



**2016 Was A Year of Growth – 300% growth in structured products, 77% growth in balance sheet and 20% growth in profitability**

**To:** All Cytonn Staff  
**From:** Edwin H. Dande, Managing Partner & Chief Executive Officer  
**Date:** 26<sup>th</sup> December 2016

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Dear Colleagues:

On behalf of the Board of Directors and Management, I would like to wish you all a very restful and festive holiday season. 2016 has been a year of very strong growth for the firm across all four of our key pillars of people, products, processes and distribution.

As we have always done, we pause at the end of the year to reflect upon our achievements and challenges as a team. 2016 has been a great year, and we should be thankful, take a moment to celebrate the achievements made, get some rest and get ready for an even better and more rigorous 2017.

**Just to highlight some of our achievements this year:**

1. Our people and our culture are our greatest asset, because it is exceedingly difficult for competition to replicate the team and culture we have built, and even for distractors, it is equally difficult to disrupt the Cytonn team and culture. Our team and our culture is the lifeline of our strong brand. This year we have grown from 49 permanent staff at the start of the year, to 172 permanent staff currently. Our Cytonn Young Leaders Programme (CYLP) remains our single greatest source of selecting and nurturing talent. Through CYLP, we have trained 300 entry-level graduates, and offered employment to 78 of them. We also made a number of great experienced hires across the board. In order to maintain and pass on Cytonn's culture, we continue to hold fortnight book-readings sessions with all staff, over 200 in number. This year we read and discussed the book "Winning" by Jack Welch, and took the time to re-read the book "What it Takes" by Charles D. Ellis, to further learn what great firms have done to build strong performing cultures; we have had a total of 23 book club meetings during the year and monthly cake cuttings to celebrate staff achievements. This year we also held the all staff retreat to Naivasha, which was themed "*rowing in the same direction*". As we grow, it is going to be more difficult to maintain and invest in our culture, but we must continue to do so, it is,

again, our most competitive asset and also the most difficult for our competitors and distractors to attack.

2. With regards to investment solutions, this was a successful year for both Cytonn Investments and Cytonn Real Estate:

- Our private structured investment solution for high-net-worth investors, including Real Estate Solutions, Cytonn Cash Management Solutions, and Cytonn Project Notes together have grown by over 300%, and are delivering the most attractive returns to the investment partners. For Cytonn CMS, we held the first Annual General Meeting of the investments partners, got Cytonn CMS audited by Grant Thornton, issued audited financials to all investors, and ceded the governance of the fund to the partners, under the Chairmanship of Shaka Kwach and the Cytonn CMS Board.
- We exited our largest institutional investors, Taaleri of Finland, from the Amara Ridge development at a 33% IRR.
- To further grow our product range and offering, we launched Cytonn Project Notes, to give our private wealth and institutional investors access to the attractive returns in real estate, and the Cytonn Co-operative, to give all members access to the attractive returns in the alternative investments market of real estate and private equity, which were previously inaccessible to them.
- We incorporated Cytonn Asset Managers, CAM, to be our licensed and regulated subsidiary. Through CAM, and working with CMA and RBA, we will be able to offer pension funds and other regulated pools of capital access to high returns in real estate and private equity. Our REIT to Market Capitalization ratio in Kenya remains a paltry 0.1% compared to, say, South Africa, which is at 6.85%, a whole 114 times greater! This illustrates the significant and huge opportunity that exists in our core business of converting real estate developments into real estate backed investment products, and there is no other brand in this market that is better positioned than Cytonn Investments to dominate this area.
- In real estate, we entered into various joint venture agreements, with the latest being the 100-acres in Ruiru conservatively valued at Kshs. 1.5 billion. This brings our total JVs signed over the last year to 1,150 acres. Cytonn remains the most trusted and preferred JV partner for land-owners looking for both capital providers and development capability. We now have 14 investment ready projects. We close 2016 with over Kshs. 77 billion of

projects under mandate, with 6 projects in the market and currently selling. Of these projects, Amara Ridge is now 100% sold and we are in concept development for the second high-end development in Karen, while The Alma in Ruaka is 55% sold and continues to deliver attractive returns to investors and home-buyers, with returns achieved of up to 55% per annum. Situ Village was named one of the Top 2 developments of 2016 by The Standard. Our strategy of bringing together land owners and financing partners, together with Cytonn Real Estate's development capability, has continued to create jobs with over 1,000 individuals employed by Cytonn and its developments.

3. With growth in products and real estate developments comes the need to grow a distribution platform that connects our clients and investors with the attractive real estate opportunities in the region. In line with this, we have (i) grown our office presence, and most recently we have opened our 4<sup>th</sup> office at Fedha Plaza in Westlands, to complement our Liaison, Chancery and DC Metro presence, and (ii) doubled the private wealth distribution team to 51 individuals, from 26 at the start of the year. Distribution has been and always will be a key pillar for the firm to ensure we stay very close and very responsive to our clients. This local distribution has been ably supported by a strong diaspora presence, which has sold over Kshs 500 million of real estate and investment solutions in 2016 to Kenyans in the diaspora seeking attractive returns back home. With our DC Metro presence and US registered subsidiary, we have a unique opportunity to serve Kenyans in the diaspora who have largely not had a good experience with local partners so far. In addition to serving Kenyans in the diaspora, our diaspora business will over time grow to be a significant source of foreign exchange coming into the country as that business gains momentum.
4. Cytonn's brand continues to gain recognition as the leading brand in investments and real estate, through our informative, concise and actionable research, and through a strong community presence. Our brand campaign, "Sharp is the new Smart" was positively received, boosting sales and brand visibility, and we look forward to launching the next phase of the campaign early next year. The Cytonn Weekly Report, our weekly research publication, remains the leading investment research and insights publication in the market, and combined with our banking, insurance, real estate and corporate governance reports, Cytonn has become recognized as a leader in insightful research. Our research and thought leadership have contributed to the brand earning PR Value of over Kshs. 700 million in 2016.

5. The second half of 2016 was characterized by establishing key processes and structures within Cytonn, which will ensure stable and continued growth. In line with this, we now have fully scaled up our Operations (and now all clients can perform their investments online), Finance, Legal, Internal Audit, IT Management, HR and Brand departments. We engaged Crowe Horwath International to complement our internal audit function to help streamline processes, and we are implementing SAP Business as our accounting ERP system.
6. Strong governance, professional ethics, integrity and accountability is demanded at Cytonn, and nowhere is this more evident than in our corporate governance framework, which emanates all the way from interns right up to the Board of Directors. To strengthen our corporate governance, we added Ms. Rose Kimotho to our board, to add value in HR, brand and marketing for the firm. We are looking to enhance diversity further by increasing female representation in our board.
7. To enhance our client experience, we launched a Client Relationship and Investment Management System (CRIMS), where all the clients' transactions can be viewed and done online. In addition, all statements and business confirmations are now fully automated. This, combined with an HR System and Client Relationship Management (CRM) system, has seen us make technology a key driver of our growth.
8. Together we're also making an impact on some of the most important issues facing our country, and giving back to the community in the same way that they have supported us. Through Cytonn Foundation, we are dedicated to advancing Entrepreneurship through our Cytonn Entrepreneurs Hub (Cytonn eHub), which held a 12-week training for 20 entrepreneurs, with 3 receiving funding at the graduation ceremony. We are also dedicated to Financial Literacy, whereby we aim to enhance financial knowledge and empower individuals with skills and knowledge to allow them to make informed decisions with their financial resources through training sessions at universities, conferences and at our other forums such as the Wealth Management Training; we have held 4 Wealth Management Training Sessions this year.
9. All of these achievements have culminated in a profitable bottom line. When we close our 2016 books, we estimate approximately 20% growth in bottom line from an annualized Kshs. 504 million in 2015 consolidated profits, to about Kshs. 600 million in profitability in 2016, and balance sheet growth of 77% to total assets of Kshs. 11.5 billion from Kshs. 6.5 billion as of the end of last year. Shareholders have profited as well, with the private over the counter share price currently trading at Kshs 60 per share, from the Kshs. 40 per share at the start of the year. In a year where many investors lost a lot of money in the markets and in failed banks, we must take pride

in keeping our promise of delivering the very best returns to our clients, returns that ranged from as low as 18% per annum to as high as 55% per annum.

**With major achievements, come challenges:**

1. Rapid growth comes with equally rapid pressures on the resources that support the growth. While strategic support services departments have grown and taken shape, the business has outgrown the support services infrastructure, which are now racing to catch up, and this will continue to be a key focus for the firm in 2017.
2. There is enormous pressure on our distribution platform to grow as quickly as the products have grown, and carry the same culture of the firm. Our distribution system, across our client channels – diaspora, high net-worth individuals, and institutions - could be much better. We shall continue to put every effort next year to build a world-class distribution and client services platform, with presence in key regions and counties, and have a strong focus towards global and institutional fundraising to support our larger projects.
3. With new hires, both experienced and entry-level, passing on culture is important. Culture is slowly being passed on as we are growing rapidly, and there remain challenges in integrating individuals from different work cultures and backgrounds. Regular communication and team interaction is crucial to ensure we all remain committed to our mission and vision.
4. Our investment and real estate products have largely been for the middle to high-income sections of the population. With our affordable housing initiative, in 2017 we aim to develop products not only targeting the ordinary “*mwananchi*” but focus on making a significant contribution to addressing the housing deficit in the country.
5. Issues surrounding the four founders’ acrimonious departure from their previous employer continue to arise every so often. Rest assured that with over 170 committed and focused team members, over 1,000 committed clients, and a balance sheet of over Kshs. 11 billion, these issues are no longer relevant to the core operations of the business, except for the occasional headline risk. Additionally, we have now narrowed the “playing field” from the original 8 suits and complaints to just about 3, which we are confident will be resolved with time as they are completely without any merit.

In recognition of the extraordinary efforts put in 2016 and the resulting achievements, Management recommended and the Board of Directors approved a Christmas bonus equal to 1-month’s salary for every 12-months worked in 2016. This bonus has already been paid together with your December 2016 salary. We hope this gesture enables you to enjoy the

holiday season with your loved ones. This is separate from the annual performance bonus, which shall be announced after the February board meeting for the 2016 performance bonus.

Despite all our sacrifices and dedication, we cannot fail to recognize our supportive families, who bear the harshest brunt of our absence for long hours, including most weekends and some holidays. Cytonn would not have achieved the great milestones in 2016 without their respective support and enormous sacrifices. We are thankful for their support.

We are blessed to have a very strong brand and a team with exceptional capabilities in a country with huge opportunities, yet very limited competition at the intersection where we are most focused, the intersection of real estate development and real estate financing. As per our strategic theme, let us keep rowing together in the same direction and we will be amazed at where we shall end in 2017!

Enjoy the holiday break, get lots of rest and come back in 2017 energized and ready to, once again, "Deliver to Promise!"

**Edwin H. Dande**



**Managing Partner & Chief Executive Officer**

