



ZIMELE UNIT TRUST

BALANCED FUND

**ABRIDGED REPORT
TO THE UNIT HOLDERS
FOR THE YEAR ENDED
31ST DECEMBER 2016**

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TRUSTEE

KCB Bank Kenya Limited
Kencom House, Head Office
P.O. Box 48400-00100
Nairobi, Kenya

FUND MANAGER

Zimele Asset Management Company Limited
Ecobank Towers, 7th Floor
Muindi Mbingu Street
P.O Box 76528-00508 Yaya
Nairobi, Kenya

CUSTODIAN

Standard Chartered Securities Services
Standard Chartered Kenya
Standard Chartered, Chiromo Level 5
P.O. Box 40984
Nairobi, Kenya

AUDITORS

Dennis Paul & Associates
Four Green Way Apartment,
Parliament Road, Protection House
Nairobi, Kenya

PRINCIPAL LAWYERS

Muriu Mungai & Co. Advocates
Spring Valley Crescent, Westlands
info@wakili.com
P.O Box 75362-00200
Nairobi, Kenya

TRUSTEE'S REPORT

The Trustee submits its report together with the audited financial statements for the period ended 31st December, 2015 that discloses the state of affairs of the Fund.

INCORPORATION AND REGISTERED OFFICE

The Fund began operations on 1 March 2007, is registered under the Capital Markets Act and is domiciled in Kenya. The registered office is at Ecobank Towers, 7th Floor on Muindi Mbingu Street, Nairobi, Kenya.

INVESTMENT OBJECTIVE

The objective of the Zimele Unit Trust Balanced Fund is to generate long term capital growth through investing the members' contributions in equities and fixed income securities in accordance with the provisions of the Capital Markets Act (Collective Investment Schemes, Rules and Regulations 2001).

CHANGES TO INCORPORATION DOCUMENTS

There were no changes made to the Incorporation documents (Trust Deed, Information Memorandum and Rules of the fund) during the period.

TOTAL VALUE OF THE FUND AS AT 31ST DECEMBER 2016

The market value of the fund as at 31 December 2016 was Kshs 144.7 million.

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MEMBERSHIP

Membership of the Fund as at year end was as follows:

	2016 Members	2015 Members
At start of year	3,412	3,416
Entrants	3	2
Exits	(48)	(6)
At end of year	3,367	3,412

TRUSTEE'S REPORT

INVESTMENT OF FUNDS

The Funds are invested by the Investment Manager, Zimele Asset Management Company Limited, through Standard Chartered Bank in accordance with the provisions of the Capital Markets Act (Collective Investment Schemes, Rules and Regulations 2001).

However, the overall responsibility of investment and performance lies with the trustees.

EXPENSES

The full cost of managing and administering the fund are borne by the fund.

Zimele unit trust balanced fund fees financial year 2016

Zimele Unit Trust Balanced Fund Financial Year 2016 Fees			
	Fees Description	Rate	Amount - ksh.
1	Fund Management	2.50%	3,957,709
2	Trustee	0.20%	402,838
3	Custody	0.01%	186,311
4	Administration	3.00%	149,362
	Total		4,696,220

AUDITORS

Dennis Paul & Associates, Certified Public Accountants, have expressed their willingness to continue in office.

By Order of the Trustee

Kenya Commercial Bank Limited

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Capital Markets Act requires the Trustee to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the fund as at the end of the period and of the results of its operations. It also requires the Trustee to ensure that the fund manager keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the fund. The Trustee is also responsible for safeguarding the assets of the fund.

The Trustee certifies that to the best of their knowledge and belief the information furnished to the auditors for the purpose of the audit was correct and complete in every aspect.

DECLARATION STATEMENT

The Zimele Unit Trust Balanced Fund is an approved Unit Trust within the meaning of the Capital Markets Act;

The unit-holders are not liable for the debts of the Unit Trust;

The Zimele Unit Trust Balanced Fund is a securities fund investing in equities and fixed income securities in accordance with the provisions of the Capital Markets Act (Collective Investment Schemes Rules and Regulation 2001);

Nothing has come to the attention of the Trustee to indicate that the fund will not remain a going concern for at least the twelve months from the date of this statement.

By Order of the Trustee
Kenya Commercial Bank Limited

FUND MANAGER'S REPORT

The pace of activity was slower last year, when the global economy is estimated to have grown by 3.1% compared to 3.2% in 2015. In the USA, growth was moderate at 1.6% compared to 2.6% in 2015. China's economy followed a similar trend and grew by 6.7% last year from 6.9% in 2015, while the EU economy expanded by 1.7% last year from 2% in 2015. Emerging markets such as Russia, Brazil, and Nigeria registered negative growth last year largely due to the decline in commodity prices, while South Africa grew at a modest rate of 0.3% from 1.3% in 2015, and India continued to lead the pack at 6.6% from 7.6% in 2015.

On the domestic front, Kenya's economy is projected to have expanded by 5.9% in 2016 and is expected to slow further to 5.7% in 2017, largely due to the combined effects of drought, and political uncertainty related to the general elections. Key macroeconomic indicators remained stable in 2016. The overall rate of inflation averaged 6.3% last year compared to 6.58% in 2015, mainly as a result of favorable weather conditions leading to lower food prices, and relatively lower prices of fuel and electricity.

The shilling was relatively stable against major currencies last year supported by a favorable balance of trade position due to falling imports as big ticket infrastructure projects wind down, against steady inflows from exports, tourism and diaspora remittances. The IMF renewed its standby credit facility totaling US\$ 1.5 billion, which together with foreign exchange reserves, is expected to provide an adequate buffer against external shocks and help to keep the shilling stable.

One of the major developments in the financial market was the enactment of the interest rate capping law that came to effect in September 2016. In the current setting, commercial bank lending rates are not supposed to exceed 14% while interest rates paid on savings and deposit accounts should not be less than 7%. The passing of the law coincided with a sharp contraction in private sector credit, although this could also be attributed to the shift in liquidity in favor of large (so-called tier one) banks associated with flight to safety by large depositors after the placing under receivership of Imperial Bank and Chase Bank; the resulting ebbing of liquidity from mid and small size banks reduced their ability to make more loans, while at the same time saturating the capacity of the large banks to lend more.

The equity market was in its third year of under-performance as revealed by key indicators. The value of shares traded (equity turnover) declined by 30% to ksh.147 billion, while the value of all shares of listed companies (market capitalization) declined by 5.6% or ksh.115 billion, to ksh.1.9 trillion in 2016. The NSE 20 share index declined by 20% in 2016, from a decline of 21% in 2015. The NSE all-share index declined by 8% in 2016 compared to a decrease of 11% in 2015. By comparison, the Zimele Balanced Fund posted a return of 2.4% last year from 4.8% in 2015.

Shares of commercial banks suffered the worst decline in the fourth quarter following the capping of lending and deposit rates. Similarly, bond market turnover declined by 48% to ksh.433 billion when new corporate bond issues were largely ignored by investors after Imperial Bank and Chase Bank were placed under receivership, and their bond listings suspended.

Most listed companies reported declines in earnings attributed to a difficult operating environment for the greater part of 2016, resulting in a record number of profit warning announcements. This means the 2017 earnings reporting season might result in fewer dividend payouts as listed companies opt to conserve cash to enable them weather the challenging operating environment expected to prevail until later this year.

Going forward, the investment outlook this year is likely to be influenced by political uncertainty as the 2017 general elections draw closer. The continuing drought witnessed in most parts of the country from late last year has already pushed the overall rate of inflation beyond the CBK's upper target of 7.5%. However, if the long rains are at least normal then food prices are likely to decline as fast as they rose, which could stabilize inflation in the 6% range.

It is also probable to assume that the equities market has priced in most of the bad news related to the profit warning announcements last year. However, the challenges currently prevailing on the economic and political fronts and their impact on business performance, call for caution before investing in shares. Geopolitical factors, especially uncertainty to migration, global trade, development assistance and foreign

relations as a result of the policies of the new administration in the US, further complicates this picture. In line with these developments, our investment strategy will be largely biased in favor of fixed income securities in the first half of 2017, and select purchases of under-valued stocks whenever opportunities arise. Overall, we remain optimistic that barring unfortunate events prevailing, 2018 might be a good year for stocks.

Comparative Investment Performance		
	Balanced Fund	NSE Index
2012	23.20%	28.60%
2013	14.20%	19.00%
2014	22.20%	4.10%
2015	4.80%	-21%
2016	2.40%	-20%

Zimele Unit Trust Balanced Fund		
	No. of Units	Price Per Unit - ksh.
2014	203,772,920	5.9363
2015	171,295,512	6.1478
2016	144,689,032	6.2535

Zimele Unit Trust Balanced Fund - Investment Guideline

	2016	%Allocation	CIS Limit	Within/(Outside)
Investments	Ksh.			
Treasury Bonds	19,049,066	13%	80%	67%
Corporate Bonds	931,758	1%	25%	24%
Domestic Equity	22,000,122	15%	80%	65%
Cash	65,006,191	45%	100%	55%
Unit Trust Investment	36,917,410	25.7%	25%	-0.7%
Total	143,904,547	100%		

REPORT OF THE CUSTODIAN

Pursuant to the Capital Markets (Collective Investments Schemes) Regulations, 2001 (the regulations) and the Custody Agreement between Standard Chartered Securities Services as the Custodian and Zimele Asset Management as the Fund Manager, we confirm that we have discharged the duties prescribed for a Custodian under Regulation 35 of the regulations, to Zimele Unit Trust Balanced Fund.

For the period 1st January 2016 to 31st December 2016, we have held the assets for the Zimele Unit Trust Balanced Fund, including title deeds, securities and income that accrue thereof, to the order of the Fund Manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager, including those on the sale/creation, redemption and cancellation of units.

By Order of the Custodian
Standard Chartered Securities Services

REPORT OF THE INDEPENDENT AUDITORS

We have audited the accompanying financial statements of the Zimele Unit Trust Money Market Fund for the year ended 31st December, 2016 set out on pages 9 and 16. These financial statements comprise the statement of changes in net assets available for benefits, the statement of net assets available for benefits and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Trustees' Responsibility for the Financial Statements

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards as set out on page 4.

Auditors' Responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers, internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the scheme's financial transactions during the year ended 31 December 2016, and of the disposition as at that date of its assets and liabilities in accordance with the International Financial Reporting Standards and Capital Markets Act.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Dennis Paul M Ireri -P/ 1925.

Dennis Paul & Associates
Certified Public Accountants
Four Green Way Apartment
Nairobi, Kenya.

BALANCE SHEET

	2016	2015
	<u>Kshs.</u>	<u>Kshs.</u>
ASSETS		
Non Current Assets		
Available for sale investments at market value	78,898,357	96,589,862
Current Assets		
Bank and Cash Balances	<u>66,261,201</u>	<u>75,206,404</u>
	<u>66,261,201</u>	<u>75,206,404</u>
TOTAL ASSETS	<u>145,159,558</u>	<u>171,796,266</u>
LIABILITIES		
Current Liabilities		
Payables & Accruals	<u>400,926</u>	<u>500,754</u>
Net Current Assets/(Liabilities)	<u>65,860,275</u>	<u>74,705,650</u>
Net Assets	<u>144,758,632</u>	<u>171,295,512</u>
FINANCED BY		
Net Unit Holder Funds	57,690,112	83,707,384
Reserves	<u>87,068,520</u>	<u>87,588,127</u>
Members Net Worth	<u>144,758,632</u>	<u>171,295,512</u>

INCOME STATEMENT

	2016	2015
	<u>Kshs.</u>	<u>Kshs.</u>
INCOME		
Dividend income	1,462,197	545,490
Interest income	14,043,006	14,331,807
Capital gains/(deficit) on disposal investments	-	2,643,243
Total	15,505,204	17,520,539
EXPENDITURE		
Bank Charges	21,583	76,151
Newspaper publication expenses	83,228	88,542
Service Fees	4,849,245	6,071,829
Total	4,954,056	6,236,523
Net Surplus	10,551,148	11,284,017