

CYTONN HIGH YIELD FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

CYTONN HIGH YIELD FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS	PAGE
Fund Information	1
Report of the Trustee	2-3
Statement of Trustee's Responsibilities	4
Report of the Fund Manger	5-6
Report of the Custodian	7
Report of the Independent Auditor	8-10
Financial Statements: -	
Statement of profit or loss	11
Statement of financial position	12
Statement of changes in equity	13
Statement of cash flows	14
Notes to the financial statements	15-25

Corporate Trustee	Natbank Trustees and Investments services Limited Mezzanine Floor, National Bank Building Harambee Avenue P.O. Box 72866-00200 Nairobi
Registered Office	The Chancery 7 th Floor Valley Road P.O.Box 20695-00200 Nairobi
Fund Manager and Administrator:	Cytonn Asset Managers Limited The Chancery 7 th Floor Valley Road P.O.Box 20695-00200 Nairobi
Custodians	SBM Bank (Kenya) Limited Riverside Mews Riverside Drive Nairobi P.O.Box 34886-00100 Nairobi
Independent Auditor	Parker Randall Eastern Africa Certified Public Accountants (Kenya) Galleria Business Park, Block 2(A) P.O. Box 25426 - 00100 Nairobi

The Trustee submits their report together with the audited financial statements for the year ended 31 December 2020.

Incorporation of the Fund

The Cytonn High Yield Fund is a Collective Investment scheme that has a high allocation towards investments in real estate assets. The investment objective of CHYF is to obtain a high level of current income while protecting investors' capital. The fund was established, and is governed by a Trust Deed dated 7 May 2019 as a High Yield Fund. The fund was registered with the Capital Markets Authority on the 4 July 2019 and began operations in October 2019.

Principal activity

The principal activity of the fund is to act as a unit trust.

Results

The results for the year are set out in the Statement of Profit or Loss on page 10.

Investments

Under the terms of their appointment, Cytonn Asset Managers Limited is responsible for the investment of funds. The overall responsibility for investment and performance lies with the Trustee.

CHANGES TO INCORPORATION DOCUMENTS

FINANCIAL REVIEW

The statement of profit or loss on page 12 shows Profit for the year of Kshs 15,512,633, (2019: Loss of Kshs 374,364). The statement of financial position on page 13 shows total net assets of Kshs 176,367,603 (2019: 117,981,374).

PERFORMANCE RECORD

The performance record of the fund over the current and previous period is as shown below:

- a) The closing, lowest and highest unit prices of the units of the Fund:

	2020		2019	
	Daily Yield	Annual Yield	Daily Yield	Annual Yield
Closing Yield	13.53%	13.53%	13.98%	13.98%
Lowest Yield	11.74%	11.74%	5.38%	5.38%
Highest Yield	14.54%	14.54%	15.96%	15.96%

PERFORMANCE RECORD (Continued)

The lowest, highest and average yield of the Funds for the last five years are as shown below:

	2020	2019
Highest price	14.54%	15.96%
Lowest Price	8.88%	5.38%

b) The total Fund Value, number of units and net income distributed for all units held at the end of the year:

	2020	2019
Total fund Value(Kshs)	176,367,603	117,981,374
Number of units distributed	22,964,006	27,714,136
Profit/(Loss) in the fund(Kshs)	15,512,633	(374,364)

There has been no amalgamation or reconstruction of the current units in the fund that have had a material effect on the size of the fund.

MEMBERSHIP

As at 31 December 2020, the Fund has 107 members (2019: 13 members).

FUND ADVISORS

The names and addresses of the Fund Manager, Trustee, Custodian and Auditor are as shown on page 2.

STATEMENT OF DISCLOSURE TO THE COMPANY'S AUDITORS

With respect to each person who is a director on the day that this report is approved:


- There is, so far as the person is aware, no relevant audit information of which the company's auditors are unaware; and
- The person has taken all the steps that he/she ought to have taken as a partner to be aware of any relevant audit information and to establish that the partnership's auditors are aware of that information.

Terms of appointment of the auditors

Parker Randall Eastern Africa were appointed in office vide audit engagement contract dated 22 January 2021 in accordance with the Company's Articles of Association and Section 719 of the Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

Signed on Behalf of the Trustee By


.....

..29-APR-2021

CYTONN HIGH YIELD FUND
STATEMENT OF THE TRUSTEE'S RESPONSIBILITY
FOR THE YEAR ENDED 31 DECEMBER 2020

The Kenyan Capital Markets Act requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the financial position of the fund at the end of the financial year and of its financial performance for the year then ended. The Trustee is responsible for ensuring that the fund keeps proper accounting records that are sufficient to show and explain the transactions of the fund; disclose, with reasonable accuracy at any time, the financial position of the fund; and that enables them to prepare financial statements of the fund that comply with prescribed financial reporting standards and the requirements of the Kenyan capital markets Act. they are responsible for safeguarding the assets of the fund, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.


The Trustee accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and in the manner required by the Kenyan Capital Markets Act. They also accept responsibility for:

- i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii) selecting suitable accounting policies and applying them consistently; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the fund's ability to continue as a going concern, the Trustee is not aware of any material uncertainties related to events or conditions that may cast doubt upon the fund's ability to continue as a going concern. The Trustee acknowledges that the independent audit of the financial statements does not relieve them of their responsibilities.

The Trustee wishes to state that via a letter dated 1 October 2020, the Trustee resigned by giving the fund manager the requisite 3 months' notice and continues to carry out its fiduciary responsibility until a replacement is appointed to avoid leaving a vacuum in line with regulation 29 of The Capital Markets (Collective Investment Schemes) Regulations, 2001.

Approved by the board of Trustee on.....^{29-APR-2021}..... and signed on its behalf by:


.....
Trustee


.....
Trustee

Dear Unit Holder,

We are delighted to report your Fund's performance for the year under review. The fund achieved significant growth realizing cumulative new sales growing by 41.0% to Kshs 162.8 mm from Kshs 118.4 mm in 2019. Our performance is encouraging bearing in mind the age of your Fund and this lays the foundation for affirming your fund's market position going forward. We therefore take this opportunity to acknowledge your unwavering support and thank all members for their dedicated contribution to the growth of the Cytonn High Yield Fund.

We hereunder highlight some of the developments that characterized the investments markets during the year under review. During 2020, the Kenyan economy contracted by 0.6% in the first three quarters of 2020 down from a growth of 5.4% recorded in a similar period in 2019. The contraction was largely driven by the 57.9% decline in the accommodation and tourism sector following the closure of most facilities amid the COVID-19 pandemic. However, the overall performance was cushioned by growths in Agriculture, Forestry and Fishing activities which grew by 6.3%; Financial and Insurance activities, 5.3%; Construction, 16.2%; Real Estate Activities, 5.3% and Mining and Quarrying activities, 18.2%.

On the fixed income market, the yield on the 91-day, 182-day and 364-day T-bills continued to decline to close at 6.9%, 7.4% and 8.3% in 2020 from 7.2%, 8.2% and 9.8% respectively as at the end of 2019. The Central Bank of Kenya's (CBK's) maintained deliberate efforts to keep rates low by rejecting expensive bids in the auction market. In line with the above, the yield curve experienced downward pressure for the better part of the year but adjusted upwards for the longer-dated papers.

On the equities market, the domestic market was on a downward trajectory, with NASI, NSE 25, and NSE 20 declining by 8.6%, 16.7%, and 29.6%, respectively. Large cap stocks such as Bamburi, Equity Group, Diamond Trust Bank, KCB Group, ABSA Bank Kenya, EABL and Co-operative Bank were among the highest decliners during the year under review. We note that 15 companies issued profit warnings to investors compared to 10 companies in 2019, Kenya Airways was suspended from trading on the securities exchange following the company's operational and corporate restructuring. Additionally, HomeBoyz Entertainment Plc (HEL) was listed by way of introduction on the Growth Enterprise Market Segment (GEMS).

On the real estate market, data from the Kenya National Bureau of Statistics indicate that the sector recorded moderate activities with a general decline in transactions attributed to the tough economic environment in the wake of the COVID-19 pandemic that had adverse effects on the real estate sector. The effects of the pandemic were mainly felt in the sector from Q2'2020 with the real estate and construction recording a 7.1% points decline in growth in Q2'2020, coming in at 6.1% compared to 13.2% growth recorded in Q2'2019. The average rental yield for the real estate market stood at 6.1%, down from 7.0% recorded in 2019. From a sectoral perspective, commercial office space registered average rental yield of 7.0% with retail sector at 7.5%, residential at 4.7% while mixed-use developments and serviced apartments sector registered closed at 7.1%. The average total returns for the market decreased to 5.9% from 9.0% recorded in 2019, largely attributable to a reduced sale and rental rates in a bid to attract and retain tenants amid the pandemic.

During the year, we successfully delivered on our digitization agenda enabling existing and potential unitholders to register, invest, withdraw and make utility payments at any time through our mobile and web platforms, making this a first of its kind in Kenya. We believe that this investment will go a long way in delivering an unparalleled customer experience to all our unitholders.

2020 was characterized by volatility across global markets on the back of the outbreak of the novel Corona Virus (COVID-19). Various governments across the world continue to put in place measures to contain the pandemic whilst ensuring macro-economic stability through instituting stimulus packages to avert recession. We expect the Kenyan government's containment measures put in place to continue supporting the gradual recovery in the economy in the long term, despite the current third wave of the pandemic.

We are confident that our differentiated investment philosophy which is anchored on pursuing investments in both traditional and alternative investments presents a solid diversification strategy that will result in investors benefiting from superior returns on their investments. We will therefore place emphasis on delivering superior risk-adjusted returns through effective execution of our investment philosophy.

We take this opportunity once again to thank you for your investment partnership with Cytonn Asset Managers Limited and look forward to working closely with you in realizing your financial and investment goals.



.....
Signed on Behalf of the Fund Manager


..... 28/01..... 2021

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between SBM Bank (Kenya) Limited as the Custodians and Cytonn Asset Managers Limited as the Fund Manager, we confirm that:

- a) we have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations to Cytonn High Yield Fund
- b) the issue, sale, redemption and cancellation, and calculation of the price of the Fund's units and the application of the Fund's income have been carried out in accordance with the Regulations; and
- c) the investment and borrowing powers and restrictions applicable to the Fund in accordance with the Regulations and the documents of incorporation have not been exceeded.

For the period ended 31 December 2020, we have held the assets for the Fund, including title deeds, securities and income that accrue thereof, to the order of the Fund Manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.

To the best knowledge of the Custodian, the Fund Manager has in all material respects managed the scheme in accordance with the provisions of the CMA Regulations, Incorporation documents, the Information Memorandum and the rules of Collective Investment Scheme.


.....
By order of the Custodian
29/04/2021

REPORT OF THE INDEPENDENT AUDITOR TO THE UNIT HOLDERS OF CYTONN HIGH YIELD FUND

Opinion

We have audited the financial statements of Cytonn High Yield Fund set out on pages 11 to 25, which comprise the statement of financial position as at 31 December 2020, statement of profit or loss, statement of changes in net assets and statement of cash flows for the period then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Cytonn High Yield Fund as at 31 December 2020, and of its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of Kenyan Capital Markets (Collective Investment Schemes) Regulations, 2001.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the fund in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Trustee is responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than that prescribed by the Kenyan Capital markets (Collective Investments Scheme) as set below

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Trustee's responsibilities for the financial statements

The Trustee is responsible for the preparation and fair presentation of these financial statements in accordance with Capital Markets Authority, International Financial Reporting Standards, and for such internal control as the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the fund's ability to continue as a going concern, disclosing as applicable, matters related to the going concern and using the going concern basis of accounting unless the proprietor intend to liquidate the firm or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material, if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the firm's ability to continue as a going concern.

Auditor’s responsibilities for the audit of the financial statements (Continued)

- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures or in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence up to the date of the auditor’s report. However, future events or conditions may cause the firm to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

We confirm that the financial statements have been properly prepared in accordance with the capital markets authority (collective investments scheme) regulations, 2001.

The capital markets authority (collective investment schemes) regulations 2001 also requires that in carrying out our audit we consider and report to you on the following matters;

- If the auditor is of the opinion that proper accounting records for the collective investment scheme have not been kept or that the accounts are not in agreement with those records;
- If the auditor has not been given all the information and explanations which, to the best of his knowledge and belief, are necessary for the purpose of his audit; or
- If the auditor is of the opinion that the information given in the report of the Fund Manager for that period is inconsistent with the accounts.

We confirm that there are no matters to report in respect of the foregoing requirements.

Parker Randall Eastern Africa
Certified Public Accountants
Nairobi

30/Nov/2021
.....
Date

CPA Michelle Okonji, Practicing certificate No. 2423
Signing partner responsible for the independent audit

CYTONN HIGH YIELD FUND
 STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 Kshs	2019 Kshs
Investment Income	2	18,962,588	1,568,740
Operating Expenses	3.1	(2,347,276)	(456,540)
IFRS 9 Impairment provisions	3.2	<u>(1,102,679)</u>	<u>(1,486,564)</u>
Profit/(Loss) for the period		<u>15,512,633</u>	<u>(374,364)</u>

The notes set out on pages 15 to 25 form an integral part of these financial statements.

CYTONN HIGH YIELD FUND
 STATEMENT OF FINANCIAL POSITION
 FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 Kshs	2019 Kshs
ASSETS			
Fixed Deposits	4	18,792,938	25,222,681
Bank Balances	5	1,530,790	95,938
Investment in real estate loans	6	142,397,483	80,380,304
Unlisted Securities	7	-	15,671,068
Unit Trust	8	2,339,533	2,200,000
Government Bonds	9	9,694,498	-
Related Party Receivables	10	5,542,214	-
		<u>180,297,456</u>	<u>123,569,991</u>
LIABILITIES			
Other Payables	11	3,929,853	5,588,618
		<u>176,367,603</u>	<u>117,981,373</u>
NET ASSETS			
FUND BALANCES			
Unit Holder Funds		162,780,063	118,355,737
Net Profit/(Loss) for the period		15,512,633	(374,364)
Retained Earnings		<u>(1,925,094)</u>	<u>-</u>
		<u>176,367,603</u>	<u>117,981,373</u>
MEMBERS' FUNDS			
		<u>176,367,603</u>	<u>117,981,373</u>

The financial statements were approved by the Trustee on ^{29-APR}..... 2021 and were signed on its behalf by;



.....
Trustee

The notes set out on pages 15 to 25 form an integral part of these financial statements.

CYTONN HIGH YIELD FUND
 STATEMENT OF CHANGES IN UNIT HOLDERS FUNDS
 FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	Kshs	Kshs
Proceeds from units issued during the period	185,744,070	119,906,467
Interest redistributed to unit holders	<u>(22,964,006)</u>	<u>(1,550,730)</u>
Net Movement in the Fund Balance	162,780,063	118,355,737
Profit / (loss) for the Period	15,512,633	(374,364)
Retained Earnings	<u>(1,925,094)</u>	<u>-</u>
At the End of the period	<u>176,367,602</u>	<u>117,981,373</u>

The notes set out on pages 15 to 25 form an integral part of these financial statements.

CYTONN HIGH YIELD FUND
STATEMENT OF CHANGES IN CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 Kshs	2019 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) for the period		15,512,633	(374,364)
<i>Adjustments for;</i>			
IFRS 9 impairment provision	3.2	1,102,679	1,486,564
Changes in working capital			
-Increase in Government Bonds	9	(9,694,498)	-
-Increase in Related Party Receivables	10	(5,542,214)	-
-(Decrease) /Increase in Other Payables	11	(1,658,765)	5,588,618
Net Cash from operating activities		(280,164)	6,700,818
CAHFLOW FROM INVESTING ACTIVITIES			
Increase in Real Estate Loan Notes	6	(62,017,179)	(80,380,304)
Decrease / (increase) in Unlisted Securities	7	15,671,068	(15,671,068)
Net investments in Unit Trusts	8	(139,533)	(2,200,000)
IFRS 9 Impairment Provisions	3.2	(154,291)	(1,176,456)
Net cash used in investing activities		(46,639,935)	(99,427,828)
CASH FLOW FROM FINANCING ACTIVITIES			
Increase on Purchase of Units		65,837,603	119,906,467
Interest redistributed to unit holders		(22,964,006)	(1,550,730)
Net cash from financing activities		42,873,596	118,355,737
(Decrease) /Increase in Cash and Cash Equivalent		(4,046,503)	25,628,727
Movement in cash and cash equivalent			
At Start of the period		25,318,620	-
IFRS 9 impairment provisions	3.2	(948,388)	(310,108)
Net increase in the year		(4,046,503)	25,628,727
Cash and Cash equivalent At the end of the period		20,323,728	25,318,620

The notes set out on pages 15 to 25 form an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Presentation of Financial Statements

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared on the historical cost based on the fair value of the consideration given in exchange of assets and incorporate the principal accounting policies set out below. They are presented in Kenyan Shillings (Kshs).

b) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both.

Significant estimates and judgements made relate to:

Impairment of investments

The fund reviews their portfolio of investments on an annual basis. In determining whether investments are impaired, the directors make judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

Measurement of expected credit losses (ECL)

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVTOCI) is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs is based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

1. Summary of significant accounting policies (continued)

b) Critical accounting estimates and judgments (continued)

Assessment of significant increase in credit risk

The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The company uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions.

c) Revenue Recognition

Investment income

Interest income is recognised in profit or loss as it accrues and is calculated by using the effective interest rate method on the outstanding principal.

Investment income also includes dividend income which is recognised when the right to receive the payment is established. Dividends are reflected as a component of other operating income based on the underlying classification of the equity instrument. Dividends are presented in net income from other financial instruments at fair value.

Realised /unrealised gains and losses

Unrealised/realised gains and losses on valuation of financial assets at the reporting date or sale of financial assets are recognised in profit or loss. Gain and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

d) Financial Instruments

Financial instruments are recognized when, and only when, the fund becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in profit or loss.

The fund classifies its financial assets into the following categories:

- i) Amortised cost: Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal

1. Summary of significant accounting policies (continued)

e) Financial Instruments (Continued)

amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

- ii) Fair Value through Profit or Loss (FVTPL): Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

Notwithstanding the above, the fund may:

- i) On initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income.
- ii) On initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

At initial recognition of a financial asset, the company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The fund reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the company has not identified a change in its business models.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the company has transferred substantially all risks and rewards of ownership, or when the company has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financial instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

1. Summary of significant accounting policies (continued)

d) Financial Instruments (Continued)

Derecognition/write off (Continued)

The fund recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- i) Cash and cash equivalents
- ii) Trade and other receivables
- iii) Other financial assets

No impairment loss is recognised on investments measured at FVTPL.

ECLs are required to be measured through a loss allowance at an amount equal to:

- i) 12-month expected credit loss (ECL), i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- ii) full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the
- iii) financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

e). Cash and Cash Equivalent

For the purposes of the statement of cash flows, cash and cash equivalents comprise deposits held with banks.

CYTONN HIGH YIELD FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	Kshs	Kshs
2 Investment Income		
Investment in Real Estate Loan Notes	13,501,693	764,818
Fixed Deposit	2,435,287	315,912
Unlisted Securities	1,991,733	488,010
Financial Institutions	807,443	-
Government Bond	183,190	-
Cytonn Money Market Fund	43,242	-
	<u>18,962,588</u>	<u>1,568,740</u>
3 Fund Expenses		
3.1 Operating Expenses		
Fund Management Fees	1,530,888	131,464
Audit Fees	236,000	295,000
Custody Fees	224,196	7,703
Advertising & Marketing	160,776	-
Annual General Meeting Expenses	79,800	-
Bank Charges	67,859	11,280
Trustee Fees	44,371	11,093
Commission Expense	3,386	-
	<u>2,347,276</u>	<u>456,540</u>
3.2 IFRS 9 Impairment Provision		
Bank Balances	819,666	1,175
Investment in real estate loan notes	410,214	984,514
Fixed Deposits	128,722	308,933
Unlisted Securities	(255,923)	191,942
	<u>1,102,679</u>	<u>1,486,564</u>
Total Fund Expenses	<u>3,449,955</u>	<u>1,943,104</u>
4 Fixed Deposit		
Maturity within 30 days	18,682,995	25,398,800
Accrued Interest	727,808	132,814
Less: IFRS 9 impairment provisions	(617,865)	(308,933)
	<u>18,792,938</u>	<u>25,222,681</u>

The weighted average effective interest rate on fixed deposits at 31 December 2020 was 10.00%.

The carrying amounts of the fund's fixed deposits are denominated in Kenya shillings. In the opinion of the Trustee, the carrying amount of fixed deposits approximate to their fair value.

5 Cash and Cash Equivalent	2020	2019
	Kshs	Kshs
Cash at Bank	1,533,140	97,113
Less: IFRS 9 Impairment Provisions	<u>(2,350)</u>	<u>(1,175)</u>
	<u>1,530,790</u>	<u>95,938</u>

For the purpose of the statement of cash flows, the period-end cash and cash equivalents comprise of the following:

	2020	2019
	Kshs	Kshs
Fixed Deposit	18,792,938	25,222,681
Cash at Bank	<u>1,530,790</u>	<u>95,938</u>
	<u>20,323,728</u>	<u>25,318,619</u>

6 Investment in real estate loan notes
 Movement in investment real estate loan notes

a) Cytonn Integrated Project LLP	2020	2019
	Kshs	Kshs
At start of the period	80,380,304	-
Investment during the period	13,700,000	80,600,000
Interest accrued	13,259,992	764,818
Less Impairment provisions	<u>(984,514)</u>	<u>(984,514)</u>
At end of period	<u>106,355,782</u>	<u>80,380,304</u>
b) Applewood-(LLP18)		
At start of the period	-	-
Investment during the period	35,800,000	-
Interest accrued	241,701	-
Less Impairment provisions	<u>-</u>	<u>-</u>
At end of period	<u>36,041,701</u>	<u>-</u>
Investment in real estate loans by institutions	<u>142,397,483</u>	<u>80,380,304</u>

The fund has invested in a comprehensive residential development namely The Alma, through the Real Estate Loan Notes.

The project is strategically positioned in the heart of the fast-growing Ruaka neighbourhood, neighbouring the project is Two Rivers Mall, the biggest shopping mall in East Africa and the Village Market.

7 Unlisted Securities	2020	2019
	Kshs	Kshs
Movement in real unlisted securities investments		
At start of the period	15,671,068	-
Investment during the period	-	15,375,000
Investment Liquidation	(17,854,743)	-
Interest accrued	1,991,733	488,010
IFRS 9 Provision for repaid investment	335,899	-
Less IFRS 9 Impairment provisions	<u>(143,957)</u>	<u>(191,942)</u>
	<u>-</u>	<u>15,671,068</u>

The weighted average effective interest rate on unlisted securities as at 31st December 2020 was 13.9%.

The carrying amounts of the unlisted securities are denominated in Kenya shillings.

8 Unit trust	2020	2019
	Kshs	Kshs
At Start of the period	2,200,000	-
Additions during the year	<u>139,533</u>	<u>2,200,000</u>
At end of the period	<u>2,339,533</u>	<u>2,200,000</u>

The Fund has invested in the Cytonn Money Market Fund. Both funds have Cytonn Asset Managers Limited as their fund manager and administrator which has investments for other clients. The investment can be liquidated at any time on a four days' notice at current market value.

9 Government bonds	2020	2019
	Kshs	Kshs
Kenya Government Bonds	<u>9,694,498</u>	<u>-</u>

10 Trade and other Receivables		
Receivable to related parties (Note 11)	<u>5,542,214</u>	<u>-</u>

CYTONN HIGH YIELD FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2020

11 Trade and other Payables	2020	2019
	Kshs	Kshs
Withholding tax payable on interest	3,268,645	93,358
Accrued Audit Fees	409,590	295,000
Payable to related parties(Note 12)	138,414	5,181,464
Accrued Custody Fees	57,740	7,703
Accrued Trustee Fees	55,463	11,093
	<u>3,929,852</u>	<u>5,588,618</u>

The carrying amounts of the company's trade and other payables are denominated Kenya shillings. The maturity of trade and other payables is within 12 months.

12 Related Party Balances and Transactions	2020	2019
	Kshs	Kshs
i) Sale of Services		
Management Fees Paid to Related parties	1,530,888	131,464
ii) Outstanding Balances		
a) Investment with related parties		
Cytonn Integrated Project LLP	108,324,810	80,380,304
Cytonn High Yield Solutions LLP	-	15,671,068
Cytonn Money Market Fund	2,339,533	2,200,000
	<u>110,664,343</u>	<u>98,251,372</u>
b) Payable to related parties		
Cytonn Asset Managers Limited	138,414	5,181,464
iii) Receivable Balances		
Cytonn High Yield Solutions LLP	5,046,714	-
Cytonn Money Market Fund	495,500	-
	<u>5,542,214</u>	<u>-</u>

Cytonn High Yield Fund is managed by Cytonn Asset Managers Limited as their Fund Manager. Cytonn Asset Managers Limited is a related party to Cytonn Investments Management PLC by virtue of common shareholding which owns a number of other subsidiaries which are fellow subsidiaries to Cytonn Asset Managers Limited. The Fund transacts with these companies within the Cytonn Group of Companies.

13. Risk management objectives and policies

Financial risk management

The Fund generates revenues for the members by investing in various income generating activities. These activities expose the Fund to a variety of financial risks, including credit risk and the effects of changes in market dynamics. The trust deed sets out the investment policy and management of the Fund's assets to minimise potential adverse effects on its financial performance.

a) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest bearing assets include term deposits, commercial papers and treasury bills which have fixed interest rates hence exposure to interest rate risk is not considered to be material.

b) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Fund. The credit risk on term deposits and bank balances is limited as the counterparties are all recognised banks with good reputations.

In assessing whether the credit risk on a financial asset has increased significantly, the fund compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

If the Fund does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis.

13. Risk management objectives and policies (continued)

Financial risk management (continued)

b) Credit Risk (continued)

For such purposes, the company's financial assets on the basis of shared credit risk characteristics, such as;

- Type of instrument;
- Industry in which the debtor operates; and
- Nature of collateral.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date is as follows:

a For year 2020	Gross Carrying Amount Kshs	Expected Credit Losses Kshs	Exposure to Credit Risks Kshs
Financial Assets			
Fixed Deposit	19,410,803	(617,865)	18,792,938
Bank Balances	1,533,140	(2,350)	1,530,790
Investment in real estate loan notes	63,001,693	(984,514)	62,017,179
Unlisted Securities	143,957	(143,957)	-
	<u>84,089,593</u>	<u>(1,748,686)</u>	<u>82,340,907</u>
b For year 2019			
Fixed Deposit	25,531,614	(308,933)	25,222,681
Bank Balances	97,113	(1,175)	95,938
Investment in real estate loan notes	81,364,818	(984,514)	80,380,304
Unlisted Securities	15,863,010	(191,942)	15,671,068
	<u>122,856,555</u>	<u>(1,486,564)</u>	<u>121,369,991</u>

13. Risk management objectives and policies (continued)

Financial risk management (continued)

b) Credit Risk (continued)

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

- a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
- b) financial assets that are credit impaired at the balance sheet date;
- c) trade receivables, contract assets and lease receivables for which the loss allowance is always measured at an amount equal to lifetime expected credit losses, based, as a practical expedient, on provision matrices.

14. Incorporation

The Fund is registered in Kenya under the Capital Market Authority (CMA) Act

15. Presentation Currency

The financial statements are presented in Kenya Shillings (Kshs).