

CYTONN HIGH YIELD FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS	PAGE
Fund Information	1
Report of the trustee	2-3
Report of the Fund Manger	4
Report of the Custodian	5-6
Statement of Trustee's Responsibilities	7
Report of the Independent Auditor	8-12
Financial Statements: -	
Statement of profit or loss	13
Statement of financial position	14
Statement of changes in equity	15
Statement of cash flows	16
Notes to the financial statements	17-27

Corporate Trustee

Goal Advisory (A) Limited
4th Floor, Krishna Centre,
Woodvale Grove, Westlands
P.O. Box 14426 - 00100
Nairobi

Registered Office

The Chancery
6th Floor
Valley Road
P.O. Box 20695-00200
Nairobi

Fund Manager and Administrators

Cytonn Asset Managers Limited
The Chancery
6th Floor
Valley Road
P.O. Box 20695-00200
Nairobi

Custodians

SBM Bank (Kenya) Limited
Riverside Mews
Riverside Drive Nairobi
P.O. Box 34886-00100
Nairobi

Independent Auditor

Parker Randall Eastern Africa
Certified Public Accountants (Kenya)
Galleria Business Park, Block 2(A)
P.O. Box 25426 - 00100
Nairobi

The Trustee submits their report together with the audited financial statements for the year ended 31 December 2021.

INCORPORATION OF THE FUND

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

PRINCIPAL ACTIVITY

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

RESULTS

The results for the year are set out in the Statement of Profit or Loss on page 11.

INVESTMENTS

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

CHANGES TO INCORPORATION DOCUMENTS

The Trust Deed and Rules was amended to include the appointment of the new Trustee-Goal Advisory (A) Limited to replace Natbank Trustee and Investment Services following its resignation on October 2020.

FINANCIAL REVIEW

The statement of profit or loss on page 12 shows profits for the year 37,066,539 (2020: Kshs 15,512,633). The statement of financial position on page 13 shows total net assets of Kshs 274,413,835 (2020: 176,367,604)

PERFORMANCE RECORD

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

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

	2021		2020	
	Daily Yield	Annual Yield	Daily Yield	Annual Yield
Closing Yield	13.08%	13.97%	13.53%	13.53%
Lowest Yield	12.96%	13.84%	11.74%	11.74%
Highest Yield	14.88%	16.04%	14.54%	14.54%

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

	2021	2020
Highest price	15.97%	14.54%
Lowest Price	13.19%	8.88%

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

	2021	2020
Total fund Value (Kshs)	274,413,835	176,367,603
Number of units distributed	38,972,181	22,964,006
Net income distributed (Kshs)	37,822,572	15,512,633

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

MEMBERSHIP

As at 31 December 2021, the Fund has 85 members (2020: 107 members).

FUND ADVISORS

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

STATEMENT OF DISCLOSURE TO THE COMPANY'S AUDITORS

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

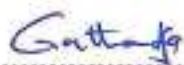
- There is, so far as the person is aware, no relevant audit information of which the company's auditors are unaware; and
- The person has taken all the steps that he/she ought to have taken as a partner to be aware of any relevant audit information and to establish that the partnership's auditors are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

TERMS OF APPOINTMENT OF THE AUDITORS

Parker Randall Eastern Africa were appointed in office 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


.....
31 March 2022

CYTONN HIGH YIELD FUND
STATEMENT OF TRUSTEE'S RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

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

Having made an assessment of the fund's ability to continue as a going concern, the Trustees 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 Subsequently, the Trust Deed and Rules was amended to include the appointment of the new Trustee-Goal Advisory (A) Limited from 1st January 2021.

Approved by the Trustee on.....31/3/2022..... and signed on its behalf by:


.....

Trustee

.....

Trustee

Dear Unit Holder,

We are delighted to report your Fund's performance for the year under review. The fund achieved significant growth with the total assets under management growing by 56.0% to Kshs 274.4 mn in 2021 from Kshs 176.3 mn in 2020. 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 Q3'2021, the Kenyan economy recorded a 9.9% growth, up from the 2.1% contraction recorded in a similar period in 2020, pointing towards continued economic recovery. Consequently, the average GDP growth rate for the 3 quarters in 2021 is a growth of 6.9%, an increase from the 0.8% contraction recorded during similar periods of review in 2020. The biggest gainers in terms of sectoral contribution to GDP were Education and Taxes on Products, increasing by 1.8% points each to 5.5% and 9.7%, from 3.6% and 7.9% in Q3' 2020, respectively. Agriculture was the biggest loser, declining by 1.3% points to 20.5% in Q3'2021, from 21.8% in Q3'2020, following the erratic weather conditions during the period. The Education sector recorded the highest growth rate in Q3'2021 growing by 64.7% compared to the 17.4% contraction recorded in Q3'2020. The performance is mainly attributable to the re-opening of schools following school closures for most of 2020 due to the pandemic.

On the fixed income market, the yield on the 91-day, 182-day and 364-day T-bills increased, to close at 7.0%, 7.6% and 8.5% in 2021, from 6.9%, 7.4% and 8.3% respectively as at the end of 2020. The Central Bank of Kenya's (CBK) maintained deliberate efforts to keep rates low by rejecting expensive bids in the auction market. In line with the above, the yield curve experienced upward pressure, partly attributable to the increased government borrowing and the increasing inflation seen in 2021.

On the equities market, the domestic market was on an upward trajectory, with NASI, NSE 25, and NSE 20 increasing by 9.5%, 9.8%, and 1.6%, respectively. Large cap stocks such as ABSA Bank Kenya, BAT Kenya, KCB Group, Safaricom, EABL and Co-operative Bank were among the highest gainers during the year under review. We note that 4 companies issued profit warnings to investors compared to 15 companies in 2020. National Bank of Kenya was delisted from the Nairobi Securities Exchange effective 25th November 2021. This came after the successful takeover by KCB of 100.0% of all the ordinary shares of National Bank of Kenya (NBK) through a share swap of 1 ordinary share of KCB for every 10 NBK shares, after the Capital Markets Authority (CMA) approved the acquisition in September 2019. Additionally, the Central Bank of Kenya approved the liquidation of three banks; namely, Chase Bank Limited (In Receivership), Imperial Bank Limited (In Receivership) and Charterhouse Bank Limited.

On the Real Estate market, data from the Kenya National Bureau of Statistics (KNBS) indicate that the sector witnessed increased development activities with a general improvement in Real Estate transactions, attributed to the improved business environment.

The reopening of the economy has also facilitated numerous expansion and construction activities by investors, in addition to various businesses also resuming full operations. Consequently, the Real Estate sector grew by 4.9% in Q2'2021, 0.3% points higher than the 4.6% growth recorded in Q2'2020. The average rental yield for the Real Estate market stood at 6.5%, up from 6.1% recorded in 2020. From a sectoral perspective, commercial office space registered average rental yield of 7.1% with retail sector at 7.8%, residential at 4.8% while mixed-use developments and serviced apartments sector closed at 7.2%. The average total returns for the market increased to 7.1% from 5.9% recorded in 2020, largely attributable to improved business environment and the reopening of the economy.

During the year, we continued to successfully deliver on our digitization agenda that has enabled our 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 now also have a 24/7 Call Centre that we believe will go a long way in delivering an unparalleled customer experience to all our unitholders.

The global economy has been on a gradual recovery following the inoculation of the COVID-19 vaccines and the containment measures we saw most governments put in place during the onset of the pandemic in 2020. The Kenyan government has also been proactive in containing the virus and we expect to see continued economic recovery in the near term. 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.

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

Signed on Behalf of the Fund Manager By;

Name GRACE W. WERN

Signature 

Date 31 MARCH 2022

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 2021:

- We have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations, to Cytonn High Yield Fund;
- We have held the assets for the Cytonn High Yield 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.

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

By order of the custodian

.....


..... 31/12/2022



**REPORT OF THE INDEPENDENT AUDITOR
TO THE UNIT HOLDERS OF CYTONN HIGH YIELD FUND
FOR THE YEAR ENDED 31 DECEMBER 2021**

Opinion

We have audited the accompanying financial statements of Cytonn High Yield Fund set out on pages 13 to 27, which comprise the statement of financial position as at 31 December 2021, the statement of profit or loss, statements of changes in net assets and statement of cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements in all material respects give a true and fair view of the financial position of Cytonn High Yield Fund as at 31 December 2021 and of its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of Kenyan Capital Markets (Collective Investment Schemes) Regulations, 2001.

Basis for Opinion

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (continued)

Key Audit Matter:	How our audit addressed the key audit matter:
<p>Investments in Real Estate Notes</p> <p>We identified the investment in real estate note as a key audit matter because the fund has invested heavily in the real estate notes. These investments constitutes 95% of the funds held by CHYF.</p> <p>The individual real estates are owned by Cytonn Group a related party to the fund.</p> <p>We focused on how the values of the underlying real estate properties have been determined and recoverability of the funds therein invested.</p>	<p>We understood and evaluated controls exercised by management in order to ensure valuation of the underlying assets are appropriately performed in accordance with the best practice.</p> <p>We reviewed the valuation of the underlying assets and evaluated the assumptions made in the valuation of each real estate property investment; we reviewed the appropriateness of the valuation method used and also considered the validity of data used in the process.</p> <p>We tested the accuracy of the computations and assessed the adequacy of disclosures.</p>

Other information

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

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

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

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

Responsibilities of the Trustee's 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 Standard for small and medium sized entities, and for such internal control as the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material, if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

- Our conclusions are based on the audit evidence up to the date of the auditor's report. However, future events or conditions may cause the firm to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the Trustee 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.

From the matters communicated with the Trustee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.



The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Michelle Okonji, practicing license number 2423

.....
Partner

For and on behalf;

Michelle Okonji
**Certified Public Accountants
Nairobi.**

31/3 **2022**

CYTONN HIGH YIELD FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Kshs	2020 Kshs
Investment Income	2	42,779,616	18,962,588
Operating Expenses	3.1	(5,161,003)	(2,347,276)
Impairment provisions	3.2	<u>(552,074)</u>	<u>(1,102,679)</u>
Profit for the period		<u>37,066,539</u>	<u>15,512,633</u>

The notes set out on pages 17 to 27 form an integral part of these financial statements.

CYTONN HIGH YIELD FUND
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Kshs	2020 Kshs
ASSETS			
Fixed Deposits	4	-	18,792,938
Cash and cash equivalents	5	3,205,180	1,530,790
Investment in real estate loans	6	259,663,032	142,397,483
Unit Trust	7	-	2,339,533
Government Bonds	8	6,449,087	9,694,498
Trade and Other Receivables	9	11,575,330	5,542,214
		<u>280,892,629</u>	<u>180,297,456</u>
LIABILITIES			
Other payables	10	6,478,794	3,929,852
NET ASSETS			
		<u>274,413,835</u>	<u>176,367,604</u>
Unit Holder Funds		246,723,763	162,780,063
Profit for the year		37,066,539	15,512,633
Retained earnings		<u>(9,376,467)</u>	<u>(1,925,094)</u>
MEMBERS FUNDS			
		<u>274,413,835</u>	<u>176,367,602</u>

The financial statements on page 13 to 27 were approved by the Trustee on 31/03/2022 and were signed on its behalf by;

Gathaka
.....
Trustee

The notes set out on pages 17 to 27 form an integral part of these financial statements.

CYTONN HIGH YIELD FUND
 STATEMENT OF CHANGES IN UNIT HOLDERS FUNDS
 FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	Kshs	Kshs
Profits from units issued during the period	285,695,944	185,744,070
Interest redistributed to unit holders	<u>(38,972,181)</u>	<u>(22,964,006)</u>
Net Movement in the Fund Balance	246,723,763	162,780,064
Profit for the year	37,066,539	15,512,633
Retained Earnings	<u>(9,376,467)</u>	<u>(1,925,095)</u>
At end of the period	<u>274,413,835</u>	<u>176,367,602</u>

The notes set out on pages 17 to 27 form an integral part of these financial statements.

CYTONN HIGH YIELD FUND
STATEMENT OF CHANGES IN CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Kshs	2020 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		37,066,539	15,512,633
Impairment provision	3.2	552,074	1,102,679
Changes in working capital			
-Increase in Government Bonds	9	3,245,411	(9,694,498)
-Increase in Trade and Other Receivables	10	(6,033,116)	(5,542,214)
-Increase/ (decrease) in Other Payables	11	2,548,942	(1,658,765)
		<u>37,379,850</u>	<u>(280,166)</u>
Net Cash from operating activities			
CAHFLOW FROM INVESTING ACTIVITIES			
Increase in Real Estate Loan Notes	6	(117,265,549)	(62,017,179)
Decrease in Unlisted Securities	7	-	15,671,068
Decrease/ (increase) in investments in Unit Trusts	8	2,339,533	(139,533)
IFRS 9 Impairment Provisions	3.2	1,419,121	(154,291)
		<u>(113,506,894)</u>	<u>(46,639,935)</u>
Net cash used in investing activities			
CASH FLOW FROM FINANCING ACTIVITIES			
Increase on Purchase of Units		99,951,874	65,837,603
Interest redistributed to unit holders		(38,972,181)	(22,964,006)
		<u>60,979,693</u>	<u>42,873,597</u>
Net cash from financing activities			
(Decrease) in Cash and Cash Equivalent		<u>(15,147,354)</u>	<u>(4,046,504)</u>
Movement in cash and cash equivalent			
At Start of the period		20,323,729	25,318,620
IFRS 9 impairment provisions	3.2	(1,971,195)	(948,388)
Net increase in the year		<u>(15,147,354)</u>	<u>(4,046,504)</u>
Cash and Cash equivalent at the end of the period		<u>3,205,180</u>	<u>20,323,728</u>

The notes set out on pages 17 to 27 form an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Presentation of Financial Statements

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

b) Critical accounting estimates and judgments

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

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

Significant estimates and judgements made relate to:

Impairment of investments

The fund reviews their portfolio of investments on an annual basis. In determining whether investments are impaired, the directors 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 fair value through other comprehensive income (FVTOCI) is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

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

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

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

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

1. Summary of significant accounting policies (continued)

b) Critical accounting estimates and judgments (continued)

Assessment of significant increase in credit risk

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

c) Revenue Recognition

Investment income

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

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

Realised /unrealised gains and losses

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

d) Financial Instruments

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

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

The fund classifies its financial assets into the following categories:

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

1. Summary of significant accounting policies (continued)

e) Financial Instruments (Continued)

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

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

Notwithstanding the above, the fund may:

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

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

Derecognition/write off

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

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

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

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):

1. Summary of significant accounting policies (continued)

d) Financial Instruments (Continued)

Derecognition/write off (Continued)

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

No impairment loss is recognised on investments measured at FVTPL.

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

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

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

e). Cash and Cash Equivalent

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

	2021	2020
	Kshs	Kshs
2 Investment Income		
Investment in Real Estate Loan Notes	36,625,571	13,501,693
Impairment income	2,589,244	-
Financial Institutions	1,796,337	807,443
Government Bond	1,036,404	183,190
Fixed Deposit	659,483	2,435,287
Cytonn Money Market Fund	72,578	43,242
Unlisted Securities	-	1,991,733
	<u>42,779,616</u>	<u>18,962,588</u>
3 Fund expense		
3.1 Operating expenses		
Fund management fees	2,924,106	1,530,888
Other expenses	957,851	-
Trustee fees	427,254	44,371
Custody fees	330,329	224,196
Audit fees	319,725	236,000
Bank charges	91,820	67,859
Annual General Meeting Expenses	84,917	79,800
Business Licenses and Permits	25,000	-
Advertising and Marketing	-	160,776
Commission Expense	-	3,386
	<u>5,161,003</u>	<u>2,347,276</u>
3.2 IFRS 9 impairment provisions		
Fixed deposits	1,921,296	128,722
Bank Balances	49,899	819,666
Unlisted securities	6,456	(255,923)
Investment in real estate loan notes	(1,425,577)	410,214
	<u>552,074</u>	<u>1,102,679</u>
Total fund expenses	<u>5,713,077</u>	<u>3,449,955</u>
4 Fixed deposits		
Maturity within 30 days	-	18,682,995
Accrued Interest	-	727,808
Less: IFRS 9 impairment provisions	-	(617,865)
	<u>-</u>	<u>18,792,938</u>

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

	2021	2020
	Kshs	Kshs
5 Cash and cash equivalent		
Cash at bank	3,253,990	1,533,140
Less: IFRS 9 Impairment Provision	<u>(48,810)</u>	<u>(2,350)</u>
	<u>3,205,180</u>	<u>1,530,790</u>

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

	2021	2020
	Kshs	Kshs
Cash at Bank	3,205,180	1,530,790
Fixed Deposit	<u>-</u>	<u>18,792,938</u>
	<u>3,205,180</u>	<u>20,323,728</u>

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

	2021	2020
	Kshs	Kshs
a) Cytonn Integrated Project LLP		
At start of the period	106,355,782	80,380,304
Investment during the period	(620,590)	13,700,000
Interest accrued	15,173,567	13,259,992
Less: Impairment provisions	<u>(221,845)</u>	<u>(984,514)</u>
At end of the period	<u>120,686,913</u>	<u>106,355,782</u>
b) Taraji- (LLP 10)		
Investment during the period	93,797,679	-
Interest accrued	13,855,284	-
Less: Impairment provisions	<u>(215,306)</u>	<u>-</u>
At end of the period	<u>107,437,656</u>	<u>-</u>
c) Ridge- (LLP 11)		
Investment during the period	7,799,090	-
Interest accrued	1,336,044	-
Less: Impairment provisions	<u>(18,270)</u>	<u>-</u>
At end of the period	<u>9,116,864</u>	<u>-</u>
d) Applewood-(LLP18)		
At start of the period	36,041,701	-
Investment during the period	(19,839,393)	35,800,000
Interest accrued	6,260,677	241,701
Less: Impairment provisions	<u>(41,387)</u>	<u>-</u>
At end of the period	<u>22,421,598</u>	<u>36,041,701</u>
Total Investment in real estate loans	<u>259,663,032</u>	<u>142,397,483</u>

6 Investment in real estate loan notes (continued)

The fund has invested in a comprehensive residential development namely The Alma, through the Real Estate Loan Notes. The project is strategically positioned in the heart of the fast-growing Ruaka neighbourhood, neighbouring the project is Two Rivers Mall, the biggest shopping mall in East Africa and the Village Market. This investment constitutes 95% of the funds. The real estate projects are implemented by Cytonn PLC a related party to the fund managers.

7 Unit trust	2021	2020
	Kshs	Kshs
At start of the period	2,339,533	2,200,000
Additions during the year	-	139,533
Redemption of unit trust balances	<u>(2,339,533)</u>	-
At the end of the period	<u>-</u>	<u>2,339,533</u>

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

8 Government bonds	2021	2020
	Kshs	Kshs
Kenya Government Bonds	6,455,542	9,694,498
Less: IFRS 9 Impairment Provision	<u>(6,456)</u>	-
	<u>6,449,087</u>	<u>9,694,498</u>

The weighted average effective interest rate on Treasury bonds at 31 December 2021 was 11.42%. In the opinion of the Trustee, the carrying amount of Treasury bond approximate to their fair value.

The Carrying amounts of Treasury bonds are denominated in Kenya Shillings

9 Trade and other Receivables	2021	2020
	Kshs	Kshs
Other receivables	6,033,116	-
Receivable to related parties (Note 11)	<u>5,542,214</u>	<u>5,542,214</u>
	<u>11,575,330</u>	<u>5,542,214</u>

10 Trade and other Payables	2021	2020
	Kshs	Kshs
Other payable	5,637,655	3,268,645
Accrued Audit Fees	409,590	409,590
Payable to related parties (Note 12)	139,694	138,414
Accrued custody Fees	159,200	57,740
Accrued Trustee Fees	132,656	55,463
	<u>6,478,794</u>	<u>3,929,852</u>

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

11 Related Party Balances and Transactions	2021	2020
	Kshs	Kshs
i) Sale of Services		
Management Fees paid to Related Parties	<u>3,205,180</u>	<u>1,530,888</u>
ii) Outstanding Balances		
a) Investment with related parties		
Cytonn Integrated Project LLP	120,686,913	108,324,810
Cytonn Investments Partners Eleven LLP	9,116,864	-
Cytonn Investments Partners Eighteen LLP	22,421,598	-
Cytonn Investments Partners Ten LLP	107,437,656	-
Cytonn Money Market Fund	-	2,339,533
	<u>259,663,032</u>	<u>110,664,343</u>
b) Payable to related parties		
Cytonn Asset Managers Limited	<u>139,694</u>	<u>138,414</u>
iii) Receivable Balances		
Cytonn High Yield Solutions LLP	5,046,714	5,046,714
Cytonn Money Market Fund	495,500	495,500
	<u>5,542,214</u>	<u>5,542,214</u>

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

12. Risk management objectives and policies

Financial risk management

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

a) Market risk

Interest rate risk

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

b) Credit Risk

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

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

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

12. Risk management objectives and policies (continued)

Financial risk management (continued)

b) Credit Risk (continued)

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

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

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

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

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

a For year 2021	Gross Carrying Amount Kshs	Expected Credit Losses Kshs	Exposure to Credit Risks Kshs
Financial Assets			
Bank Balances	3,253,990	(48,810)	3,205,180
Investment in real estate loan notes	260,159,839	(496,808)	259,663,032
	<u>263,413,829</u>	<u>(545,618)</u>	<u>263,413,829</u>
b For year 2020			
Fixed Deposit	19,410,803	(617,865)	18,792,938
Bank Balances	1,533,140	(2,350)	1,530,790
Investment in real estate loan notes	63,001,693	(984,514)	62,017,179
Unlisted Securities	143,957	(143,957)	-
	<u>84,089,593</u>	<u>(1,748,686)</u>	<u>82,340,907</u>

12. Risk management objectives and policies (continued)

Financial risk management (continued)

b) Credit Risk (continued)

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

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

13. Incorporation

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

14. Presentation Currency

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