



**ZIMELE UNIT TRUST**  
**MONEY MARKET FUND**

**ABRIDGED REPORT  
TO THE UNIT HOLDERS  
FOR THE YEAR ENDED  
31<sup>ST</sup> 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, 7<sup>th</sup> Floor  
Muindi Mbingu Street  
P.O Box 76528-00508 Yaya  
Nairobi, Kenya

**CUSTODIAN**

Standard Chartered Securities Services  
Standard Chartered Bank Kenya  
Standard Chartered, Chiromo Level 5  
P.O. Box 40984-00100  
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 year ended 31<sup>st</sup> December 2016 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 Nairobi, Kenya. The registered office is at Ecobank Towers, 7<sup>th</sup> Floor on Muindi Mbingu Street, Nairobi, Kenya.

### **INVESTMENT OBJECTIVE**

The main objective of the Zimele Unit Trust Money Market Fund is the provision of interest income through investing the members' contributions in 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 31<sup>ST</sup> DECEMBER 2016**

The market value of the fund as at 31 December 2016 was Kshs 560.1 million.

### **MEMBERSHIP**

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

	<b>2016 Members</b>	<b>2015 Members</b>
At start of year	1,737	1,544
Entrants	401	195
Exits	(8)	(2)
At end of year	<b>2,130</b>	<b>1,737</b>

## 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 MONEY MARKET FUND FEES FINANCIAL YEAR 2016

<b>Zimele Unit Trust Money Market Fund Financial Year 2016 Fees</b>			
	<b>Fees Description</b>	<b>Rate</b>	<b>Amount - ksh.</b>
1	Fund Management	2.00 %	10,860,457
2	Trustee	0.20 %	1,385,794
3	Custody	0.01 %	822,982
	<b>Total</b>		<b>13,069,233</b>

### AUDITORS

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

**By Order of the Trustee**

**Kenya Commercial Bank Limited**

  

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## **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 accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies in conformity with International Financial Reporting Standards and the requirements of the Capital Markets Act. The Trustee is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the fund and of its operating results.

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 Money Market 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 Money Market Fund is a securities fund investing in 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**

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## **FUND COMMENTARY**

Kenya's economy is projected to have grown by 5.9% in 2016, but is expected to slow down 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% compared to 6.6% in 2015, mainly as a result of favorable weather conditions leading to lower food prices, and relatively lower prices of fuel and electricity. Stability in the rate of inflation last year resulted in a decline in the central bank rate (CBR) by 150 basis points to 10%, and subsequently interest rates on government securities of various maturities remained relatively stable.

The market for government securities was quite active in 2016 due to increased pressure on domestic borrowing to finance the budget deficit. In the Treasury bills market, the 91 days maturity averaged 8.6% compared to 10.9% in 2015, the 182 days tenor averaged 10.87% from 12.22% in 2015, while the 364 days tenor averaged 11.44% from 12.89% in 2015. By comparison, the Zimele Money Market Fund yield averaged 10% last year from 11% in 2015.

In the primary market for Treasury bonds, the value of bonds issued increased by 66% to ksh.343 billion, compared to an increase of 20% in 2015. The average redemption yield of treasury bonds issued last year increased by 81 basis points to 14.22%, compared to an increase of 146 basis points in 2015 when there was a surge in interest rates in the second half of the year. In the secondary market at the NSE, Treasury bonds turnover increased by 48% to ksh.431 billion, compared to a decline of 40% in 2015.

However, the market for corporate bonds did not fare well last year; there were no new issues while turnover at the secondary market declined by 48% to ksh.1.59 billion. The market for new issues of corporate bonds was negatively impacted by the placement under receivership of Imperial Bank and Chase Bank, and subsequent suspension of their bond listings at the Nairobi Securities Exchange. This is the first time that listed bonds were simultaneously in default and suspension at the NSE.

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. According to the Banking (Amendment) Act of 2016, the central bank rate is the reference point for determining both lending and deposit rates. In the current setting, commercial bank lending rates are not supposed to exceed 14% while interest rates on savings and deposit accounts should not be less than 7%. The passing of the law coincided with a sharp contraction in credit to the private sector, 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, including managers of third party funds such as unit trusts and pension schemes, after Imperial Bank and Chase Bank were placed under receivership. 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 interbank rate averaged 4.77% last year from 11.04% in 2015, mainly as a result of the concentration of liquidity in the large banks. This development could also partly explain why the government was able to borrow more domestically without causing a significant increase in short term interest rates.

Although the overall rate of inflation appears to be headed in the double-digit range, the fact that the core rate of inflation (which excludes prices of food and energy) is still well below the 5% range implies there is a diminished likelihood of the central bank rate going up in the short term, we therefore do not expect

interest rates on fixed income securities to vary much from the levels experienced last year.

<b>Comparative Investment Performance</b>		
	<b>Money Market Fund</b>	<b>Treasury Bill Rate</b>
2012	10.5%	13.3%
2013	10.1%	8.9%
2014	10.2%	8.6%
2015	12.7%	10.9%
2016	9.4%	8.6%

<b>Zimele Unit Trust Money Market Total Portfolio Value - ksh.</b>			
	<b>Total Portfolio Value-ksh</b>	<b>No. of Units</b>	<b>Price Per Unit - ksh.</b>
2014	388,311,345	388,311,345	1.00
2015	382,154,086	382,154,086	1.00
2016	556,267,501	556,267,501	1.00

**Zimele Unit Trust Money Market Fund - Investment Allocation Guideline**

<b>Investments</b>	<b>2016</b>	<b>%Allocation</b>	<b>CIS Limit</b>	<b>Within/(Outside)</b>
	<b>Ksh.</b>			
Government Securities	141,352,761	25%	80%	55%
Corporate Bonds	4,048,173	1%	25%	24%
Term Deposits	385,857,978	69%	100%	31%
Cash	25,008,589	4%	100%	96%
<b>Total</b>	<b>556,267,501</b>	<b>100%</b>		



## **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 Money Market Fund.

For the year 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2016, we have held the assets for the Zimele Unit Trust Money Market 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.**

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## **REPORT OF THE INDEPENDENT AUDITORS**

We have audited the accompanying financial statements of the Zimele Unit Trust Money Market Fund for the year ended 31<sup>st</sup> 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.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 6 o the Financial statements which indicate that Kshs.101,449,616 had been invested with Chase Bank Limited as at the end of the year. The Bank was placed under receivership by the Central Bank of Kenya in April 2016. However, the Bank is operating under the management of Kenya Commercial Bank Limited.

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.

## STATEMENT OF FINANCIAL POSITION

	<b>2016</b>	<b>2015</b>
	<b><u>Kshs.</u></b>	<b><u>Kshs.</u></b>
<b>INVESTMENTS</b>	531,258,911	357,482,847
<b>CURRENT ASSETS</b>		
Receivables	5,123,521	-
Bank Balances	<u>25,008,589</u>	<u>25,577,145</u>
	<b><u>30,132,112</u></b>	<b><u>25,577,145</u></b>
<b>CURRENT LIABILITIES</b>		
Payables & Accruals	<u>1,394,565</u>	<u>905,905</u>
<b>Net Current Assets/(Liabilities)</b>	<u>28,737,547</u>	<u>24,671,240</u>
<b>Net Assets</b>	<b><u>559,996,458</u></b>	<b><u>382,154,086</u></b>
<b>FINANCED BY</b>		
Net Unit Holders Funds	<u>559,996,458</u>	<u>382,154,086</u>
<b>Members Net Worth</b>	<b><u>559,996,458</u></b>	<b><u>382,154,086</u></b>

## STATEMENT OF COMPREHENSIVE INCOME

	<b>2016</b>	<b>2015</b>
	<u><b>Kshs.</b></u>	<u><b>Kshs.</b></u>
<b>INCOME</b>		
Interest Income	47,487,653	53,028,318
<b>Total</b>	<u><b>47,487,653</b></u>	<u><b>53,028,318</b></u>
<b>EXPENDITURE</b>		
Bank Charges	125,135	168,172
Newspaper Publication Expenses	249,684	228,242
Service Fees	<u>14,175,966</u>	<u>12,370,675</u>
<b>Total</b>	<u><b>14,550,785</b></u>	<u><b>12,767,088</b></u>
<b>Net Surplus</b>	<u><b>32,936,868</b></u>	<u><b>40,261,229</b></u>