CYTONN BALANCED FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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Corporate Trustee	Co-operative Bank of Kenya Limited Co-operative House Haile Selassie Avenue P.O. Box 48231, 00100 Nairobi, Kenya
Registered Office and Principal Place of Business	The Chancery 7th Floor Valley Road PO Box 20695, 00200 Nairobi, Kenya.
Fund Manager & Administrator	Cytonn Asset Managers Limited 7th Floor Valley Road PO Box 20695, 00200 Nairobi, Kenya.
Custodians	KCB Bank Kenya Limited KCB Towers, 7th Floor Junction of Hospital Road and Kenya Road Upper Hill P.O Box 30664-00100 Nairobi
Independent Auditor	Parker Randall Eastern Africa Certified Public Accountants 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 Balanced Fund governed by a trust Deed dated 02 October 2017. This was subsequently changed to Cytonn Balanced 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 13 shows loss for the period of Kshs (175,130) (Profit 2019: Shs. 304,731). The statement of financial position on page 14 shows total net assets of Shs. 2,394,610 as at 31 December 2020 (2019: Kshs 1,768,544).

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	112.92	112.92	113.26	113.26
Lower unit price	95.74	95.74	97.24	97.24
Highest unit price	113.38	113.38	133.84	133.84

PERFORMANCE RECORD (CONTINUED)

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

	2020	2019
	Kshs	**Kshs**
Highest price	113.38	133.84
Lower price	95.74	97.24

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

	2020	2019
	Kshs	**Kshs**
Total fund Value (Shs)	2,394,610	1,768,544
Net Income distributed	(175,130)	304,731
Number of units distributed	25,525	30,578

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.

INVESTMENT

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 25 members.

FUND ADVISORS

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

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

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 company's auditor is unaware; and

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

TERMS OF APPOINTMENT OF THE AUDITOR

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

.......26/09.......................**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 Trustees 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 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. The Fund Manager appointed Goal Advisory (A) Limited as the new Corporate Trustee if the fund, effective January 1, 2021.

Approved by the Trustee on 30th April 2021 and signed on its behalf by:

THE CO-OPERATIVE BANK OF KENYA LTD. TRUSTEE SERVICES

....
Trustee

Dear Unit Holder,

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 50.2% serving to grow net assets under management to Kshs 2.7 mn as at 31st December 2020 from Kshs 1.8 mn 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 Balanced 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 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.

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By order of the Custodian
CUSTODY SERVICES
KCB Bank Kenya Limited

...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 BALANCED FUND
FOR THE YEAR ENDED 31 DECEMBER 2020

Opinion

We have audited the financial statements of Cytonn Balanced Fund set out on pages 12 to 29, 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 Balanced 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 other 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.

Key audit matters

We have determined that there are no Key Audit Matters to communicate in our report.

Other information

The Trustee is responsible for the other information. The other information comprises the report of the Trustee, Fund Manager, Custodian and statement of Trustee's responsibilities which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date.

Other information 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 an audit opinion or any form of assurance conclusion thereon.

Other information (Continued)

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 on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 going concern and using the going concern basis of accounting unless the Trustee either intends to cease operations of the fund, or has no realistic alternative but to do so.

Trustee's responsibility 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.

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 judgement and maintain professional scepticism 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 control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustee.

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

- Conclude on the appropriateness of the Trustee'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 significant doubt on the fund'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 in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the fund 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

30/04/2021
....
Date

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

		2020	2019
Income	**Notes**	**Kshs**	**Kshs**
Investment Income	**2**	350,511	465,910
Fair Value gain on Investments	**3**	(230,024)	(51,857)
Total Income		**120,487**	**414,053**
Fund expenses			
Operating Expenses	**4**	(292,066)	(100,407)
IFRS 9 impairment Provision	**4**	(3,551)	(8,915)
Total Operating Expenses		**(295,617)**	**(109,322)**
(Loss) / Profit for the period		**(175,130)**	**304,731**

The notes set out on pages 16 to 29 form an integral part of the financial statements.

	Notes	2020 Kshs	2019 Kshs
ASSETS			
Treasury Bonds	5	-	563,299
Fixed deposit in financial institutions	6	957,927	-
Bank balances	7	70,834	114,674
Trade and other receivables	8	472,804	-
Quoted equity investments	9	746,750	944,000
Unsecured securities	10	258,272	246,975
		2,506,588	1,868,948
LIABILITIES			
Other payables	11	111,978	100,405
NET ASSETS		**2,394,610**	**1,768,543**
FUND BALANCE			
Unit holders funds		2,578,083	1,463,813
Retained earning		304,731	-
Net income for the period		(175,130)	304,731
Opening Balance Adjustment		(313,074)	-
MEMBERS FUNDS		**2,394,610**	**1,768,544**

The financial statements on pages 12 to 15 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
Co-operative Bank of Kenya

The notes set out on pages 16 to 29 form an integral part of the financial statements.

	2020	2019
	Kshs	**Kshs**
At 1st January 2020	1,463,813	-
Proceeds from units issued during the year	2,578,083	3,086,626
(Refunds) made on withdrawals by unit holders	(2,927,626)	(1,622,813)
Net withdrawals by unit holders in the period	**1,114,270**	**1,463,813**
Retained earning	304,731	-
Total income for the period	(175,130)	304,731
Unreconciled Difference	(313,074)	-
At the end of the period	**2,394,610**	**1,768,544**

The notes set out on pages 16 to 29 form an integral part of the financial statements.

	Notes	2020 Kshs	2019 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / Profit for the period		(175,130)	304,731
Unreconciled difference		(313,074)	-
Changes in working capital			
Increase in receivables	8	(472,804)	-
Increase in Other payables	11	11,573	100,405
Net cash from operating activities		**(949,436)**	**405,136**
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in treasury bonds	5	563,299	(563,299)
Decrease in quoted investments	9	197,250	(944,000)
Increase in unlisted securities	10	(11,297)	(246,975)
Net cash generated from/ (used in) investing activities		**749,252**	**(1,754,274)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Amount earned on purchase of units		4,041,896	3,086,626
Amount paid on withdrawals of units		(2,927,626)	(1,622,813)
Net cash from financing activities		**1,114,270**	**1,463,813**
Increase in cash and cash equivalents		914,086	114,675
Movement in cash and cash equivalent			
At start of period		114,675	-
Increase		914,086	114,675
At end of period		**1,028,761**	**114,675**

The notes set out on pages 16 to 29 form an integral part of the financial statements.

1. SUMMARY 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.

Transfer 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 judgement

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 recognised prospectively.

The Trustee has made the following estimates and judgements 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 judgements set-out below do not consider the full potential impact of the recent coronavirus 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 judgement (Continued)

Impairment of investments

The fund reviews their portfolio of investments on an annual basis. In determining whether investments are impaired, the Trustee makes 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 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 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 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 judgement (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 are 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
		Kshs	**Kshs**
2	**Investment Income**		
	Interest Income		
	Unlisted securities	14,322	4,960
	At fair value through profit or loss		
	Dividend Income	37,350	69,880
	Gains on sale of equity investments	298,839	391,070
		336,189	460,950
		350,511	465,910
3	**Fair Value changes**		
	Fair Value loss		
	Quoted Equity investments	230,024	48,600
	Government bonds	-	3,257
		230,024	51,857
4	**Fund expense**		
	Operating expenses		
	Interest expense	-	26,866
	Fund management fees	78,999	2,041
	Trustee fees	4,894	-
	Custody fees	68,000	11,500
	Business permit expense	37,500	-
	Audit fees	46,140	60,000
	Annual General Meeting Expenses	56,533	-
		292,066	100,407
	IFRS 9 impairment provisions		
	IFRS 9 impairment provisions	3,551	8,916
		295,617	109,323
5	**Treasury Bonds**		
	FIXD2/2019/015	-	567,785
	Less: IFRS 9 Impairment provision	-	(4,486)
		-	563,299

In the opinion of the Trustee, the carrying amount of the treasury bonds approximate to their fair value.

The carrying amounts of the fund's treasury bonds are denominated in Kenya shillings.

6 Fixed deposit in financial Institution	**2020**	**2019**
	Kshs	**Kshs**
SBM Bank	629,253	-
Credit Bank	332,281	-
Less: IFRS 9 Impairment Provision	(3,607)	-
	957,927	-

In the opinion of the Trustee, the carrying amount of the fixed deposits approximate to their fair value.

The carrying amounts of the fund's fixed deposits are denominated in Kenya shillings.

	2020	**2019**
7 Cash and cash equivalent	**Kshs**	**Kshs**
Cash at bank	73,643	116,079
Less: IFRS 9 Impairment provision	(2,809)	(1,405)
	70,834	114,674

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

	2020	**2019**
	Kshs	**Kshs**
Cash at bank	70,834	114,674
Fixed deposits	957,927	-
	1,028,761	114,674

The carrying amount of the company's cash at bank and in hand are dominated in Kenya shillings.

In the opinion of the Trustee, the carrying amount of the cash and cash equivalents approximate to their fair value.

	2020	**2019**
	Kshs	**Kshs**
8 Trade and Other Receivables		
Related Party Receivable CMMF (Note 10)	472,804	-

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

	2020	2019
9 Quoted Shares-at fair value	**Kshs**	**Kshs**
Equity Group Holdings	73,100	107,000
Safaricom Limited	616,500	756,000
KCB Bank Limited	57,150	81,000
	746,750	944,000

Movement in quoted shares;

	Number of Shares			
Year Ended 2020	**At start of period**	**Additions**	**Disposals**	**At end of period**
Equity Group Holdings	2,000	-	-	2,000
Safaricom Limited	24,000	-	(6,000)	18,000
KCB Bank Limited	1,500	-	-	1,500
	27,500	-	(6,000)	21,500
Year ended 2019				
Equity Group Holdings	-	2,000	-	2,000
Safaricom Limited	-	24,000	-	24,000
KCB Bank Limited	-	12,000	(10,500)	1,500
	-	38,000	(10,500)	27,500

	2020	2019
10 Unsecured securities	**Kshs**	**Kshs**
Amount due from Cytonn High Yield Solutions LLP	264,322	250,000
Less: IFRS 9 impairment provision	(6,050)	(3,025)
	258,272	246,975

11 Trade and Other Payables		
Other payables	68,798	73,539
Payables to related parties (Note 12)	43,179	26,866
	111,978	100,405

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

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

12. Related party balances and transactions

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 companies;

	2020 Kshs	2019 Kshs
i) Sales of services		
Management fees paid to related party	43,179	26,866
ii) Outstanding balances		
a) Investment held with related parties		
Unitholder (Investor)-Cytonn Investments Management Limited	1,754,850	1,698,900
Unitholder (Investor)-Cytonn High Yield Solution LLP	51	50
	1,754,901	1,698,950
b) Payables to related parties (Note 11)		
Cytonn Asset Managers Limited	43,179	26,866
c) Receivable to related parties		
Cytonn Money Market Fund	472,804	-

13. 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.

Risk management is carried out by the management.

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:

- invest in a solid spread of high-performance securities
- take capital profits when appropriate
- select stocks in companies with proven performance and good prospects for growth

13. Financial risk management (Continued)

a) Market risk (Continued)

Price risk

- spread securities over those economic sectors that meet the criteria of performance and growth; and
- 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's interest-bearing assets include term deposits and treasury bonds 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. The Fund's investments are done through reputable intermediaries to protect the Fund against any misappropriations.

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.

13. Financial risk management (Continued)

b) Credit risk (Continued)

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 include observable data about the following events:

- significant financial difficulty of the holder of debt instrument
- a breach of contract
- it is probable that the holder of debt instrument 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 was as follows:

Basis for measurement of loss allowance	**12 month expected credit losses**		
For year ended 31 December 2020	**Gross Carrying amount**	**Expected Credit losses**	**Exposure to credit risk**
Financial assets	**Kshs**	**Kshs**	**Kshs**
Bank balances	73,643	(2,809)	70,834
Unlisted securities	264,322	(6,050)	258,272
Total	**337,965**	**(8,859)**	**329,106**
For year ended 31 December 2019			
Financial assets	**Kshs**	**Kshs**	**Kshs**
Treasury bonds	567,785	(4,486)	563,299
Bank balances	114,674	(1,405)	113,270
Unlisted securities	246,975	(3,025)	243,950
Total	**929,434**	**(8,916)**	**920,519**

13. 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:

- 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.

14. Events after the reporting period

No events recorded after the reporting period.

15. Registration

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

16. Presentation currency

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