CYTONN EQUITY FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2020

CONTENTS	**PAGE**
Fund Information	1
Report of the Trustee	2-4
Statement of Trustee's Responsibilities	5
Report of the Fund Manger	6-7
Report of the Custodian	8
Report of the Independent Auditor	9-11
Financial Statements: -	
Statement of profit or loss	12
Statement of financial position	13
Statement of changes in equity	14
Statement of cash flows	15
Notes to the financial statements	16-28

Corporate Trustee	Co-Operative Bank of Kenya Limited Co-Operative House Haile-Selassie Avenue P.O. Box 48231-00100 Nairobi
Registered Office	The Chancery 7th Floor Valley Road P.O.Box 20695-00200 Nairobi
Fund Manager and Administrators	Cytonn Asset Mangers Limited The Chancery 7th Floor Valley Road P.O.Box 20695-00200 Nairobi
Custodians	KCB Bank Kenya Limited KCB Towers 7th Floor Upper Hill P.O.Box 30664-00100 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 has the pleasure of submitting the fund's report together with the audited financial statements for the period ended 31 December 2020.

Establishment, Nature and Status of the Fund

The fund was established as Seriani Asset Managers Equity Fund governed by a Trust Deed dated 02 October 2017. This was subsequently changed to Cytonn Equity Fund which was registered with the Capital Markets Authority on 24 December 2018 and began operations on August 2019.

The primary objective of the fund is to seek long term capital growth from a wide range of securities thereby allowing access to diverse investment assets and returns. It ultimately aims to mobilize savings and allow access to investment assets and returns in equities otherwise restricted to persons with access to large amounts of capital.

The fund is a unit trust and the interest of the individual members is determined by the value of their units. It is administered by the Trustee who is responsible for its affairs.

The fund is an approved collective investment scheme within the meaning of the Capital Markets Act and the holders are not liable for the debts of the fund.

Changes to the incorporation documents

There were no changes to the incorporation documents during the period under review. The changes to minimum investment were instituted in 2020.

Financial Review

The statement of profit or loss on page 12 shows loss for the period of Shs. (803,191) (2019: Kshs 1,062,379). The statement of financial position on page 13 shows total net assets of Shs. 3,277,696 as at 31 December 2020 (2019: Kshs 1,672,123.

Performance Record

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

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

	2020		2019	
	Bid Price Kshs	**Offer Price Kshs**	**Bid Price Kshs**	**Offer Price Kshs**
Closing unit price	88.35	88.35	125.81	125.81
Lower unit price	74.89	74.89	58.82	58.82
Highest unit price	111.87	111.87	163.20	163.20

Performance Record (Continued)

The lowest and highest bid prices of the units of the Fund for the period are as shown below:

	2020	2019
Highest Price	111.87	163.20
Lowest Price	74.89	58.82

b) The total Fund value, number of units and net income distributed for all units held at the end of each period for the last five periods:

	2020	2019
Total fund Value (Shs)	3,277,696	1,672,123
Net Income Distributed (Shs)	(803,191)	1,062,379
Number of units distributed	37,301	127,389

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.

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.

Membership

As at 31 December 2020, the Fund had 114 members.

Fund Advisors

The names and addresses of the Fund Manager, Trustee, Custodian and Auditor are as shown on page 1.

Statement of disclosure to the fund's auditors

With respect to the Trustee at the time this report was approved:

a) there is, so far as the person is aware, no relevant audit information of which the fund's auditor is unaware; and

b) the Trustee has taken all the steps that the person ought to have taken as a Trustee so as to be aware of any relevant audit information and to establish that the fund's auditor is 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 Fund Manager By

28/04/2021

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 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 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. The fund Manager appointed Goal Advisory (A) Limited as the new Trustee effective January 1, 2021.

The Trustee acknowledges that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Trustee on 30th April 21 and signed on its behalf by:

THE CO-OPERATIVE BANK OF KENYA LTD. TRUSTEE SERVICES

Trustee

Dear Unit Holders,

We are delighted to report your Fund's performance for the year under review. The fund achieved growth, realizing cumulative new sales and growing by 89.5% serving to grow net assets under management to Kshs 3.4mm as at 31st December 2020 from Kshs 1.8 mm in December 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 Equity 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.

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 | 04 .... **2021**

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between KCB Bank Kenya Limited as the Custodians and Cytonn Asset Managers Limited as the Fund Manager, we confirm that for the year ended 31 December 2020:

a) we have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations to Cytonn Money Market 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

For the year ended 31 December 2020, we have held the assets of the Cytonn money market fund, which include 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.

For: KCB BANK KENYA LTD.

....
CUSTODY SERVICES
By order of the Custodian

.......30/04.......... **2021**

Parker Randall Eastern Africa
Member firm of Parker Randall International

MEMBER OF THE FORUM OF FIRMS

REPORT OF THE INDEPENDENT AUDITOR
TO THE UNIT HOLDERS OF CYTONN EQUITY FUND

Opinion

We have audited the financial statements of Cytonn Equity Fund set out on pages 12 to 30, 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 Equity 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 the 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

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

- 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.

- 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

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

30/04/2021
....
Date

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

	Notes	2020 Kshs	2019 Kshs
Investment Income	2	147,837	62,400
Net(Loss) on disposal of quoted equity investments	2	(968,052)	-
Net Gain on disposal of quoted equity investments	2	-	499,250
Fair value gain on Investment	3	546,240	643,099
Total Income		**(273,975)**	**1,204,749**
Operating Expenses	4.1	(529,216)	(141,523)
IFRS 9 Impairment Provisions	4.2	-	(847)
(Loss)/Profit for the period		**(803,191)**	**1,062,379**

The notes set out on pages 16 to 28 form an integral part of these financial statements.

		2020	2019
Assets	**Notes**	**Kshs**	**Kshs**
Cash and Cash Equivalent	**5**	35,334	69,148
Fixed Deposit	**6**	805,038	-
Quoted Equity Investments	**7**	2,563,175	1,744,500
Other Receivables	**8**	8,137	-
		3,411,684	1,813,648
Liabilities			
Other Payables	**9**	133,988	141,525
NET ASSETS		**3,277,696**	**1,672,123**
Fund Balance			
Unit Holder Funds		4,095,828	609,744
(Loss)/Profit for the year		(803,191)	1,062,379
Retained Earnings		(14,941)	-
MEMBERS FUNDS		**3,277,696**	**1,672,123**

The financial statements on pages 12 to 28 were approved for issue by the Trustee

on 30th April 2021 and signed on its behalf by;

THE CO-OPERATIVE BANK OF KENYA LTD. TRUSTEE SERVICES

....

Trustee

The notes set out on pages 12 to 28 form an integral part of these financial statements.

	2020 Kshs	2019 Kshs
Profits from units during the period	5,418,265	14,137,922
(Refunds) Made on Withdrawals from unit holders	(1,322,437)	(13,528,178)
Net Movement in the Fund Balance	**4,095,828**	**609,744**
Retained Earnings	(14,941)	-
Adjustment	-	-
(Loss)/Profit for the year	(803,191)	1,062,379
At end of the period	**3,277,696**	**1,672,123**

The notes set out on pages 16 to 28 form an integral part of these financial statements.

	Notes	2020 Kshs	2019 Kshs
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/Profit for the period		(803,191)	1,062,379
Adjustment for:			
Opening Balances		(1,062,379)	-
Retained Earnings		(14,941)	-
IFRS 9 Impairment Provisions	**4.2**	-	847
Changes in working capital			
-(Increase) in other receivables	**8**	(8,137)	-
-(Decrease) in other payables	**9**	(7,537)	141,525
Net Cash (Used in) from operating activities		**(1,896,185)**	**1,204,751**
CASH FLOW FROM INVESTING ACTIVITIES			
-Increase in purchases of quoted investments	**7**	(818,675)	(1,744,500)
Net Cash Used in Investing Activities		**(428,675)**	**(1,744,500)**
CASH FLOW FROM FINANCING ACTIVITIES			
(Decrease) in Purchase of units		(8,719,657)	14,137,922
Increase on Withdrawals		12,205,741	(13,528,178)
Net Cash from financing activities		**3,486,084**	**609,744**
Increase in cash and cash equivalent		**771,224**	**69,995**
Movement in Cash and Cash Equivalent			
At Start of period		69,148	-
IFRS 9 Impairment Provisions		-	(847)
Increase		771,224	69,995
As at 31 December	**6**	**840,372**	**69,148**

The notes set out on pages 16 to 28 form an integral part of these financial statements.

1. SAMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Transfers between levels of the fair value hierarchy are recognized by the Trustee at the end of the reporting period during which the change occurred.

Going concern

The financial performance of the fund is set out in the report of the Trustee and in the statement of profit or loss. The financial position of the fund is set out in the statement of financial position. Disclosures in respect of risk management are set out in Note 11.

Based on the financial performance and position of the fund and its risk management policies, the Trustee is of the opinion that the fund is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the fund

All new and amended standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2020 have been adopted by the fund but have not had a significant impact on the fund's financial statements.

- IFRS 17 'Insurance Contracts' (issued in May 2017) effective for annual periods beginning on or after 1 January 2023 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Fund does not issue insurance contracts.

- Amendments to IFRS 3 'Definition of a Business' (issued in October 2018) applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

- Amendments to IAS 1 and IAS 8 'Definition of Material' (issued in October 2018) applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

b) Critical accounting estimates and judgment

In the application of the accounting policies, the Trustee is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The Trustee has made the following estimates and judgments that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial period:

The assumptions and judgments set-out below do not consider the full potential impact of the recent corona virus outbreak as it is too early at this stage to predict the full potential impact of this on the financial statements of the fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical accounting estimates and judgment (Continued)

Impairment of investments

The fund reviews their portfolio of investments on an annual basis. In determining whether investments are impaired, the Trustee makes judgment 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 amortized cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behavior.

A number of significant judgments 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 measurements of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The ECL model applied for financial assets other than trade receivables and contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b Critical accounting estimates and judgment (continued)

Measurement of Expected Credit Losses (ECL) (continued):

- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

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 fund 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 recognized 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 recognized 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.

- Realized/unrealized gains and losses

Unrealized/realized gains and losses on valuation of financial assets at the reporting date or sale of financial assets are recognized 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 amortized 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 recognized initially using the trade date accounting which is the date the fund commits itself to the purchase or sale.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets

Financial assets are initially recognized 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 recognized at fair value and transaction costs are expensed in profit or loss.

The fund classifies its financial assets into the following categories:

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

ii) Fair Value through Profit or Loss (FVTPL):
Financial assets that do not meet the criteria for amortized 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 recognized in profit or loss and presented in the profit or loss statement.

Notwithstanding the above, the fund may:

- 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

- 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 fund determines whether newly recognized 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 fund has not identified a change in its business models.

Derecognition/write off

Financial assets are derecognized when the rights to receive cash flows from the financial asset have expired, when the fund has transferred substantially all risks and rewards of ownership, or when the fund has no reasonable expectations of recovering the asset. When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets (Continued)

Derecognition/write off (Continued)

In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Financial instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Impairment

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

- Cash and cash equivalents
- Trade and other receivables
- Other financial assets

No impairment loss is recognized on investments measured at FVTPL.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognized in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial liabilities

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The Fund may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

All other financial liabilities are classified and measured at amortized cost.

g) Cash and cash equivalents

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

		2020	2019
2	**Investment Income**	**Kshs**	**Kshs**
	Dividend Income	119,744	62,400
	Interest Income	28,093	-
	Net(Loss)/Gain on disposal of quoted equity investments	(968,052)	499,250
		(820,215)	561,650
3	**Fair value Changes**		
	Quoted Equity Investments	546,240	643,099
4	**Fund Expenses**		
4.1	**Operating Expenses**		
	Fund Management Fees	285,654	64,602
	Custody Fees	88,745	15,056
	Annual General Meeting Expenses	56,533	-
	Audit Fees	46,140	60,000
	Business Licenses & Permits	37,500	-
	Bank Charges	9,144	-
	Trustee Fees	5,500	1,865
		529,216	141,523
4.2	**IFRS 9 Impairment Provisions**		
	- bank balances	-	847
	Total Fund Expenses	529,216	142,370
5	**Cash and cash equivalent**		
	Cash at bank	36,181	69,995
	Less: IFRS 9 Impairment Provision	(847)	(847)
		35,334	69,148
6	**Fixed Deposits**		
	Fixed Deposits	1,195,038	-

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

6 Fixed Deposits (Continued)

	2020	2019
	Kshs	Kshs
Fixed Deposit	805,038	-
Cash at Bank	35,334	69,148
	840,372	69,148

The carrying amount of the fund's cash at bank and in hand is dominated in Kenya shillings. In the opinion of the Trustee, the carrying amount of the cash and cash equivalents approximate to their fair value.

7 Quoted Shares at Fair Value

	2020	2019
	Kshs	Kshs
KCB Bank Limited	655,320	-
Safaricom Limited	548,000	630,000
Equity Group Holdings	515,355	353,100
I & M Holdings Ltd ORD	454,500	761,400
DTB Bank	390,000	-
	2,563,175	1,744,500

Movement in Quoted Shares;

	At Start of Period	Additions	Disposals	At the end of the period
For year 2020				
Equity Group Holdings	2,000	12,100	-	14,100
Safaricom Limited	20,000	-	4,000	16,000
DTB Bank	-	5,200	-	5,200
I&M Bank	-	10,100	-	10,100
KCB Bank Limited	-	21,200	4,000	17,200
	22,000	48,600	8,000	62,600
For year 2019				
Equity Group Holdings	-	2,000	-	2,000
Safaricom Limited	-	20,000	-	20,000
KCB Bank Limited	-	25,000	25,000	-
	-	47,000	(25,000)	22,000

8 Other Receivables

	2020	2019
	Kshs	Kshs
Receivable to related parties (note 10)	5,348	-
Withholding Tax Asset	2,789	-
	8,137	-

9 Other Payables

	2020	2019
	Kshs	Kshs
Other Payables	70,160	76,923
Payable to related parties (note 10)	63,829	64,602
	133,988	141,525

In the opinion of the Trustee, the carrying amounts of trade and other payables approximate to their fair value.

The carrying amounts of the fund's trade and other payables are denominated Kenya shillings. The maturity of trade and other payables is between 1 to 3 months.

10. Related party balances and transactions

Cytonn Equity 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 companies.

		2020	2019
i)	**Sales of Services**	**Kshs**	**Kshs**
	Management Fees paid to related party	285,654	64,602
ii)	**Outstanding Balances**		
a)	Investments held with related parties		
	Cytonn Investments Management Limited	947,250	1,539,600
b)	Payable to related parties		
	Cytonn Asset Managers Limited	-	64,602
	Cytonn High Yield Solutions	5,000	-
	Cytonn Money Market Fund	58,829	-
		63,829	64,602
c)	Receivable to related parties		
	Cytonn Asset Managers Limited	5,348	-

11. 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

Price Risk

The Fund is exposed to equity securities price risk because of investments in quoted shares. The trust deed sets out the following guiding principles for the Fund Manager in order to manage this risk:

i) invest in a solid spread of high performance securities
ii) take capital profits when appropriate
iii) select stocks in companies with proven performance and good prospects for growth
iv) spread securities over those economic sectors that meet the criteria of performance and growth; and
v) administer the portfolio according to best practice.

All quoted shares held by the Fund were traded on the Nairobi Securities Exchange (NSE). The price risk exposure on the Fund as at end of period is not considered to be material.

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 is not exposed to interest rate risk because there were no interests bearing assets held as at reporting date.

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 bank balances is limited as the counterparties are all recognised banks with good reputations. The Fund's equity investments are done through reputable intermediaries to protect the Fund against any misappropriations.

11. Risk management objectives and policies (continued)

Financial risk management (continued)

b) Credit Risk (continued)

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 fund 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. For such purposes, the fund'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:

11. Risk management objectives and policies (continued)

Financial risk management (continued)

b) Credit Risk (continued)

Financial Assets	12 Months expected credit loss	12 Months expected credit loss
Bank Balances	36,181	69,995
Gross Carrying Amount	**36,181**	**69,995**
Loss Allowance	(847)	(847)
Exposure to Credit Risk	**35,334**	**69,148**

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

- financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
- financial assets that are credit impaired at the balance sheet date;
- 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.

12. Incorporation

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

13. Presentation Currency

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