

CYTONN AFRICA FINANCIAL SERVICES FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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CYTONN AFRICA FINANCIAL SERVICES FUND
FUND INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2020

Corporate Trustee	Natbank Trustees and Investments services Mezzanine Floor, National Bank Building Harambee Avenue P.O. Box 72866-00200 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.
Custodian	SBM Bank (Kenya) Limited Riverside Mews Riverside Drive Nairobi P.O. Box 34886-00100 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

Cytonn Africa Financial-Services Fund is a unit trust registered with the Capital Markets Authority under the provisions of the Capital Markets (Collective Investment Schemes) Regulations, 2001 and established under a Trust Deed dated the 17 June 2019 between Cytonn Asset Managers Limited as the Fund Manager and Natbank Trustee and Investment Services Limited as Trustee.

The investment objective of the Fund is to generate superior returns for Unit holders by principally investing in the financial services sector stocks of select Sub Saharan Africa countries that possess a high potential return, in the form of capital appreciation and dividend yield.

The Fund seeks long-term capital growth through investing in financial services stocks in Africa. The selection of companies is based on countries with a relatively stable macro-economic environment and possessing a market cap of at least USD 70.0million. The companies include banks, insurance companies, and investment companies, with the initial allocation skewed towards banks.

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 comprehensive income on page 12 shows loss for the period of Kshs. 29,179. The statement of financial position on page 13 shows total net assets of Kshs. 3,554,956 as at 31 December 2020

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:

	Bid Price Kshs	Offer Price Kshs
Closing unit price	89.7	89.7
Lower unit price	55.3	55.3
Highest unit price	95.6	95.6

PERFORMANCE RECORD (CONTINUED)

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

	2020
	Kshs
Highest price	95.6
Lower price	55.3

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

	2020
Total fund Value (Shs)	3,554,956
Net Income distributed	(29,179)
Number of units distributed	40,270.9

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 1 member.

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 FUND'S AUDITOR

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

- a) there is, so far as the Trustee is aware, no relevant audit information of which the fund's auditor is unaware; and
- b) the Trustee has taken all the steps that they ought to have taken as Trustees 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 TRUSTEE BY



.....
NAIROBI

CYTONN AFRICA FINANCIAL SERVICES FUND
STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

The Trustee is responsible for the preparation of the financial statements which give a true and fair view in accordance with International Financial Reporting Standards and the requirements of Capital Markets (Collective Investment Schemes) Regulations, 2001, and for such internal controls as the Trustee determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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.


Signed on behalf of Trustee

.....29- APR -2021

Dear Unit Holder,

We are delighted to report your Fund's performance for the year under review. The fund achieved significant growth realizing cumulative new sales and growing by 299.3% serving to grow net assets under management to Kshs 3.7 million as at 31st December 2020 from Kshs 0.9 million at the start of the period. 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 Africa Financial Services Fund.

We hereunder highlight some of the developments that characterized the investments markets during the year under review. During 2020, the Kenyan economy recorded negative levels of economic growth, averaging a contraction of (0.6%) for the first three quarters of 2020, compared to an average growth of 5.5% in a similar period in 2019. 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%. Accommodation & tourism and the Education sectors were the hardest hit, declining by 57.9% and 41.9% respectively.

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% at the end of 2019, respectively. In 2020, the yield curve steepened during the year, readjusting downwards for the shorter-dated papers but adjusting upwards for the longer-dated papers. The FTSE NSE bond index increased by 2.6% to close the year at 98.0 from 95.5 at the end of 2019.

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 decliners during the year included Bamburi, Equity Group, Diamond Trust Bank, KCB Group, and Standard Chartered which declined by 52.7%, 31.7%, 31.2%, 29.4%, and 28.8%, respectively. Key to note, Safaricom recorded gains of 8.7% YTD as they benefited from the working from home environment and increasing digitization trends. Safaricom continues to be a key part of Kenyan equities portfolios, accounting for 59.6% of Nairobi Stock Exchange (NSE's) market capitalization and has dominated on both the market turnover and in determining the direction of the market given its weight and liquidity in the Nairobi Securities Exchange. We note that 14 companies issued profit warnings to investors compared to 10 companies in 2019.

On the real estate market, data from the Kenya National Bureau of Statistics indicate that the sector registered an average growth rate of 3.9% in the first three quarters of 2020, 0.9% points lower than the average growth rate recorded over the same period in 2019, which came in at 4.8%. The decline is attributable to factors such as supply chain disruptions due to COVID-19 restriction measures coupled with a decline in disposable incomes due to business disruptions and loss of employment during due to the adverse effects of the pandemic. The average rental yield for the real estate market stood at 6.9%, 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 4.0%.

The average total returns for the market decreased to 5.9% from 9.0% recorded in 2019, largely attributable to a decline in effective demand for property amidst tough economic times.

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

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.....2021

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between SBM Bank (Kenya) Limited as the Custodians and Cytonn Asset Managers Limited as the Fund Manager, we confirm that 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 Africa Financial Services Fund
- b) the issue, sale, redemption and cancellation, and calculation of the price of the Fund's units and the application of the Fund's income have been carried out in accordance with the Regulations; and
- c) the investment and borrowing powers and restrictions applicable to the Fund in accordance with the Regulations and the documents of incorporation have not been exceeded.

For the year ended 31 December 2020, we have held the assets of the Cytonn Africa Financial Services 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.

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


By order of Custodian
SBM Bank (Kenya) Limited



29/12/2021
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**REPORT OF THE INDEPENDENT AUDITOR
TO THE UNIT HOLDERS OF CYTONN AFRICA FINANCIAL SERVICES FUND
FOR THE YEAR ENDED 31 DECEMBER 2020**

Opinion

We have audited the financial statements of Cytonn Africa Financial Services Fund set out on pages 10 to 25, which comprise the statement of financial position as at 31 December 2020, statement of profit or loss, statement of changes in net assets and statement of cash flows for the period then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Cytonn Africa Financial Services 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.

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.

Other information (Continued)

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.
- 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.

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

- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures 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**

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Date

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

30/04...../2021

CYTONN AFRICA FINANCIAL SERVICES FUND
STATEMENT OF COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2020

	Notes	2020 Kshs
Income		
Investment Income	2	362,003
Fair Loss on Investments	3	<u>(315,154)</u>
		46,849
Operating Expenses	4	(72,023)
IFRS 9 impairment Provision	4	<u>(4,005)</u>
Loss for the period		<u>(29,179)</u>

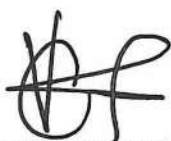
The notes set out on pages 16 to 27 form an integral part of the financial statements.

CYTONN AFRICA FINANCIAL SERVICES FUND
 STATEMENT OF FINANCIAL POSITION
 AS AT 31 DECEMBER 2020

	Notes	2020 Kshs
ASSETS		
Fixed deposit in financial institutions	5	804,043
Cash at bank	6	1,759
Trade and other receivables	7	1,663
Quoted equity investments	8	<u>2,750,492</u>
		3,557,956
LIABILITIES		
Other payables	9	<u>3,000</u>
NET ASSETS		<u>3,554,956</u>
FUND BALANCE		
Unit holders funds	10	3,584,135
Loss for the period		<u>(29,179)</u>
MEMBERS FUNDS		<u>3,554,956</u>

The financial statements on pages 12 to 15 were approved for issue by the Trustee on

29-Apr- 2021 and signed on its behalf by;



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Trustee
NatBank Trustees and Investments services

The notes set out on pages 16 to 27 form an integral part of the financial statements.

CYTONN AFRICA FINANCIAL SERVICES FUND
STATEMENT OF CHANGES IN UNIT HOLDERS FUNDS
AS AT 31 DECEMBER 2020

	2020
	Kshs
Proceeds from units issued during the year	3,584,135
Refunds made on withdrawals by unit holders	-
Net withdrawals by unit holders in the period	3,584,135
(Loss) for the period	<u>(29,179)</u>
At the end of the period	<u><u>3,554,956</u></u>

The notes set out on pages 16 to 27 form an integral part of the financial statements.

CYTONN AFRICA FINANCIAL SERVICES FUND
STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2020

	Notes	2020 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period		(29,179)
<i>Adjustments for:</i>		
Changes in working capital		
Increase in receivables	7	(1,663)
Increase in Other payables	9	3,000
<i>Net cash used in operating activities</i>		<u>(27,842)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in quoted investments	8	<u>(2,750,492)</u>
<i>Net cash used in investing activities</i>		<u>(2,750,492)</u>
CASHFLOW FROM FINANCING ACTIVITIES		
Amount earned on purchase of units		3,584,135
Amount paid on withdrawals of units		-
<i>Net cash from financing activities</i>	10	<u>3,584,135</u>
Increase in cash and cash equivalents		<u>805,802</u>
Movement in cash and cash equivalent		
At start of period		-
Increase		<u>805,802</u>
At end of period		<u>805,802</u>

The notes set out on pages 16 to 27 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 realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised 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 is recognised 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 amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

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

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

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

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

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.

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

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

- Realised/unrealised gains and losses

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

d) Financial instruments

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets

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

The fund classifies its financial assets into the following categories:

i) Amortised cost;

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

ii) Fair Value Through Profit or Loss (FVTPL):

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

Notwithstanding the above, the fund may:

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

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the 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 derecognised, the cumulative gain/loss previously recognised 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 recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

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

Impairment

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

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

No impairment loss is recognised 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 recognised 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 amortised 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
	Kshs
2 INVESTMENT INCOME	
<i>At fair value through profit or loss</i>	
Dividend Income	33,250
Interest Income	28,048
Gains on sale of equity investments	300,705
	<u>362,003</u>
3 FAIR VALUE CHANGES	
<i>Fair Value loss</i>	
Quoted Equity investments	315,154
	<u>315,154</u>
4 FUND EXPENSE	
Operating expenses	
Bank Charges	11,004
Commission payment	13,019
Trustee fees	2,500
Custody fees	8,000
Business permit expense	37,500
	<u>72,023</u>
IFRS 9 impairment provisions	
Fixed Deposit	4,005
	<u>4,005</u>
Total fund expenses	<u>76,028</u>
5 FIXED DEPOSIT IN FINANCIAL INSTITUTION	
Credit Bank	404,692
Sidian Bank	403,356
Less: IFRS 9 Impairment Provision	(4,005)
	<u>804,043</u>

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
	Kshs
6 CASH AND CASH EQUIVALENT	
Cash at bank	1,759
Less: IFRS 9 Impairment provision	-
	<u>1,759</u>

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

Cash at bank	1,759
Fixed deposit	804,043
	<u>805,802</u>

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
	Kshs
7 TRADE AND OTHER RECEIVABLES	
WHT asset	<u>1,663</u>

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

	2020
	Kshs
8 QUOTED SHARES-AT FAIR VALUE	
Absa Bank Kenya Plc.	533,172
Safaricom Ltd	238,700
Kenya Commercial Bank Ltd	525,700
Equity Bank Ltd	658,000
Co-Operative Bank of Kenya Ltd	794,920
	<u>2,750,492</u>

Movement in quoted shares	Number of Shares		
	Year Ended 2020	At start of period	At end of period
		Additions	Disposals
Absa Bank Kenya Plc.	-	56,600	-
Safaricom Ltd	7,000	-	-
Kenya Commercial Bank Ltd	3,700	10,300	-
Equity Bank Ltd	4,300	14,500	-
Co-Operative Bank of Kenya Ltd	14,200	52,600	-
	<u>29,200</u>	<u>133,400</u>	<u>-</u>
			<u>163,200</u>

	2020
	Kshs
9 TRADE AND OTHER PAYABLES	
Payables and Accruals	3,000
	<u>3,000</u>

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.

	2020
	Kshs
10 FUND BALANCE	
Loss for the period	(29,179)
Unit Holders Balances	3,584,135
	<u>3,554,956</u>

11. 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
- 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.

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Market risk (Continued)

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.

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.

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

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 2020	12 month expected credit losses		
	Gross Carrying amount Shs	Expected Credit losses Shs	Exposure to credit risk Shs
Financial assets			
Fixed deposit	808,048	(4,005)	804,043
Bank balances	1,759	-	-
Total	809,807	(4,005)	804,043

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.

12. Registration

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

13. Presentation currency

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