of sales/accounts payable, delays of payment

8. **Payroll:** breakdown of staff payroll and organization

9. **Litigation:** significant commercial or staff litigations and their incurred costs

10. **Tax:** understanding of any tax particularities regarding the company (tax policy of the country of residence of the company, tax carry-forward, etc.)

11. **Capital structure:** presentation of the shareholders of the company, capital ratios

12. **Net Debt:** outstanding debt of the company and subsequent interests, cash and cash equivalents

13. **Fixed assets:** list of significant intangible assets, properties and financial investments

In order to carry out the due diligence, the reception of companies' key materials is essential (general corporate records such as credit agreements, shareholders' agreement, litigations' files, license agreements, minutes of board for specific topics, etc.)

All investment decisions are to be recorded and analytical background supporting the investment decisions kept on file.

ANNEX III: SUMMARIZED VALUATION METHODS OF FINANCIAL INVESTMENTS

Valuation methods of financial investments used in the financial statements are listed in RSSB's annual report.
The list below should be close to the information provided in the financial statements except for modifications that may arise between previous annual report and the approval of an updated Investment Policy Statement.

1. Property and equipment

Property and equipment are accounted at the amortized cost and depreciated following yearly depreciation rates (lands: no depreciation, buildings: 5%, office equipment: 20%, motor vehicles: 25%, furniture and fittings: 10%, computers: 33.33%, kitchen equipment: 25%, laboratory equipment: 25%).

2. Investment properties

Investment properties are valued at the fair value through P&L.
Valuation exercises of the investment properties portfolio were undertaken in 2012 and 2020.

Starting from 2021, the whole investment properties portfolio will be evaluated at least every 3 years.

Within these 3 years, annual valuation exercises will be undertaken on a restricted scope of investment properties which are likely to experience significant price variations within a year.

3. Investment properties in the process of construction

Investment properties in the process of construction are valued at amortised cost and are not depreciated.

4. Assets held for sale

Assets held for sale are valued at the fair value through P&L.

5. Equity investments and fixed income securities

Equity investments and fixed income securities are valued at the fair value through P&L.

For quoted equity investments, the faire value corresponds to the market value of owned shares.

For non-quoted equity investments, the fair value corresponds to the net asset value of the company (i.e. book value of assets minus book value of liabilities).
For fixed income securities, the fair value corresponds to the discounted cash flows.

6. Deposits with financial institutions

Deposits with financial institutions are accounted at the amortised cost.