

Importance of Passive Income

Private Wealth Management Training

Disclaimer

Please note that the contents of this presentation are for education purposes only. It is not intended as a substitute for financial advice. Investors are advised to consult their Financial Advisor before making decisions based on the contents of this presentation



Cytonn : Business Development

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What We Stand For



Our Purpose

We invest in innovative solutions that create wealth and transform lives



Our Values

People

Passionate and self-driven people who thrive in a team context

Excellence

Delivering the best at all times

Client Focus

Putting clients' interest first at all times

Entrepreneurship

Using innovation and creativity to deliver differentiated financial solutions

Accountability

We take both corporate and personal responsibility for our actions

Integrity

Doing the right things

SECTION

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Overview of The Firm

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ABOUT US

Cytonn Investments is an investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East African region. Our investors include global and local institutional investors, individual high net-worth investors and clients in the diaspora.

FACT FILE

82 B Over Kshs. 82 billion worth of projects under mandate

20+ Over 20 agents across the country and offices in 2 continents

400+ Over 400 staff members

10 10 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development aliate

WHY WE EXIST

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the investments markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the investments markets, while providing the best client service and always protecting our clients' interests.



OUR BUSINESS

Where We Operate



Our Business Lines

Investments

We work to deliver innovative and differentiated financial solutions that speak to our clients' needs

Real Estate

We develop institutional grade real estate projects for investors

Private Equity

We seek to unearth value by identifying companies and growing them

BOARD OF DIRECTORS

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 12 members from diverse backgrounds, each bringing in unique skill-sets to the firm.



**Prof. Daniel Mugendi Njiru,
PhD**

Non-Executive Director
Chairman



**Madhav N. Bhalla,
LLB**

Non-Executive Director



**Antti-Jussi Ahveninen,
MSc**

Non-Executive Director



**Nasser J. Olwero,
MPhil**

Non-Executive Director



**Madhav Bhandari,
MBA**

Board Committee Member



**James M. Maina,
MA**

Non-Executive Director



**Michael Bristow,
MSc**

Non-Executive Director



**Rose Kimotho,
M.B.S.**

Non-Executive Director



**Edwin H. Dande,
CPA, MBA**

Executive Director



**Elizabeth N. Nkukuu,
CFA, MBA**

Executive Director



**Patricia N. Wanjama,
CPS (K), MBA**

Executive Director

For bios, visit www.cytonn.com

Section

II

Our Businesses

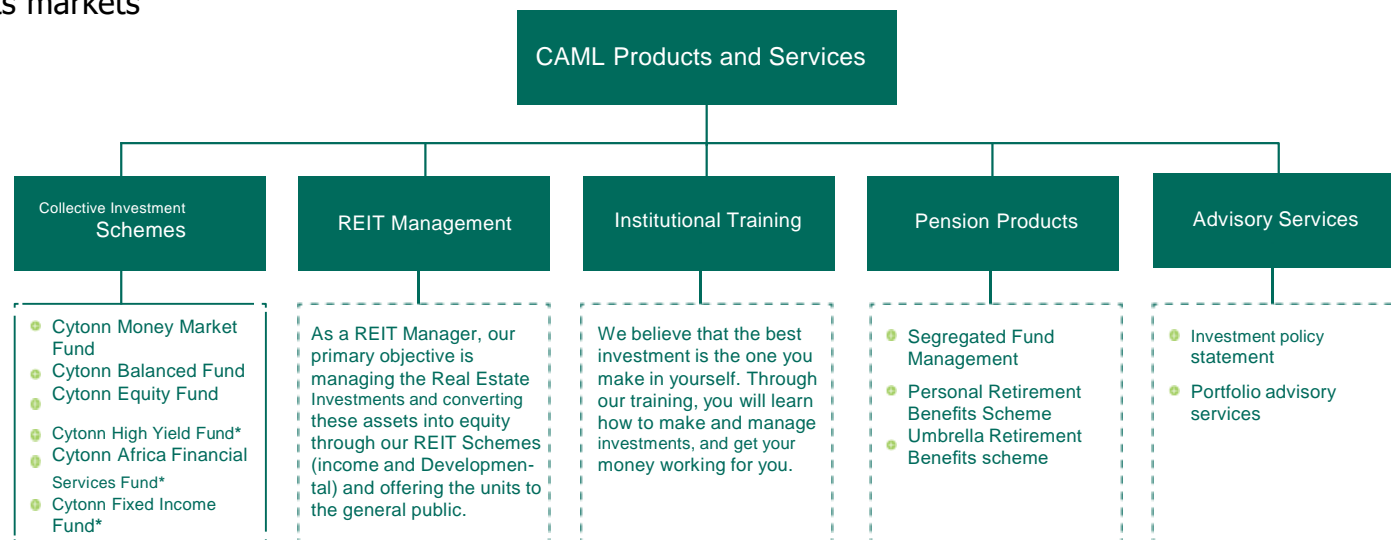
Cytonn Asset Managers

Cytonn Real Estate

Cytonn Capital Partners

CYTONN ASSET MANAGERS

Cytonn Asset Managers Limited (CAML) - Is the regulated affiliate of Cytonn Investments Management Plc, and is licensed as a Fund Manager by the Capital Markets Authority and the Retirement Benefits Authority. The company is also a licensed Real Estate Investment Trust (REIT) Manager under the Capital Markets Authority. Our objective is to offer superior risk-adjusted investment returns to our clients through investments in both the public and alternative investments markets



* In Formation

Our Collective Investments Schemes Offering

Cytonn Money Market Fund

The Cytonn Money Market Fund provides investors with a high level of current income while protecting their capital and offering added liquidity. The Fund has been outperforming the market and offering above average returns.



Cytonn Equity Fund

The Cytonn Equity Fund is focused on investing in the best risk-adjusted returns in the equities market in Kenya and East Africa



Cytonn Balanced Fund

The Cytonn Balanced Fund focuses on offering investors current income, while also offering capital appreciation to investors in the Fund.



Cytonn High Yield Fund

CAML also offers a sector specific Fund called Cytonn High Yield Fund (CHYF). This fund invests heavily in the Real Estate sector thus giving investors access to the high returns in this sector and also offering capital appreciation to investors in the Fund.



Cytonn Africa Financial Services Fund

Cytonn Africa Financial Services Fund is another sector specific Fund by CAML that seeks to tap into the attractive returns in the financial services sector in the larger Sub-Saharan Africa Region.



Cytonn Fixed Income Fund *

The Fixed Income Fund will seek to maximize unit holders' returns while protecting the capital contributed by the unit holders



CYTONN ASSET MANAGERS



Our Pension Products Offering



Segregated Fund Management

Segregated Funds are those where members' contributions are invested directly by the Trustees via an appointed Fund Manager. Cytonn Asset Managers offers fund management services to existing and new segregated retirement benefits schemes



Cytonn Umbrella Retirement Benefits Scheme

The Cytonn Umbrella Retirement Benefits Scheme targets organizations that do not have an occupational retirement benefits scheme or do not have the capacity to start one. It gives them an opportunity to regularly save for their retirement.



Cytonn Personal Retirement Benefits Scheme

The Cytonn Personal Retirement Benefits Scheme targets self employed individuals or individuals employed by organizations that do not have an occupational retirement benefits scheme. It gives them an opportunity to regularly save for their retirement.



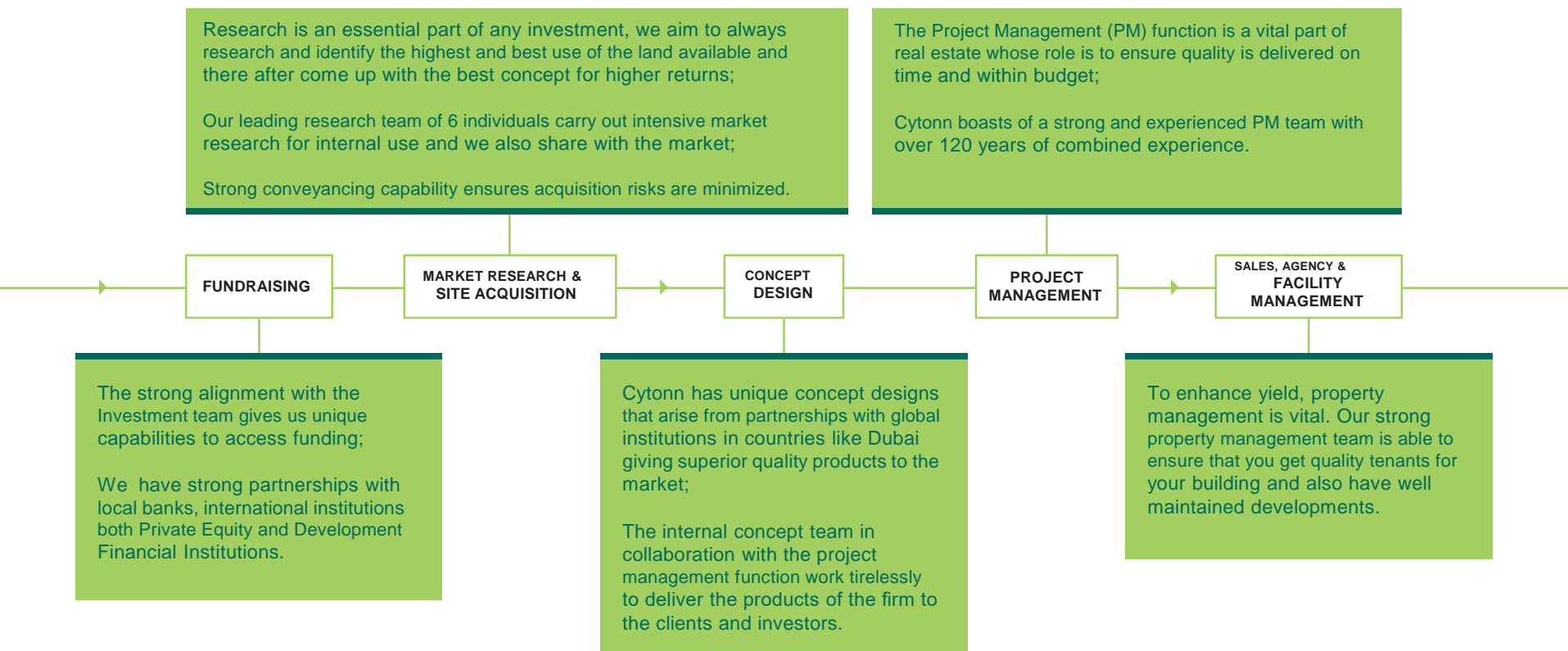
Cytonn Income Drawdown Fund

The Cytonn Income Drawdown Fund is designed to provide individuals and members of retirement schemes an option to access their benefits as a regular income through an investment fund upon retirement and also enjoy investment income as their funds are invested by the Fund Manager and continue to grow

CYTONN REAL ESTATE

We are a real estate development firm that seeks to develop institutional grade real estate having a team with extensive and deep experience in real estate development and finance.

At Cytonn Real Estate, we work to deliver quality and aspirational real estate developments that encourage great community living.



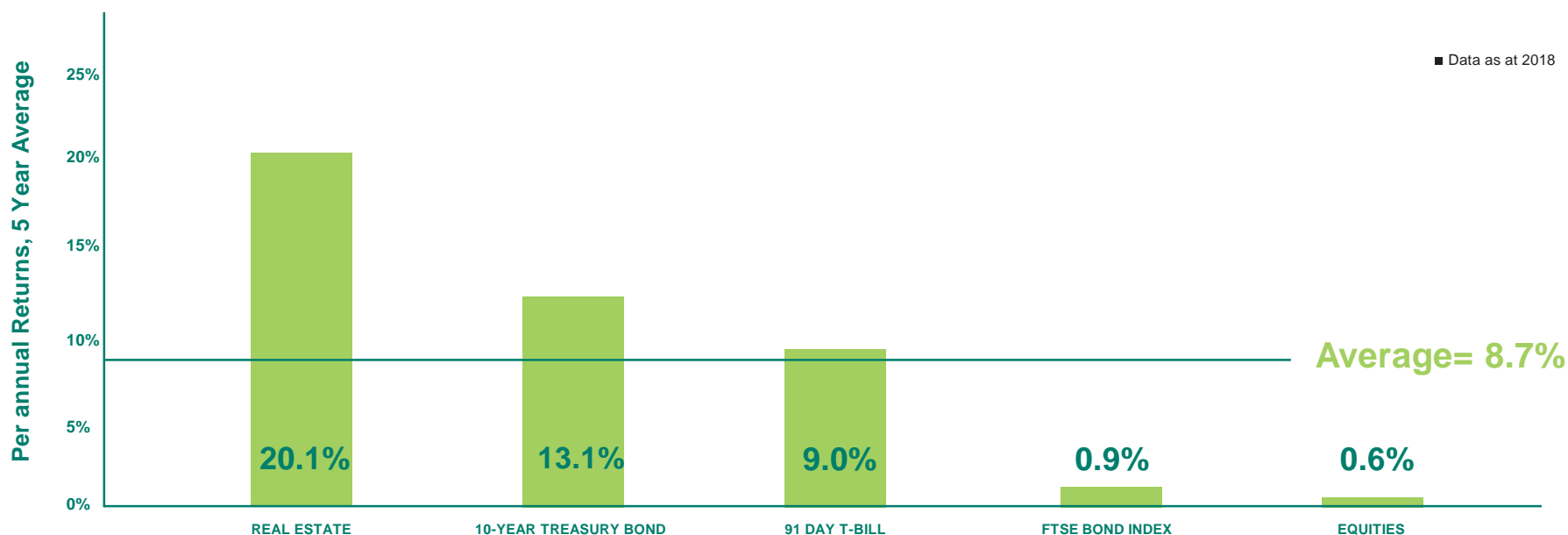
WHY INVEST IN REAL ESTATE



The best investment on earth is earth.

-Louis Glickman

Real estate has continuously delivered long stable returns compared to other asset classes



① High Returns

Real estate has consistently outperformed other asset classes over the last five years. With returns of about 24% p.a, against an average of 13.5% p.a in all asset classes.

② Inflation Hedge

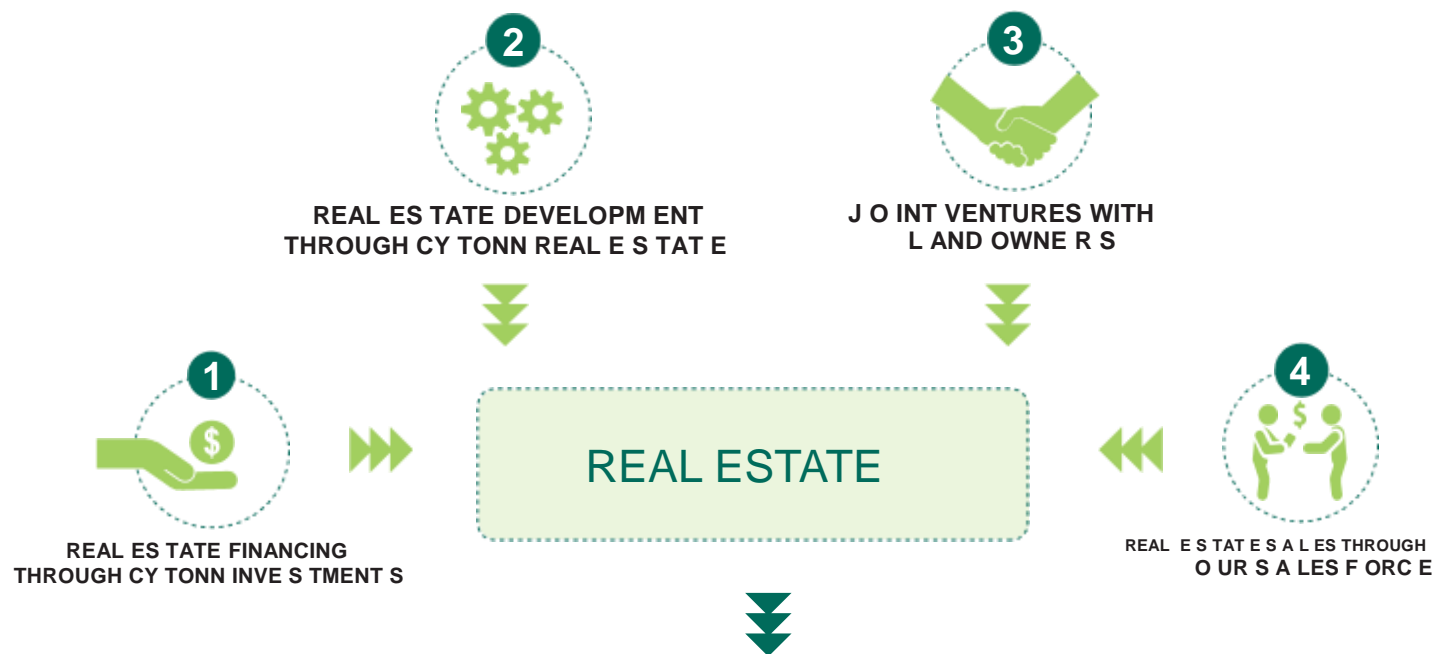
Real estate provides a hedge against inflation as the assets value grow in tandem or higher than the inflation rate.

③ Security of Returns

Unlike traditional investments whose returns fluctuate with market performance, real estate returns have minimal variance and as the value increases over time, they provide a source of stable and consistent returns.

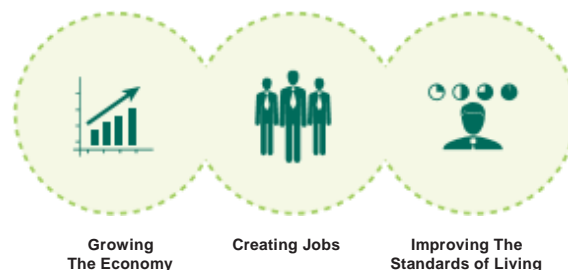
OUR REAL ESTATE STRATEGY

Cytonn's strategy brings four key pillars together:



OUTCOMES

OUTCOMES





Our Real Estate Projects

Amara Ridge

The Alma

Applewood

NewTown

Situ Village

Taraji Heights

RiverRun

CYTONN CAPITAL PARTNERS

Private Equity

- **Cytonn Hospitality:**
- **Cytonn Education Services:**

Cytonn Hospitality:

Cytonn Hospitality is an aliate of Cytonn Investments Management. As part of the Real Estate mandate, Cytonn has embarked on developing a series of mixed use developments, of which hospitality is a major component.

Our serviced apartments brand, Cysuites was established to design and manage our serviced apartments and to tap into the high growth potential in this sector.



Cytonn Education Services:

Cytonn Education Services (CES), is the education affiliate of Cytonn Investments Management. Cytonn Education Services has the mandate to provide the education services component of our comprehensive real estate developments and to set up comprehensive education institutions within our master planned developments and in other locations within the country.

Cytonn Education Services Institutions:

Cytonn Kindergarten

Providing early childhood education.

Cytonn School

Providing primary and secondary education.

Cytonn College of Innovation & Entrepreneurship

Providing practical training through short professional courses.



Section

III

Why are we Here Today?

Importance of Passive Income

Introduction

Introduction

It is earned with little time & maintenance put into the income generating activity



- **Passive income:** this is income earned with little time and maintenance spent in the income generating activity
- **Active income:** can only be earned by directly translating your time for money
- The main difference between the two is that in the case of active income if you don't work you will not earn an income while for passive income you can still earn an income even when you don't work
- **Misconception:** there is a general misconception about passive income is that you do not put any effort into the activity. However, what people should understand is that a source of passive income may require high initial investment in both time and money



Importance of Passive Income

Importance of Passive Income

Freedom to focus on your daily job/business

- **Freedom of time:** In order to increase the number income generating streams most people have to curve our time from their daily job to focus on alternative sources of income. Passive income would increase your income streams while requiring less effort and time
- **Increases your income streams:** Having a passive income reduces your dependence on your job or business as the source of income
- **Acts as Insurance or a financial Cushion:** Passive income acts a insurance in case you lose your job or your business goes under. Additionally incase you have an accident and you are incapacitated or have permanent disability your passive income will act as a financial cushion for you and your family
- **Reduces stress:** The increasingly taxing economic conditions mean that for one to maintain a decent lifestyle they must have a reliable and robust income stream. Job security is an issue that many Kenyans face and often leads to stress and anxiety. Passive income can often reduce the pressure one is under and would greatly reduce their stress and Anxiety one is under
- **Career Freedom:** A person can choose to pursue a career that you enjoy rather than one that just pays the bills when as passive income alleviates one from depending on one source of income.
- **Ability to Work and Live Anywhere:** Having passive income can give you the freedom of living and working from anywhere in the world.

Passive Income Options in Kenya

Passive Income Options In Kenya

Real Estate is the best source of passive income

- **Real Estate:** Real Estate investments are some of the most lucrative. It requires little maintenance and time to manage this investments while returns are often above average ensuring you have a steady source of passive income
- **Equities:** At the end of each year, depending on the market performance, equity investments can generate substantial income for an investor in form of dividends
- **Collective Investment Schemes:** The advantage offered by CISs is that it allows investors to start small while enjoying high interest rates on their investments. In an CIS your money works for you
- **Investing in High Yielding Investment:** Fund managers often have products that designed to deliver high returns for investors , these have the potential to meet your passive income needs
- **Offer passive Consultancy:** If you are an expert in a specific field , you can write a book, have a podcast or YouTube channel where you share knowledge. You can earn royalties and ad revenue from such ventures with little oversight from your end
- **Asset Utilization:** Your assets can also be a source of income, by renting out some of your least utilized assets you can start generating passive income
- **Pension :** This are earnings after retirement from savings invested during your productive years to ensure you have a steady source even after retirement

Generating Passive Income

Generating Passive Income - Real Estate

Rent from real estate property investments provide steady source of passive income



- The real estate market in Kenya has performed fairly well over the past few years, with average returns of 25%
- For an individual looking to increase the income streams investing in real estate is one of the best options available
- Real Estate not only provides a highly lucrative source of income but also is highly reliable income stream due to high up take



- Owners of real estate property have also enjoyed great rental yields due to the huge demand for housing in the country. This is especially true in Nairobi which has an estimated deficit of 200,000 houses
- In order to enjoy great returns from real estate , an investor should ensure that real estate investments are well researched this is because not all areas deliver the high returns.
- Developments surrounded by good infrastructure and sufficient social amenities deliver better returns

Generating Passive Income - Equities

Investing in stocks is another way of generating passive income



- Equities offer investors an opportunity to invest in various companies, the investors earn income when this companies perform well
- Investing in stocks means you have no part in the day to day running of the company therefore income from stocks is often considered passive income
- The Kenyan stock market has performed relatively well over the past few years registering over 20% gain in 2017
- Proper selection of stocks by an investor can ensure they enjoy significant returns in form of capital gains or dividends paid out at the end of the financial year
- This has been a remunerative source of passive income for many successful entrepreneurs across the world

Generating Passive Income - CISs

Money market funds offer investors saving vehicles that also generates passive income

- Collective investment Schemes are collective investment vehicles that allow investors to pool funds which are then invested to generate returns
- The relatively low cost, ease of entry and exit and relatively above average market returns can provide an investor with a steady source of income
- Investors with limited capital looking for a source of passive can consider this option as it often does not require a large investment
- Returns from these investment can be withdrawn by the investors to boost their income stream while the capital continues to grow

Generating Passive Income - CISs

Money market funds offer investors saving vehicles that also generates passive income

- Example: If an investor makes an initial investment of 200,000 Kshs into the CMMF and subsequent top ups of 200,000 Kshs year he/she can expect monthly earnings as follows:

Assuming a fixed rate of 11.00% P.A

YEAR	INITIAL PRINCIPLE	TOP-UP/YEAR	INTEREST RATE	GROSS INTEREST/YEAR	GROSS INTEREST/MONTH	TAX	NET INTEREST/MONTH	COMPOUND ED NET
			-			15.00%		AMOUNT/YEAR
1	200,000	0	11.00%	22,000	1,833	275	1,558	218,700
2	218,700	200,000	11.00%	46,057	3,838	576	3,262	457,848
3	457,848	200,000	11.00%	72,363	6,030	905	5,126	719,357
4	719,357	200,000	11.00%	101,129	8,427	1,264	7,163	1,005,317
5	1,005,317	200,000	11.00%	132,585	11,049	1,657	9,391	1,318,014

Generating Passive Income - HYI

High yield investments deliver great returns to investors

- These are investments aim to deliver above average returns for investors
- The main obstacle to these is that these investments are often geared towards sophisticated high net worth investors who can substantial capital
- For these individuals, returns High yielding investments can serve as a passive source of income as the fund manager is in charge of making investment decisions allowing the investor to focus his efforts to other activities
- An example of a high yielding investment is the Cytonn High Yield Solutions: with returns of up to 18% p.a.
- **Example: 2,000,000 investment in CHYS can generate passive income of 30,000 Kshs/month**

CHYS CALCULATOR						
PRINCIPLE	INTEREST RATE	GROSS INTEREST/YEAR	GROSS INTEREST/MONTH	TAX	NET INTEREST/MONTH	NET ANNUAL INTEREST
				15%		
1,000,000	18%	180,000	15,000	2,250.00	12,750.00	153,000.00

Generating Passive Income - Consultancy

An individual can also earn passive income from providing passive consultancy services



- Under consultancy, there are a number of ways an individual can generate passive income by using their skills and experience in a particular field
- Through e-books, blogs, online courses videos and podcast one can share their knowledge
- The initial time investment may be high : e.g time spent writing a book, recording a song, developing an online course
- However, once established they require little maintenance but the revenue is almost always coming to the investor
- These platforms often generate revenue over time, with Blogs, Videos and podcasts benefiting from advertising. Income from e-books is often paid in form of royalties

Generating Passive Income - Asset Utilization

Idle assets can serve as an alternative source of income if put to great use



- Many people often fail to recognize the value that they can derive from the assets as a result these assets stay idle
- These assets have the potential to generate income for the owner if put to great use
- An example is a situation where an individual owns a prime piece of land but cannot afford to develop it, in order to maximize value from this asset an individual can choose to form a joint venture with a real estate developer who has the financial backing
- Once the development is complete , this individual can start enjoying a steady stream of income, which he/she does not have to actively manage

Generating Passive Income - Pensions

At retirement pension acts a source of passive income

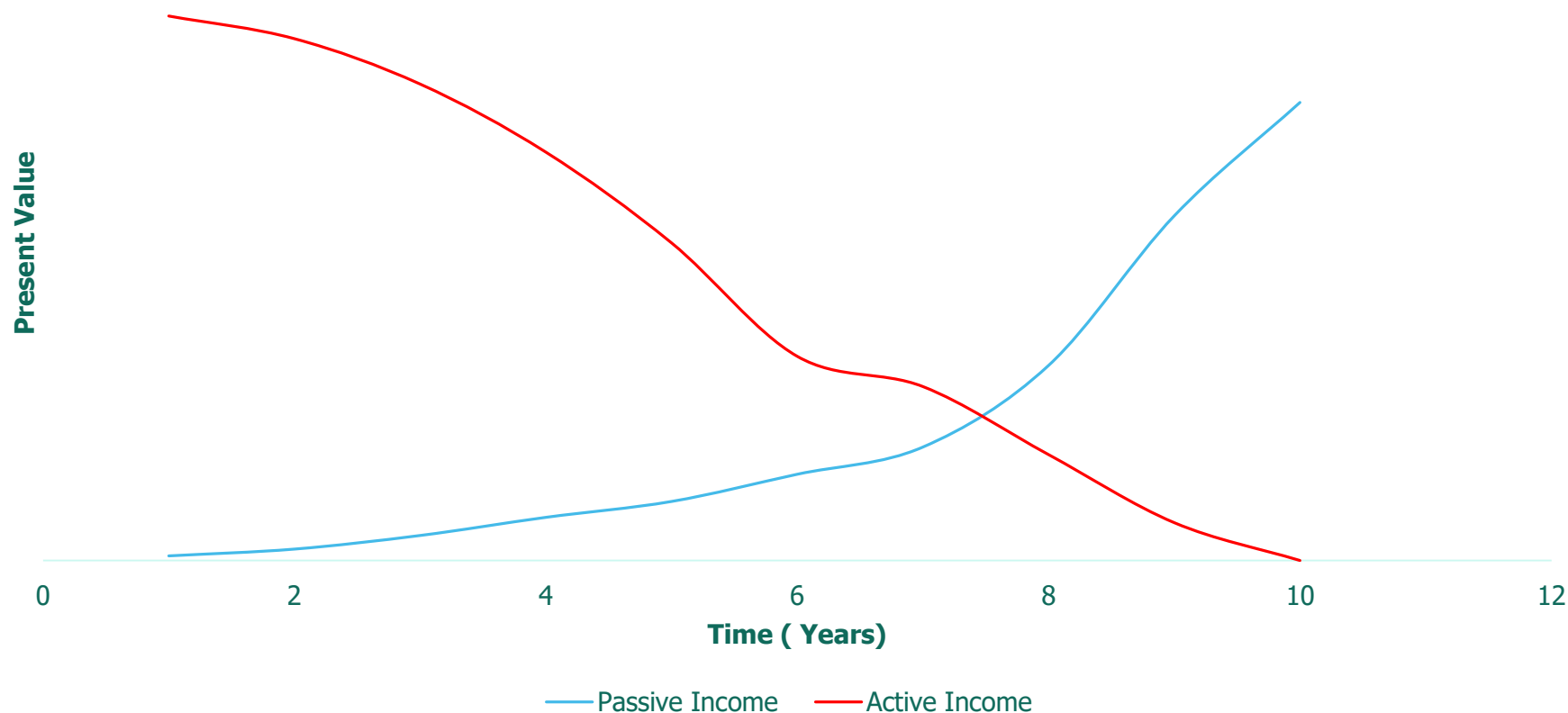


- At retirement you will need a steady income to support you in your sunset years
- Pension is considered a form of passive income because at this point the individual does not actively spend their time on an income generating activity
- Starting a pension kitty early on can ensure that you will have significant passive income at the point of retirement
- There are options for both employed and self-employed , Cytonn offers the Cytonn Umbrella Retirement Benefits Scheme for the employed and the Cytonn Personal Retirement Benefits scheme
- Upon retirement you continue to generate income from your pension with options such as the **income draw down fund** where retirement savings continue to grow

How Much Passive Income is Enough?

The end goal is achieving financial freedom

Time Progression of Passive Income



Investment Options for Different Age Brackets

Age plays a key role in choosing an investment vehicle

Investors Age	Expected Risk Profile	Income Level	Skew investments towards	Reasoning
Below 25	High	Low - Medium	Collective Investment schemes, Real Estate, RBS & Equities	Has a long investment horizon to withstand volatility and get enhanced returns
25- 35	High	Medium to high	Structured solutions, Real Estate, CIS, RBS & Equities	Few cash flow requirements. Still has time to withstand volatility
35-45	Medium	Medium to high	Structured solutions, Real Estate, CIS, Fixed income,RBS & Equities	There are constant cash flow obligations. Still has time to withstand medium volatility
45-55	Medium	Medium to high (Generating income from prior investments)	Fixed Income & Reits	There are constant cash flow obligations. Still has time to withstand medium volatility
Above 55	Low	Low or non existent	REITS, Income Draw down, and Fixed Income	Stability of income is key

Conclusion

Conclusion

Investments provides you with ways of generating passive income

- Passive income is any income made by an investor with little time and maintenance spent on the income generating activity
- Investments in Real Estate, High Yielding Options and Collective investments schemes allow investors to generate passive income
- High yielding solutions offer great returns translating to a lucrative source of passive income for investors
- There are several benefits of having passive sources of income with freedom of time being the most significant as it means you have time to focus on your day to day activities
- If note is the role of passive income in reducing stress and anxiety, this means that you are able to live longer
- Pension is a form of passive income and as such every individual must strive to have a retirement savings plan either by joining a retirement benefits scheme or investing their retirement savings in a collective investment scheme

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