PKF

Cytonn Balanced Fund

Annual Report and Financial Statements

For the year ended 31 December 2019

CONTENTS

FUND INFORMATION

CORPORATE TRUSTEE	: Co-operative Bank of Kenya Limited : Co-operative House : Haile Selassie Avenue : P.O. Box 48231, 00100 : NAIROBI
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	: The Chancery : 7th Floor : Valley Road : P.O. Box 20695, 00200 : NAIROBI
FUND MANAGERS AND ADMINISTRATORS	: Cytonn Asset Managers Limited : The Chancery : 7th Floor : Valley Road : P.O. Box 20695, 00200 : NAIROBI
CUSTODIANS	: Standard Chartered Bank of Kenya Limited : Standard Building Chiromo : 48, Westlands Road : P.O. Box 40984, 00100 : NAIROBI
INDEPENDENT AUDITOR	: PKF Kenya LLP : Certified Public Accountants (Kenya) : Kalamu House, Grevillea Grove, off Brookside Drive : P.O. Box 14077, 00800 : NAIROBI

REPORT OF THE TRUSTEE

The trustee has the pleasure of submitting the fund's report together with the audited financial statements for the period ended 31 December 2019.

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 10 shows profit for the period of Shs. 304,731. The statement of financial position on page 11 shows total net assets of Shs. 1,768,544 as at 31 December 2019.

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 Shs	**offer price Shs**
Closing unit price	113.26	113.26
Lowest unit price	97.24	97.24
Highest unit price	133.84	133.84

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

	2019 Shs
Highest price	133.84
Lowest price	97.24

REPORT OF THE TRUSTEE (CONTINUED)

PERFORMANCE RECORD (CONTINUED)

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

	2019
Total fund Value (Shs)	1,768,544
Net income distributed (Shs)	304,731
Number of units distributed	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 2019, the Fund had 10 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

PKF Kenya, a partnership, was on 10 March 2020 converted to PKF Kenya LLP, a Limited Liability Partnership under the Limited Liability Partnership Act, 2011. PKF Kenya LLP was appointed during the year and continues in office. The trustee monitor the effectiveness, objectivity and independence of the auditor. The trustee 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

THE CO-OPERATIVE BANK OF KENYA LTD.
TRUSTEE SERVICES

29th April 2020

REPORT OF THE FUND MANAGER

We are delighted to report your Fund's performance for the year under review. The fund achieved significant growth realizing cumulative new sales growing by a staggering 757% and served to grow net assets under management above the Kshs 600 million mark. 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 Unit Trust Scheme.

We hereunder highlight some of the developments that characterized the investments markets during the year under review. During 2018, the Kenyan economy recorded slower levels of economic growth, averaging 5.4% for the first three quarters of 2019, compared to an average of 6.0% in a similar period in 2018 occasioned by (i) a slowdown in agricultural activities, which saw the sector record an average growth of 4.2%, down from the 5.3% in 2018 and (ii) decreased output in transport and electricity activities, which grew on average by 7.0% and 5.5% compared to the 8.6% and 7.6% respectively recorded in the prior period.

On the fixed income market, the yield on the 91-day, 182-day and 364-day T-bills continued to decline to close at 7.2%, 8.2% and 9.8% in 2019 from 7.3%, 9.0% and 10.0% respectively as at the end of 2018. 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 although the repeal of the rate cap in November 2019 resulted in gains in selected long-term government securities.

On the equities market, the domestic market recorded mixed performance, with NASI and NSE 25 gaining by 18.5% and 15.5%, respectively, while NSE 20 declined by 6.3%. Large cap stocks such as Equity Group, KCB Group, Safaricom, NCBA, Barclays, Co-operative Bank and EABL were among the highest gainers during the year under review. We note that 10 companies issued profit warnings to investors compared to 8 companies in 2018, while 2 companies, namely KenolKobil and Atlas Development and Support Services were delisted from trading at the Nairobi Securities Exchange.

On the real estate market, data from the Kenya National Bureau of Statistics indicate that the sector registered an average growth rate of 4.8% in the first three quarters of 2019, 0.3% points higher than the average growth rate recorded over the same period in 2018. The growth is attributable to factors such as the continued enhancement of infrastructure boosting Nairobi's positioning as a regional hub, attracting foreign direct investment, as well as positive demographic growth. The average rental yield for the real estate market stood at 7.0%, down from 7.4% recorded in 2018. From a sectoral perspective, commercial office space registered average rental yield of 7.5% with retail sector at7.8%, residential at 7.3% while mixed-use developments and serviced apartments sector registered closed at 7.6%. The average total returns for the market decreased to 9.0% from 11.2% recorded in 2018, 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.

The first quarter of the 2020 has been 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 to also adopt a similar approach albeit we believe the disruptions occasioned by the pandemic will translate into lower economic performance in 2020. That said, we are optimistic of a much-improved performance to the benefit of unitholders. 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.

REPORT OF THE FUND MANAGER (CONTINUED)

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

29th April 2020

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P. O. Box ...
NAIR...

REPORT OF THE CUSTODIAN

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between Standard Chartered Bank Kenya Limited as the Custodians and Cytonn Asset Managers Limited as the Fund Manager, we confirm that for the year ended 31 December 2019:

- We have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations, to the Cytonn Balanced Fund;

- We have held the assets for the Cytonn Balanced Fund, including 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.

STANDARD CHARTERED BANK KENYA LTD.

Manager...

By order of the Custodian
Standard Chartered Bank Kenya Limited

20th April 2020

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Capital Markets (Collective Investment Schemes) Regulations, 2001 and trust deed requires the trustee to prepare financial statements for each financial period which show a true and fair view of the state of affairs of the Fund at the end of the financial period and of the Fund's operating results for the period. It also requires the trustee to ensure that Cytonn Balanced Fund keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund. 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 accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. The trustee is of the opinion that the financial statements give a true and fair view of the financial affairs of Cytonn Balanced Fund and of its operating results. The trustee further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the trustee to indicate that Cytonn Balanced Fund will not be able to meet its obligations for at least the next twelve months from the date of this statement.

The Trustee wishes to state that via a letter dated 1 August 2019, 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

THE CO-OPERATIVE BANK OF KENYA LTD. TRUSTEE SERVICES

29th April 2020

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF CYTONN BALANCED FUND

Opinion

We have audited the financial statements of Cytonn Balanced Fund set out on pages 11 to 25, which comprise the statement of financial position as at 31 December 2019, 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 2019, 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.

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF CYTONN BALANCED FUND (CONTINUED)

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.

- 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.

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF CYTONN BALANCED FUND (CONTINUED)

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

- 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 matters

In our opinion the information given in the report of the trustee on pages 2 and 3 is consistent with the financial statements.

PKF Kenya LLP

Certified Public Accountants
Nairobi

30th April **2020**

CPA Charles Waigiri Mukunu, Practising certificate No. 2386
Signing partner responsible for the independent audit

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STATEMENT OF PROFIT OR LOSS

	Notes	3 months to December 2019 Shs
Investment income	2	465,910
Fair value gain on investments	3	(51,857)
Total income		414,053
Operating expenses	4.1	(100,407)
IFRS 9 impairment provisions	4.2	(8,915)
Profit for the period		304,731

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

Report of the independent auditor - pages 8 to 10.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2019 Shs
ASSETS		
Treasury Bonds	5	563,299
Bank balances	6	114,674
Quoted equity investments	7	944,000
Unsecured securities	8	246,975
		1,868,949
LIABILITIES		
Other payables	9	100,405
NET ASSETS		1,768,544
FUND BALANCE		
Unit holders funds		1,463,813
Net income for the period		304,731
MEMBERS' FUNDS		1,768,544

The financial statements on pages 11 to 25 were approved and authorised for issue by the Trustee on 29th April 2020 and were signed on its behalf by:

________________ TRUSTEE

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

Report of the independent auditor - pages 8 to 10.

STATEMENT OF CHANGES IN NET ASSETS

	2019 Shs
Proceeds from units issued during the year	3,086,626
(Refunds) made on withdrawals by unit holders	(1,622,813)
Net withdrawals by unit holders in the period	1,463,813
Total income for the period	304,731
At end of period	1,768,544

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

Report of the independent auditor - pages 8 to 10.

STATEMENT OF CASH FLOWS

Cash flows from operating activities	**Notes**	**2019 Shs**
Profit for the period		304,731
Adjustments for:		
IFRS 9 impairment provisions	4.2	8,915
Changes in working capital:		
- other payables		100,405
Net cash from operating activities		414,051
Investing activities		
Net purchases in treasury bonds		(563,299)
Net purchases in quoted investments		(944,000)
Net purchases in unlisted securities		(246,975)
IFRS 9 impairment provisions		(7,511)
Net cash (used in) investing activities		(1,761,785)
Financing activities		
Amounts earned on purchase of units		3,086,626
Amounts paid on withdrawals of units		(1,622,813)
Net cash from financing activities		1,463,813
Increase in cash and cash equivalents		116,079
Movement in cash and cash equivalents		
At start of period		-
IFRS 9 impairment provisions		(1,405)
Increase		116,079
At end of period	6	114,675

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

Report of the independent auditor - pages 8 to 10.

1. **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 are 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.

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 2019 have been adopted by the fund.

The following, which became effective from 1 January 2019, have been adopted but have not had a significant impact on the fund's financial statements.

- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.
- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

New and amended standards adopted by the fund (continued)

- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2019 clarifying that IFRS 9 is only applicable to investments to which the equity method is not applied.
- Amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2019 in relation to remeasurement of previously held interests on a joint operation on obtaining control.
- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amortised cost classification.
- Amendments to IFRS 11 'Joint Arrangements ' effective for annual periods beginning on or after 1 January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests.

- IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following standards and interpretations, which have not been applied in these fund's financial statements, were in issue but not yet effective for the period presented:

- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014) applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- 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 group 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.

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

New standards, amendments and interpretations issued but not effective (continued)

- 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.

The trustee does not expect that adoption of the other standards and interpretations will have a material impact on the financial statements in future periods. The fund plans to apply the changes above from their effective dates.

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.

- **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:

  - 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.

1. **Significant accounting policies (continued)**

b) **Critical accounting estimates and judgement (continued)**

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

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.
- 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. **Significant accounting policies (continued)**

d) **Financial instruments (continued)**

- 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 reassess 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. 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 comprhensive income (FVTOCI):
- Cash and cash equivalents
- Trade and other receivables
- Other financial assets

1. **Significant accounting policies (continued)**

d) **Financial instruments (continued)**

- ***Financial assets (continued)***

Impairment (continued)

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.

- ***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 company 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.**

e) **Cash and cash equivalents**

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

NOTES (CONTINUED)

	3 months to 31 December 2019 Shs
2. Investment income	
Interest income	
Unlisted securities	4,960
At fair value through profit or loss:	
Dividend income	69,880
Gain on sale of equity investments	391,070
	460,950
	465,910
3. Fair value changes	
Fair value loss	
Quoted equity investments	48,600
Government bonds	3,257
	51,857
4. Fund expenses	
4.1 Operating expenses	
Interest expense	
Fund management fees	26,866
Trustee fees	2,041
Custody fees	11,500
Audit fees	60,000
	100,407
4.2 IFRS 9 impairment provisions	
- treasury bonds	4,486
- bank balances	1,405
- unlisted securities	3,025
Total IFRS 9 impairment provisions	8,915
Total fund expenses	109,322

5. Treasury Bonds	**2019 Shs**
FXD2/2019/015	567,785
Less: IFRS 9 impairment provision	(4,486)
	563,299

The bond FXD2/2019/015 is expected to mature in 2034. The average coupon rate for the bonds was 12.73%.

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. Cash and cash equivalents

	2019 Shs
Cash at bank	116,079
Less: IFRS 9 impairment provision	(1,405)
	114,674

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

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.

7. Quoted shares - at fair value

	2019 Shs
Equity Group Holdings	107,000
Safaricom Limited	756,000
KCB Bank Limited	81,000
	944,000

Movement in quoted shares	Number of shares			
	At start of period	Additions	Disposals	At end of period
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

8. Unlisted securities

	2019 Shs
Amount due from Cytonn High Yield Solutions LLP	250,000
Less: IFRS 9 impairment provision	(3,025)
	246,975

9. Trade and other payables

Other payables	73,539
Payable to related parties (Note 10)	26,866
	100,405

In the opinion of the directors, 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.

10. 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.

		2019 Shs
i)	**Sale of services**	
	Management fees paid to related party	26,866
ii)	**Outstanding balances**	
a)	Investments held with related parties	
	Unitholder (Investor) - Cytonn Investments Management Limited	1,698,900
	Unitholder (Investor) - Cytonn High Yield Solution LLP	50
		1,698,950
b)	Payable to related parties (Note 9)	
	Cytonn Asset Managers Limited	26,866

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.

- *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.

11. **Risk management objectives and policies**

(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 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**		
Financial assets	**Gross carrying amount Shs**	**Expected credit losses Shs**	**Exposure to credit risk Shs**
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	(8,915)	920,519

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

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

NOTES (CONTINUED)

12. **Events after the reporting period**

Subsequent to the reporting period, the following event has taken place;

Following a meeting by the Board of the Fund Manager on 9th January 2020, the Board resolved to amend the Trust Deed and Rules and Information Memorandum of the Balanced Fund that were filed with the Authority by reducing the Minimum Investment for the Fund from Kshs 5,000 as prescribed in the documents to Kshs 1,000 and this change was effected immediately. The above resolution was communicated to Capital Markets Authority on 15th January 2020.

13. **Registration**

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

14. **Presentation currency**

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