Q3’2023 Unit Trust Funds Performance

Executive Summary: Unit Trust Funds (UTFs) are a type of Collective Investment Scheme that gather capital from various investors to collectively invest in a diversified portfolio of assets, managed by a Fund Manager, with the aim of generating returns to the investors. Following the release of the Capital Markets Authority (CMA) [Quarterly CIS Report – Q3’2023](), we examine the recently released performance of Unit Trust Funds for the period ended 30th September 2023. During the period under review, Unit Trusts Funds’ Assets under Management grew by 17.4% to Kshs 206.7 bn as at the end of Q3’2023, from Kshs 176.0 bn recorded in Q2’2023. Additionally, as at the end of Q3’2023, there were 2 Unit Trusts Funds that became active, increasing the total number of active funds to 29 from 27 in Q2’2023;

A note on Q3’2023 Unit Trust Funds Performance

Unit Trust Funds (UTFs) are a type of Collective Investment Scheme that gather capital from various investors to collectively invest in a diversified portfolio of assets, managed by a Fund Manager, with the aim of generating returns to the investors. These funds are overseen by expert fund managers who allocate the collected capital into a diverse range of securities like equities, bonds, or other approved financial securities. The goal is to yield returns that align with the fund’s specific objectives. Following the release of the Capital Markets Authority (CMA) Quarterly CIS Report – Q3’2023, we examine the performance of Unit Trust Funds for the period ended 30th September 2023. These funds have seen consistent growth in total Assets Under Management (AUM) and are one of the preferred investment choices in Kenya. Additionally, we will delve into the performance of Money Market Funds, which are a subset of Unit Trust Funds.

In our previous focus on Unit Trust Funds, we looked at the Unit Trust Funds Performance – Q2'2023 by Fund Managers, where we highlighted that their AUM stood at Kshs 176.0 bn, a 7.1% growth from Kshs 164.3 bn recorded in Q1’2023. In this topical, we delve into the Q3’2023 performance of Unit Trust Funds where we analyze the following:

I. Performance of the Unit Trust Funds Industry,
II. Performance of Money Market Funds,
III. Comparing Unit Trust Funds AUM Growth with other Markets, and,
IV. Recommendations.

Section I: Performance of the Unit Trust Funds Industry

Unit Trust Funds (UTF) are Collective Investment Schemes that pool money from various investors and invests it in a diversified portfolio of assets such as stocks, bonds, and other securities. The primary purpose of unit trust funds is to provide individuals and institutional investors with an opportunity to access a professionally managed and diversified investment portfolio, even with relatively small amounts of capital. These funds are managed by professional fund managers who make investment decisions on behalf of the investors, aiming to generate returns and mitigate risks. In this report, we will delve into the performance of Unit Trust Funds in Q3'2023 following the release of the Capital Markets Authority (CMA) Quarterly statistical bulletin. Our objective is to provide a comprehensive analysis of how different types of unit trust funds have performed during this period, shedding light on the key factors influencing their performance.

Unit Trust Funds (UTFs) come in a variety of forms, each designed to cater to different investment objectives, time horizons, and risk tolerance levels. Understanding the distinctions between these fund types is crucial for investors to make informed decisions about their investment choices. The main types of Unit Trust Funds include:

I. **Money Market Funds** - Money market funds invest in short-term, low-risk securities like fixed deposits, Treasury bills and commercial papers. They aim to provide stability and liquidity and are among the least risky investments, making them suitable for preserving capital,

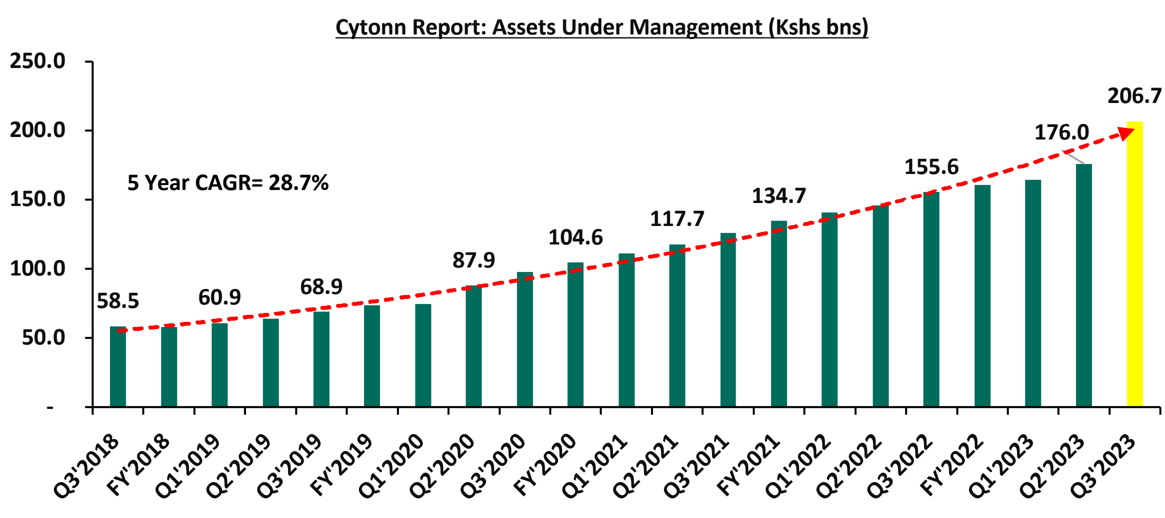
II. **Equity Funds -** Equity Funds primarily allocate their investments to publicly traded securities with the primary objective of achieving superior returns over the medium to long-term. They seek to optimize capital appreciation and dividend income for their investors. Equity Funds also maintain a portion of their assets in readily tradable fixed-income instruments. This ensures the fund's ability to meet redemption requests and provide liquidity to investors without eroding its overall value,

III. **Balanced Funds** - Balanced funds aim to achieve a mix of income and capital appreciation by investing in both equities and fixed-income securities. These funds offer a balanced risk-reward profile, ideal for investors seeking a middle ground between risk and returns,

IV. **Fixed Income Funds** - These are funds primarily focused on generating income for investors by investing in a portfolio of fixed-income securities, such as government bonds, corporate bonds, and other debt instruments. These funds aim to provide a stable stream of income while managing interest rate and credit risks, and,

V. **Specific Funds** – These are funds that predominantly focus on a particular sector or industry by offering a heightened level of diversification within the chosen sector, providing investors with exposure to a specific area of the market that may not be easily attainable through other fund types.

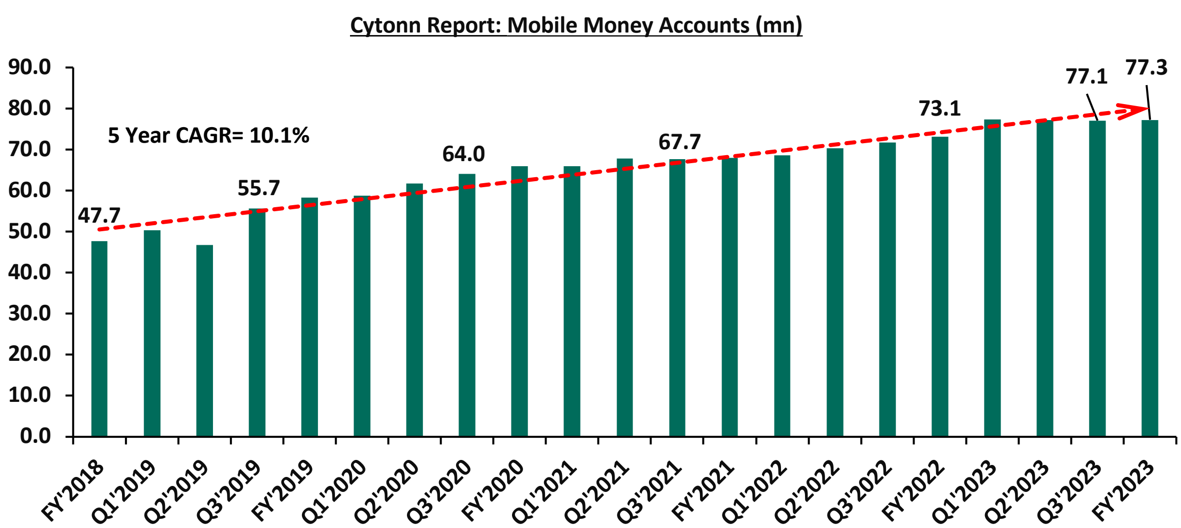
As per the Capital Markets Authority (CMA) Quarterly Statistical Bulletin-Q3’2023, the industry’s overall Assets under Management (AUM) grew by 17.4% on a quarter-on-quarter basis to Kshs 206.7 bn at the end of Q3’2023, from Kshs 176.0 bn recorded in Q2’2023. On a y/y basis, the total AUM increased by 32.8%, from Kshs 155.6 bn as at the end of Q3’2022. Key to note, Assets under Management of the Unit Trust Funds have registered an upward trajectory over the last five years, growing at a 5-year CAGR of 28.7% from Kshs 58.5 bn recorded in Q3’2018. The chart below shows the growth in Unit Trust Funds’ AUM



The growth can be largely attributed to:

- **Increased product awareness**: There has been a drive towards investor education mainly by the Capital Markets Authority (CMA) and the fund managers on the various products offered by trust funds, which has meant that more people are aware and have a deeper understanding of the investment subject. As a result, their confidence has been boosted leading to increased uptake,

- **Diversified product offering**: Unit Trust Funds are also advantageous in terms of providing investors with access to a wider range of investment securities through pooling of funds. This grants investors the opportunity to diversify their portfolios which would have not been accessible if they invested on their own. Additionally, they also ensure investors are able to shield themselves against the risks associated with market volatility associated with some asset classes,
- **Competitive returns**: Positive performance and competitive returns have been instrumental in attracting investors to unit trust funds. As these funds consistently outperform certain traditional investment options, more investors are drawn to their potential for generating wealth over the long term,
- **Low Investments minimums**: Majority of the Unit Trust Funds Collective Investment Schemes' (CIS) in the market require a relatively low initial investment ranging between Kshs 100.0 - Kshs 10,000.0. This has in turn has promoted financial inclusion by allowing even small-scale investors to access professionally managed investments opportunities,
- **Efficiency and High Liquidity**: Funds invested in UTFs are invested as portfolios with different assets and the fund managers always maintain a cash buffer. Unit trusts are highly liquid, as it is easy to sell and buy units without depending on demand and supply at the time of investment or exit, and,
- **Adoption of Fintech**: Digitization and automation within the industry have enhanced ease in cash accessibility, enabling investors to immediately access their investments via mobile payment platforms. According to the Central Bank of Kenya, more individuals are transacting through mobile money services as evidenced by the sustained growth in the total number of registered mobile money accounts. During the period under review, registered mobile money accounts recorded a 7.5% y/y increase to 77.1 mn accounts in September 2023, from 71.7 mn accounts registered in September 2022. Notably, the total number of registered mobile money accounts also grew at a 5-year CAGR of 10.1% to 77.3 mn by the end of December 2023, from 47.7 mn recorded at the end of December 2018. The upward trajectory is attributable to Fintech incorporation which has increased the efficiency of processing both payments and investments for fund managers. As a result, Collective Investment Schemes have become more accessible to retail investors.



Spread of Investments:

Cytonn Report: Investment Allocation in Different Funds					
Fund	**Q2'2023**	**Q2'2023 Investment Share**	**Q3'2023**	**Q3'2023 Investment Share**	**% points Change in Investment Share**
Money Market Fund	131.6	74.8%	137.0	66.3%	(8.5%)
Fixed Income Fund	30.1	17.1%	37.8	18.3%	1.2%
Equity Fund	2.6	1.5%	2.5	1.2%	(0.3%)
Balanced Fund	1.7	1.0%	2.0	1.0%	0.0%
Other	9.9	5.6%	27.4	13.3%	7.7%
Total	**176.0**	**100.0%**	**206.7**	**100.0%**	

Key take outs from the table above include:

- **Money Market Funds:** MMFs have the largest investment allocation, coming in at 66.3% in Q3'2023, a decline from 74.8% recorded in Q2'2023. Notably, the decline in allocation in MMFs by 8.5% points in Q3'2023, from Q2'2023 is mainly attributable to the reallocation of funds into fixed income funds following the higher yields by government securities especially short-term bonds. Key to note, according to Capital Markets Authority (CMA), MMFs are required to invest only in interest-earning money market instruments which have a maximum weighted average tenor of thirteen (13) months, while fixed income funds invests a minimum of 80.0% of their market value of assets under management (AUM) in fixed income securities at all times hence concentrating most their investments in bonds. However, the high percentage of 66.3% in Q3'2023 is an indication of MMFs preference by the majority of investors due to their ease of investing and high liquidity, coupled with high returns,
- **Fixed Income Funds** recorded a q/q growth to Kshs 37.8 bn in Q3'2023, up from Kshs 30.1 in Q2'2023 increasing their allocation to 18.3% in Q3'2023, from the 17.1% recorded the previous quarter. The growth can be attributed to higher yields in government securities, following the upward readjustment of the yield curve, with investors demanding a higher premium to compensate for the perceived risks to the Kenyan economy, and,
- **Equity Funds** recorded dismal performance with their investment allocation declining by 0.3% points to 1.2% at the end of Q3'2023, from 1.5% at the end of Q2'2023. The decline in equity fund's portfolio holdings is largely attributable to market movements, with the Nairobi All Share Index (NASI) registering an 11.0% decline during the period under review following increased selloffs in the Nairobi Securities Exchange.

Notably, the overall UTFs portfolio is heavily invested in government Securities, registering a 30.6% increase to Kshs 98.4 bn, from Kshs 75.3 bn in Q2'2023. As such, the allocation to government securities increased by 4.8% points to 47.6% of the total assets, from the 42.8% recorded in Q2'2023. This was followed by Fixed deposits at 38.6% allocation from 44.4% in Q2'2023. The graph below represents asset allocations in different asset classes comparing Q2'2023 to Q3'2023 in the UTF industry.

Cytonn Report: Distribution of Investments in terms of Asset Classes (Kshs bn)						
Fund	Q3'2022	Q3'2022 (%)	Q2'2023	Q2'2023 (%)	**Q3'2023**	Q3'2023 (%)
Government Securities	58.4	37.5%	75.3	42.8%	98.4	47.6%

Fixed Deposits	63.3	40.6%	78.1	44.4%	79.7	38.6%
Unlisted Securities	6.3	4.0%	4.9	2.8%	10.1	4.9%
Cash and demand deposits	5.4	3.5%	9.3	5.3%	8.9	4.3%
Listed Securities	19.6	12.6%	6.0	3.4%	7.6	3.7%
Offshore Investments	1.2	0.8%	0.7	0.4%	0.9	0.4%
Other collective investments schemes	1.2	0.8%	1.2	0.7%	0.7	0.4%
Immovable property	0.0	0.0%	0.3	0.2%	0.3	0.2%
Total	155.9	100.0%	176.0	100.0%	206.7	100.0%

According to the Capital Markets Authority, as at the end of Q3'2023, there were 36 Collective Investment Schemes (CISs) in Kenya, up from 34 recorded at the end of FY'2022 and 31 recorded at the end of Q3'2022. Out of the 36 schemes, 29 of them (equivalent to 80.6%) were active while 7 (19.4%) were inactive. The table below outlines the performance of the Collective Investment Schemes comparing Q2'2023 and Q3'2023

Cytonn Report: Assets Under Management (AUM) for the Approved Collective Investment Schemes

No.	Collective Investment Schemes	Q2'2023 AUM (Kshs mn)	Q2'2023 Market Share	Q3'2023 AUM (Kshs mn)	Q3'2023 Market Share	AUM Growth Q2'2023 – Q3'2023
1	CIC Unit Trust Scheme	59,588.68	33.9%	61,169.9	29.6%	2.7%
2	British American Unit Trust Scheme	13,684.74	7.8%	33,355.8	16.1%	143.7%
3	NCBA Unit Trust Scheme	30,662.30	17.4%	32,278.2	15.6%	5.3%
4	Sanlam Unit Trust Scheme	18,176.96	10.3%	20,969.5	10.1%	15.4%
5	ICEA Unit Trust Scheme	15,538.05	8.8%	15,797.9	7.6%	1.7%
6	Old Mutual Unit Trust Scheme	8,595.80	4.9%	9,848.7	4.8%	14.6%
7	Madison Asset Managers	4,645.76	2.6%	5,058.5	2.4%	8.9%
8	Dry Associates Unit Trust Scheme	4,478.58	2.5%	4,585.4	2.2%	2.4%
9	Co-op Unit Trust Scheme	4,525.60	2.6%	4,511.3	2.2%	(0.3%)
10	ABSA Unit Trust Scheme	3,054.83	1.7%	4,327.3	2.1%	41.7%
11	Nabo Capital Limited	4,028.18	2.3%	4,266.5	2.1%	5.9%
12	Zimele Asset Managers	2,835.79	1.6%	2,861.4	1.4%	0.9%
13	African Alliance Kenya	1,295.34	0.7%	1,291.0	0.6%	(0.3%)
14	Mali Money Market Fund	1,127.98	0.6%	1,288.3	0.6%	14.2%
15	Apollo Asset Managers	952.57	0.5%	1,033.6	0.5%	8.5%
16	Cytonn Asset Managers	705.15	0.4%	763.0	0.4%	8.2%
17	Jubilee Unit Trust Scheme	359.77	0.2%	689.5	0.3%	91.7%
18	Genghis Unit Trust Fund	669.75	0.4%	680.4	0.3%	1.6%
18	KCB Asset Managers	344.51	0.2%	612.4	0.3%	77.8%
20	Orient Collective Investment Scheme	259.78	0.1%	254.3	0.1%	(2.1%)
21	Lofty-Corban Unit Trust Scheme	0.0	0.0%	245.7	0.1%	
22	GenAfrica Unit Trust Scheme	62.89	0.0%	212.5	0.1%	237.8%
23	Equity Investment Bank	174.65	0.1%	170.5	0.1%	(2.4%)
24	Kuza Asset Managers	111.09	0.1%	153.7	0.1%	38.4%
25	Etica Capital Limited	54.18	0.0%	131.2	0.1%	142.1%
26	Enwealth Capital Unit Trust	25.46	0.0%	62.5	0.0%	145.6%
27	Amana Capital	26.56	0.0%	26.8	0.0%	0.7%

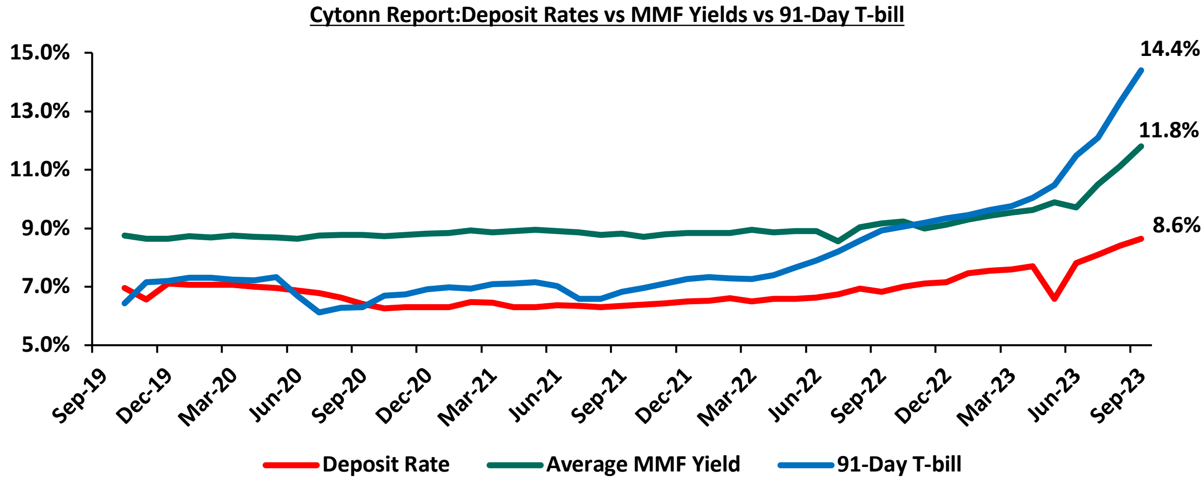
28	Mayfair Asset Managers	0.0	0.0%	13.5	0.0%	
29	Wanafunzi Investments	0.74	0.0%	0.8	0.0%	3.0%
30	Diaspora Unit Trust Scheme	-	-	-	-	
31	Dyer and Blair Unit Trust Scheme	-	-	-	-	
32	Standard Investments Bank	-	-	-	-	
33	Masaru Unit Trust Fund	-	-	-	-	
34	Adam Unit Trust Fund	-	-	-	-	
35	First Ethical Opportunities Fund	-		-	-	
36	Amaka Unit Trust (Umbrella) Scheme	-		-	-	
	Total	**175,985.7**	**100.0%**	**206,660.2**	**100.0%**	**17.4%**

Key take outs from the above table include:

- **Assets Under Management**: CIC Unit Trust Scheme remained the largest overall Unit Trust Fund, with an AUM of Kshs 61.2 bn in Q3'2023, higher than the AUM of Kshs 59.6 bn in Q2'2023, translating to a 2.7% in AUM growth,
- **Growth:** In terms of AUM growth, GenAfrica Unit Trust Scheme recorded the highest growth of 237.8% with its AUM increasing to Kshs 212.5 mn, from Kshs 62.9 mn in Q2'2023, due to the low base effect. On the other hand, Equity Investment Bank recorded the largest decline with its AUM declining by 2.4% to Kshs 170.5 mn in Q3'2023, from Kshs 174.7 mn in Q2'2023,
- **Market Share:** CIC Unit Trust Scheme remained the largest overall Unit Trust with a market share of 29.6%, 4.3% points decline from 33.9% recorded in Q2'2023. The decline in market share is an indication of increasing competition as new collective schemes enter the market,
- **New Collective Investment Schemes**: Lofty-Corban Unit Trust Scheme and Mayfair Asset Managers, with AUMs of Kshs 245.7 mn and Kshs 13.5 mn respectively, became active collective investment schemes in the capital market during Q3'2023, increasing the number of active collective schemes to 29, and,
- **7 UTFs remained inactive as at the end of Q3'2023**: First Ethical Opportunities Fund, Adam Unit Trust Fund, Masaru Unit Trust Fund, Dyer and Blair Unit Trust Scheme, Diaspora Unit Trust Scheme, Standard Investments Bank, and Amaka Unit Trust remained inactive as at the end of Q2'2023.

Section II: Performance of Money Market Funds

Money Market Funds (MMFs) have continued to gain popularity in Kenya, largely due to the higher returns they offer in comparison to bank deposits in addition to having a high degree of safety. According to the Central Bank of Kenya data, the average deposit rate in September 2023 increased to 8.6% from 8.4% recorded in August 2023, albeit lower than average yields of 91-day T-bill and Money Market Funds at 14.4% and 11.8% respectively. The graph below shows the performance of the Money Market Fund to other short-term financial instruments:



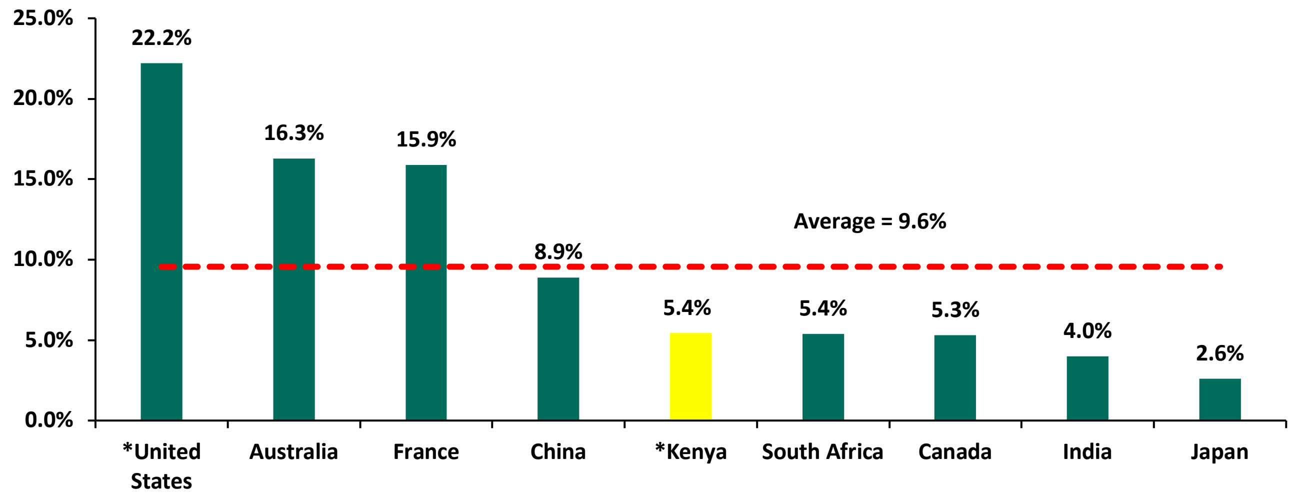
Source: Central Bank of Kenya, Cytonn Research

As per the regulations, funds in MMFs should be invested in short-term liquid interest-bearing securities with a weighted tenor to maturity of 13 months or less. The short-term securities include treasury bills, call deposits, commercial papers, and fixed deposits in commercial banks and deposit-taking institutions, among others as specified by CBK. As a result, the Money Market Funds are best suited for investors who require a low-risk investment that offers capital stability and liquidity, but with a high-income yield. The funds are also a good safe haven for investors who wish to switch from a higher risk portfolio to a low risk portfolio, especially during times of uncertainty.

Money Market Funds in Kenya accounted for Kshs. 136.9 billion which makes Kshs. up 66.0% of all the funds under management by Collective Investment Schemes for Q3'2023. This is 4.1% higher than the Kshs. 131.6 billion recorded at the end of Q2'2023.

Money Market funds as an asset class are still below the potential, with Kenya's MMF assets to GDP coming in at 5.4% as of Q3'2023, which is below the global average MMF assets to GDP ratio of 9.6% as of FY'2022. More needs to be done to increase the ratio, especially at a time when the government is trying to increase savings to GDP ratio. However, the 5.4% Money market AUM to GDP in Kenya is an increase from 1.0% which was recorded in 2021. This can be attributed to the rising yields in Money markets which remain highly competitive compared to other traditional investment options. The chart below shows the performance of the Money Market Funds AUM to GDP comparing Kenya to other economies:

Cytonn Report: MMFs AUM to GDP (2022)



Source: World Bank, CMA, EFAMA

** Data as of Q3'2023*

Top Five Money Market Funds by Yields

During the period under review, the Cytonn Money Market Fund registered the highest average effective annual yield at 12.7% against the industry Q3'2023 average of 11.1%. Below is a table of the top five Money Market Funds with the highest average effective annual yield declared in Q3'2023;

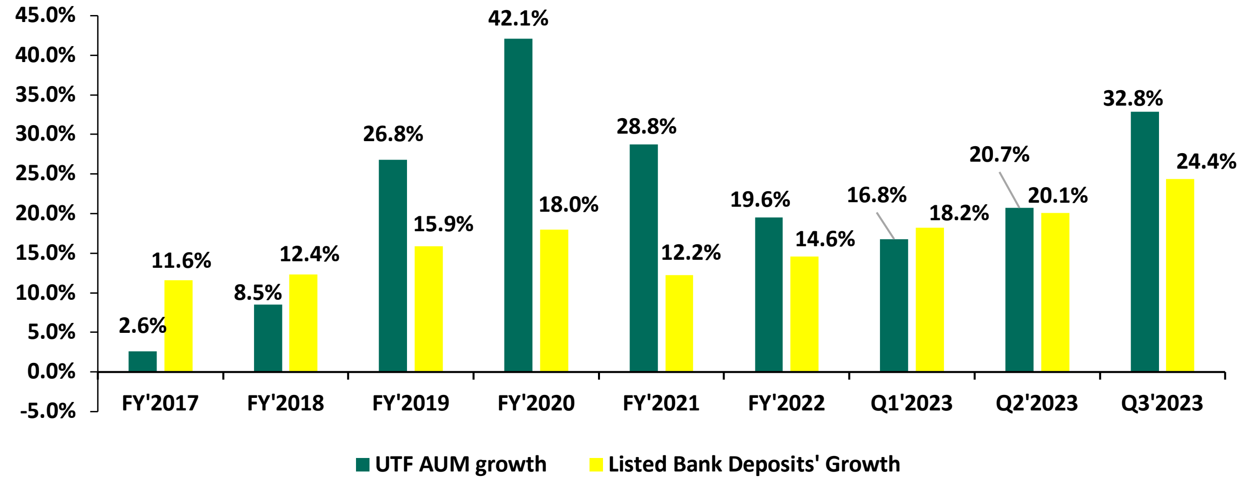
Cytonn Report: Top 5 Money Market Fund Yield in Q3'2023		
Rank	Money Market Fund	Effective Annual Rate (Average Q3'2023)
1	Cytonn Money Market Fund	12.7%
2	Enwealth Money Market Fund	12.6%
3	GenAfrica Money Market Fund	12.5%
4	Lofty-Corban Market Fund	12.5%
5	Etica Money Market Fund	12.4%
	Average of Top 5 Money Market Funds	**12.6%**
	Industry average	**11.1%**

Source: Cytonn Research

Section III: Comparison between Unit Trust Funds AUM Growth and Other Markets

Unit Trust Funds' assets recorded a y/y growth of 32.8% in Q3'2023, coming in above 24.4% cumulative deposit growth for the listed banks recorded over the same period. For the Unit Trust Funds, the growth of 32.8% was an increase of 12.1% points, compared to the 20.7% y/y growth recorded in Q2'2023. On the other hand, listed banks' deposits recorded a growth of 24.4%, translating to 4.3% points increase from the 20.1% growth recorded in Q2'2023. The chart below highlights the year-on-year AUM growths for Unit Trust Funds AUM vs Listed banks' deposits growth since 2017;

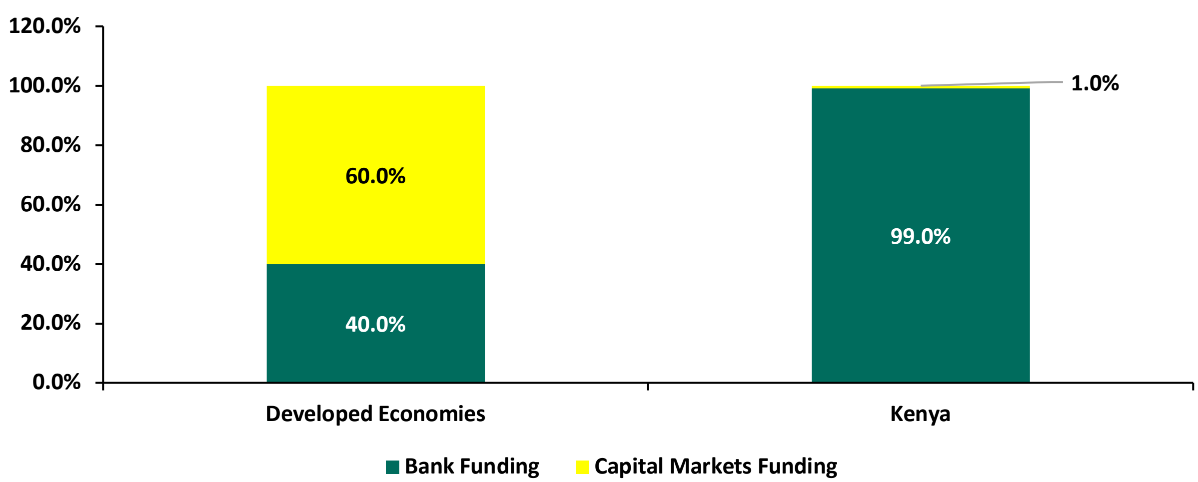
Cytonn Report: Unit Trust Funds AUM Growth vs Bank Deposit Growth



Source: Cytonn Research

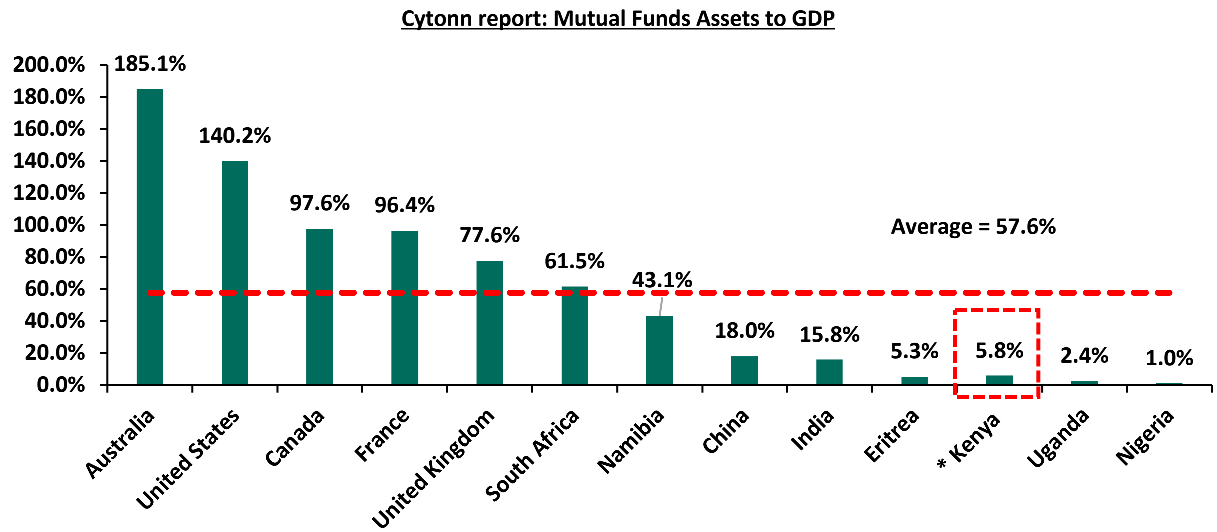
We note that there was a 12.1% points q/q increase in UTF growth compared to listed bank deposits growth of 4.3% points during the same period, which can be attributed to the relatively higher returns in the collective investment schemes, especially the MMFs, which have continued to gain traction among investors. We therefore anticipate an expansion in business funding coming from capital markets from the current 1.0%, in the short-term to medium term. World Bank statistics reveal that in efficient economies, only 40.0% of business financing comes from banks, while a significant 60.0% is sourced from Capital markets. However, in Kenya, the scenario is quite different. The World Bank points out that Kenyan businesses depend on banks for a whopping 99.0% of their funding, with a negligible less than 1.0% being raised from the capital markets.

Cytonn Report: Business Funding in Kenya vs Developed Economies



Source: World Bank

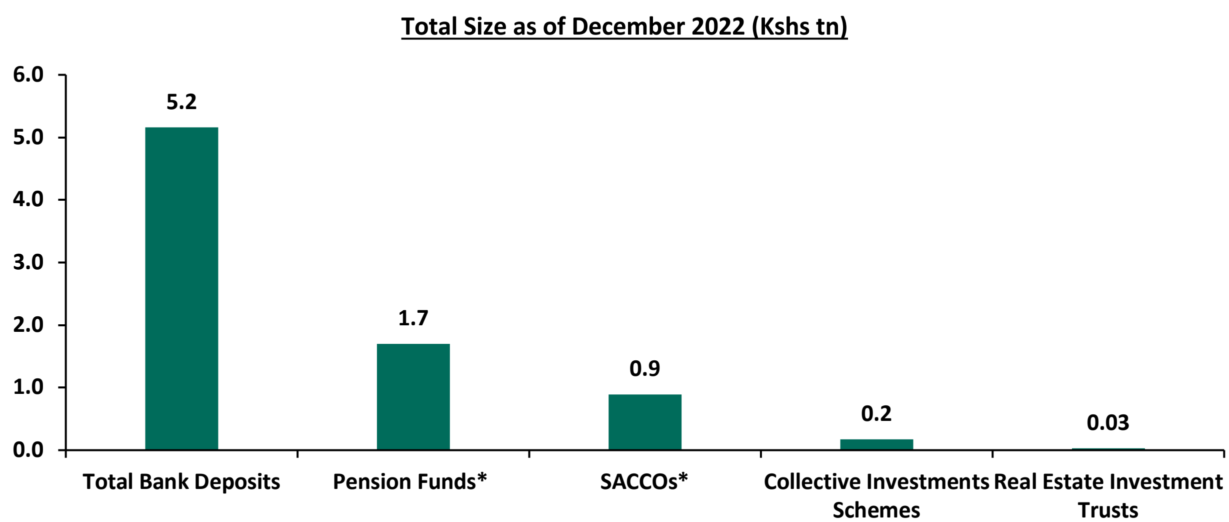
Notably, Kenya's Mutual Funds/UTFs to GDP ratio at the end of Q3'2023 came in at 5.8%, significantly lower compared to an average of 57.7% amongst select global markets an indication of a need to continue enhancing our capital markets. Additionally, Sub-Saharan African countries such as South Africa and Namibia have higher mutual funds to GDP ratios coming in at 61.5% and 43.1%, respectively as at end of 2020, compared to Kenya. The chart below shows select countries' mutual funds as a percentage of GDP:



**Data as of September 2023*

Source: World Bank Data

In the last five years, the Assets Under Management (AUM) of Unit Trust Funds (UTFs) have shown a remarkable performance, having grown at a 5-year CAGR of 30.2% to Kshs 206.7 bn in Q3'2023, from Kshs 55.2 bn recorded in Q3'2018. However, the industry is still dwarfed when compared to other deposit-taking institutions such as bank deposits, with the entire banking sector deposits coming in at Kshs 5.5 tn as at September 2023 from Kshs 5.2 tn recorded in June 2023. Similarly, the pension industry recorded an increase of 1.9%, to Kshs 1.7 tn as of June 2023 from Kshs 1.6 tn recorded in December 2022. Below is a graph showing the sizes of different saving channels and capital market products in Kenya;



**Data as of June 2023*

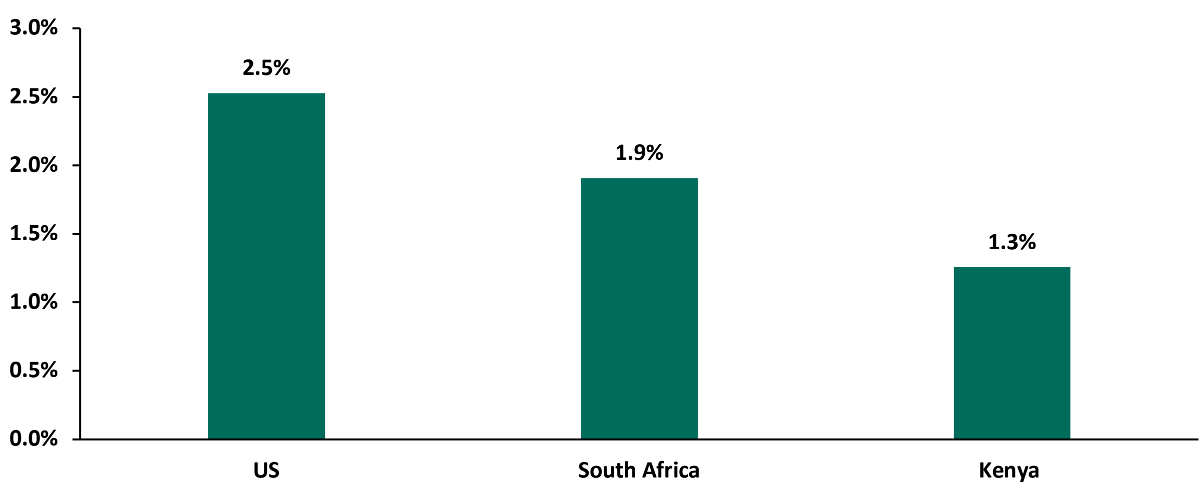
Source: CMA, RBA, CBK, SASRA Annual Reports and REITs Financial Statements

Comparing other Capital Markets products like REITS, Kenya has made strides in the sector, however, there is still a lot of room for improvement. The REITs' numbers remain low, with the only 4 registered REITS. ILAM Fahari REIT, which was trading on the main segment of the NSE, was delisted from the platform effective 12th February 2024, and will look to get into the Unquoted Securities Platform. Notably, the Capital Markets Authority on 5th February 2024, announced that it had granted a license to NCBA Bank of Kenya PLC to operate as a Real Estate Investment Trust (REIT) trustee. The table below shows the authorized REITs in the country:

Cytonn Report: Authorized REITs in Kenya						
No	**Issuer**	**Name**	**Type of REIT**	**Listing Date**	**Market Segment**	**Status**
1	ICEA Lion Asset Management (ILAM)	Fahari	I-REIT	October 2015	Main Investment Segment	Delisted
2	Acorn Holdings Limited	Acorn Student Accommodation (ASA) – Acorn ASA	I-REIT	February 2021	Unquoted Securities Platform (USP)	Trading
3	Acorn Holdings Limited	Acorn Student Accommodation (ASA) – Acorn ASA	D-REIT	February 2021	Unquoted Securities Platform (USP)	Trading
4	Local Authorities Pension Trust (LAP Trust)	Imara	I-REIT	November 2022	Main Investment Segment – Restricted Sub segment	Restricted

The listed REITs capitalization as a percentage of total market cap in Kenya stands at 1.3%, as compared to 2.5% in the USA, and 1.9% in South Africa as of 5th February 2024. Notably, the REITS Capitalization in Kenya as a percentage of total market cap has increased to 1.3% from 0.6% recorded in September 2023. The increase is due to a decline in the total market capitalization, with NASI registering a 26.8% in FY'2023 decline attributable to foreign investors leaving the Nairobi Securities Exchange (NSE), leading to the NSE market registering a net outflow position of USD 92.0 mn in FY'2023, which adversely affected the NSE. Below is a graph showing a comparison of Kenya's REITs to Market Cap Ratio to that of the US and South Africa:

Cytonn Report: REITs Capitalization (% of Market CAP)



Source: Online Research, Nairobi Securities Exchange (NSE)

**Kenya's REIT combines both I-REITs and D-REITs*

Section IV: Recommendations

The number of total registered Mobile Money Accounts has been growing steady, having recorded a CAGR of 11.7% to 77.1 mn at the end of Q3'2023 from 44.3 mn registered at the end of Q3'2018. As such, there is a need to leverage more on innovation and digitization to improve the coverage and convenience for unit trust investors in Kenya. The use of technology as a distribution channel for unit trust goods allows the funds to reach the retail segment, which has a high demand for convenient and innovative products from its customers. Furthermore, we advocate the following recommendations to promote the growth of UTFs in the Kenyan capital market:

i. **Encourage innovation and diversity of UTF investments:** At the end of Q3'2023, investment in the money market fund segment accounted for 66.3 % of total investments by collective investment schemes, indicating concentration risk. Notably, 48.0% of UTFs' AUM was invested in securities issued by the Kenyan government and 39.0% in Fixed Deposits with Commercial Banks, a market that competes with Unit Trust Funds for deposit mobilization. As a result, there is a need to reassess laws and encourage fund managers to diversify investments, as well as improve investment vehicle innovation,

ii. **Encouraging investments in UTFs from diaspora remittances:** The value of the diaspora remittances has been increasing over the years, with the remittances inflows from Kenyans living abroad recording a 7.1% increase to USD 340.4 mn at the end of Q3'2023, from the USD 318.0 mn at the end of Q3'2022. However, according to The Diaspora Remittances Survey carried out by the Central Bank of Kenya in 2021, only 8.0% of the respondents were aware of the investment opportunities in unit trusts. This therefore necessitates the need to educate the diaspora community on the benefits on unit trust funds, develop tailored investment products that cater to the needs of the diaspora community and increase partnerships with remittance services providers so as to integrate solutions where the remittances can be directly invested in the unit trust funds,

iii. **Lower the minimum investment amounts**: According to the Kenya National Bureau of Statistics, 87.7% of employees earn less than Kshs 100,000 a month as of 2022. As a result, the high initial investment requirements for Kshs. 5 million for a development REIT dissuades potential investors. Furthermore, these high amounts disadvantage the bulk of individual investors by limiting their investing possibilities,

iv. **Allow for sector funds:** Under present capital markets regulations, UTFs must diversify. However, one must request specific permission in the form of sector funds such as a financial services fund, a technology fund, or a Real Estate Unit Trust Fund. Regulations permitting unit holders to invest in sector funds would go a long way towards widening the breadth of unit holders interested in participating,

v. **Fee optimization:** Unit Trust Funds should continuously review and optimize management fees and other associated costs to ensure they are competitive while still covering operational expenses. The fee structure should be designed to align fund managers' interests with those of investors, while maintaining fairness and transparency,

vi. **Provide Support to Fund Managers:** We believe that the regulator, CMA, should incorporate market stabilization measures as part of the regulations/Act to assist fund managers in meeting fund responsibilities, particularly during times of distress, such as when there are a large number of withdrawals from the funds. We commend and appreciate the regulator's role in protecting investor interests. However, because fund managers play an important role in capital markets, the regulator should preserve the reputations of various fund managers in the business. This can be accomplished by partnering with industry participants to discover answers rather than openly rejecting and alienating industry players facing issues, which may not be in the best interests of investors,

vii. **Encourage different players to enter the market to increase competition**: Increased competition in capital markets will not only push Unit Trust Fund managers to provide higher returns for investors, but it will also eliminate conflicts of interest in markets and enhance the provision of innovative products and services,

viii. **Improve fund transparency to provide more information to investors:** To increase transparency for investors, each Unit Trust Fund should be required to publish their portfolio holdings on a quarterly basis and make the information available to the public. Providing more information to investors will increase accountability by enabling them to make more informed decisions, which will boost investor confidence, and,

ix. **Allow non-financial institutions to participate as trustees and eliminate conflicts of interest in capital market governance:** Capital market legislation should promote a governance structure that is more responsive to market participants and growth. In particular, confining Trustees of Unit Trust Schemes to Banks limits options, especially considering the direct competition between the banking industry and capital markets.

As Kenya's financial sector evolves, Unit Trust Funds have emerged as a crucial component, providing diversity and accessibility to a wide variety of investors. We believe that in order to accelerate the expansion of UTFs in Kenya, more emphasis should be placed on innovation, digitization, and product creation in the capital markets. Because consumers in the retail market have a high need for innovative and easy products, using technology as a distribution channel for mutual fund products allows the funds to reach the retail segment. Furthermore, rather than limiting UTF expansion and diversification, policymakers should promote and enable them. This will accelerate the growth of capital markets and encourage the admission of new participants.