

**ZIMELE UNIT TRUST
BALANCED FUND
REPORT TO THE UNIT HOLDERS
FOR THE YEAR ENDED 31 DECEMBER 2017**

**DENNIS PAUL & ASSOCIATES
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**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

TRUSTEES

KCB Bank Kenya Limited
KCB Tower, 7th Floor
Junction of Hospital and Kenya Road
Upper Hill
P.o Box 30664-00100
Nairobi, Kenya

FUND MANAGER

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

CUSTODIAN

Standard Chartered Securities Services Kenya
Standard Chartered Bank of Kenya Ltd
Level 5, 48 Westlands Road
P.o Box 40984-00100
Nairobi, Kenya

AUDITORS

Dennis Paul & Associates
Four Green way apartment, F1
Four Green Street Off Westlands Road
P.o Box 75374-00200
Nairobi, Kenya
www.dpconsulting.co.ke

PRINCIPAL LAWYERS

Muriu Mungai & Co. Advocates
Spring Valley Crescent, Westlands
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NAIROBI

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
REPORT OF THE TRUSTEES
FOR THE YEAR ENDED 31 DECEMBER 2017**

TRUSTEE'S REPORT

The Trustee submits its report together with the audited financial statements for the period ended 31st December 2017 that disclose 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

INVESTMENT OBJECTIVES

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).

CHANGE 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 2017

The market value of the fund as at 31st December 2017 was Kshs 156.6 million.

MEMBERSHIP

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

	2017	2016
	Members	Members
At start of year	3,367	3,412
Entrants	7	3
Exits	(18)	(48)
At end of year	<u>3,356</u>	<u>3,367</u>

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
REPORT OF THE TRUSTEES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 for investment and performance lies with the trustees.

EXPENSES

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

AUDITORS

Dennis Paul & Associates, Certified Public Accountants, who were appointed in the financial year 2016 have expressed their willingness to continue in office.

For the Trustees:

For: KCB BANK KENYA LTD.

Date.....23/3/2018.....
CORPORATE TRUSTEE

For: KCB BANK KENYA LTD.

.....
CORPORATE TRUSTEE

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF TRUSTEE'S RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2017**

The Capital Market Act require the Trustees to prepare financial statements for each financial year that gives 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. They also require the Trustees 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 Trustees accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Capital Markets Act. The Trustees are of the opinion that the financial statements give a true and fair view of 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 Trustees certify that to the best of their knowledge and belief the information furnished to the auditors for the purposes of the audit was correct and complete in every aspect.

DECLARATIONS STATEMENT

The Zimele Unit Balanced Fund is an approved Unit Trust within the meaning of 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 Trustees to indicate that the Fund will not remain a going concern for at least the twelve months from the date of this statement.

For: KCB BANK KENYA LTD.
For the Trustees: 
CORPORATE TRUSTEE

Date.....2018

For: KCB BANK KENYA LTD.

CORPORATE TRUSTEE

Fund Manager's Commentary – Balanced Fund

The Kenyan economy is estimated to have expanded at a slower pace of 4.8% in 2017 compared to 5.8% in 2016, which was mostly attributed to the adverse effects of severe drought and a prolonged period of elections.

Rising energy and food prices pushed up the average rate of inflation from 6.3% in 2016 to 8% last year. Interest rates and the Shilling were stable last year despite the trend in past elections years where political uncertainty caused capital flight and volatility in the money market. Even then, concerns remain on the relative size of the current account deficit, budget deficit and public debt relative to GDP.

There was a carryover of the difficult operating environment from 2016 due to heightened political uncertainty arising from a prolonged electioneering period. Consequently, 12 companies issued profit warnings in 2017 compared to 11 in 2016.

The equity market broke its two year spell of negative returns in 2017. The NSE 20 share index went up by 16% from a decline of 20% in 2016. The NSE all-share index increased by 29% compared to a decrease of 8% in 2016. By comparison, the Zimele Balanced Fund posted a return of 7% last year from 2% in 2016.

The modest performance of the fund last year was based on the need for caution given the past experience of how election years impact the business environment adversely and consequently hurting the performance of securities at the stock market. However, the equity market's performance last year defied earlier expectations related to drought, political uncertainty and the rate cap. One reason could be the fact that some shares were trading below their fair value after the general market decline in 2015 and 2016 of 37%, which pulled down even shares of companies with strong fundamentals and good growth prospects.

In line with these developments, our investment strategy will be influenced by the direction of fixed income securities in the first half of 2017, and opportunities available in the equity market in the form of undervalued stocks. Overall, we remain optimistic that barring unfortunate events prevailing, 2018 will also be a good year for stocks.

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 Kenya 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 year 1st January 2017 to 31st December 2017, 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 Kenya

STANDARD CHARTERED BANK KENYA LTD.

Manager.....



DENNIS PAUL & ASSOCIATES

Accurate Accountancy

**REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEES OF ZIMELE UNIT TRUST
BALANCED FUND FOR THE YEAR ENDED 31ST DECEMBER 2017**

Opinion

We have audited the accompanying financial statements of Zimele Unit Trust Balanced Fund, set out on pages 10 to 17, which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the fund are prepared, in all material respects, in accordance with International Financial Reporting Standards for Small and medium sized entities and the requirements of the Kenyan Capital Market Authority Act.

Basis of 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 ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those charged with Governance for the Financial Statements

The Trustees are responsible for the preparation of the financial statements in accordance with the International Financial Reporting Standards for Small and medium sized entities and the requirements of the Capital Market Authority Act and for such internal control as the directors and management determines 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 Trustees are responsible for assessing the Unit trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Unit Trust's financial reporting process.

Auditor's Responsibility

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 scepticism throughout the audit. We also: Identify and assess the risks of material misstatement of the

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE UNIT TRUST MONEY
MARKET FUND (CONTINUED)**

Auditor's Responsibility (Continued)

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 control.
- 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 significant doubt on the Company'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 in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with those charged with governance 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.

Report on Other Legal Requirements As required by the Kenyan Companies Act.

As required by the Kenyan Company Act we report to you, based on our audit, that:

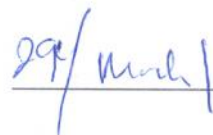
- i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii. In our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- iii. The Company's balance sheet and profit and loss account, which are referred to as statement of financial position and statement of comprehensive income respectively in this report, are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Dennis Paul M Ireri of Practicing Certificate No. 1925


Certified Public Accountants

Nairobi

DENNIS PAUL & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
P. O. Box 75374 - 00200
NAIROBI

 29/ March / 2018

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

Statement of Comprehensive Income

	Notes	2017 Kshs	2016 Kshs
Income			
Divided Income		1,774,581	1,462,197
Interest income	3	9,615,314	14,043,006
Capital Gains on Disposal of Investments		618,604	-
Total		12,008,499	15,505,203
Expenditure			
Bank charges		15,590	21,583
News paper Publication Expenses		69,533	83,228
Management fees		3,778,124	3,957,709
Trustee Fees		384,687	402,838
Custody Fees		321,824	186,311
CMA Annual Scheme Fees		60,000	60,000
Secretarial Fees		54,629	46,625
Audit Fees		46,400	46,400
Administration fees		169,287	149,362
AGM fees		7,974	-
		4,908,047	4,954,056
Net Surplus		7,100,452	10,551,147

ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2017

Statement of Financial Position

	Notes	2017 Kshs	2016 Kshs
Non Current Assets			
Unit Trust Investments	5	10,810,769	36,917,410
Government Securities	6	25,161,208	19,980,824
Quoted Equities	7	61,231,127	22,000,122
Deposits on call	8	55,500,000	-
		<u>152,703,105</u>	<u>78,898,356</u>
Current Assets			
Bank and cash Balances	9	6,258,833	65,081,121
Income Receivable	10	261,095	1,180,080
		<u>6,519,928</u>	<u>66,261,201</u>
TOTAL ASSETS		<u>159,223,033</u>	<u>145,159,557</u>
LIABILITIES			
CURRENT LIABILITIES			
Other payables and accrued expenses	11	<u>2,544,958</u>	<u>400,926</u>
TOTAL NET ASSETS		<u>156,678,075</u>	<u>144,758,632</u>
FINANCED BY:			
Unit Holders Funds		55,634,542	57,690,112
Reserves		101,043,533	87,068,520
Members Net Worth		<u>156,678,075</u>	<u>144,758,632</u>

The financial statements set out on pages 9 to 16 were approved by the Trustee on
 28/12/2018 and signed on their behalf by:

For: KCB BANK KENYA LTD.

Trustee

CORPORATE TRUSTEE

For: KCB BANK KENYA LTD.

CORPORATE TRUSTEE

**ZIMELE UNIT TRUST BALANCED FUND
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Statement of changes in Equity

	Net Unit Holders Funds	Net Surplus Kshs	Changes in Fair Value of Investments Kshs	Total
For the year 2016				
As at 1st January 2016	83,707,385	114,526,812	(26,938,684)	171,295,513
Net Contributions	(26,017,273)	-	-	(26,017,273)
Surplus for the Period		10,551,147	-	10,551,147
Prior year adjustments			52,754	52,754
Changes in Fair Value of Investment			(11,123,509)	(11,123,509)
As at 31 st December 2016	57,690,112	125,077,959	(38,009,439)	144,758,632
For the year 2017				
As at 1st January 2017	57,690,112	125,077,959	(38,009,439)	144,758,632
Net Contributions	(2,055,570)	-	-	(2,055,570)
Surplus for the Period		7,100,452	-	7,100,452
Prior year adjustments		52,754	-	52,754
Changes in Fair Value of Investment			6,821,808	6,821,808
As at 31 st December 2017	55,634,542	132,231,165	(31,187,631)	156,678,075

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

Statement of cash flows

	2017 Kshs	2016 Kshs
Cashflow from operations		
Surplus during the year	7,100,452	10,551,147
Prior year adjustments	52,754	52,754
	<u>7,153,206</u>	<u>10,603,901</u>
Net Cash flow from operations		
Working Capital Changes		
(Increase) / Decrease in Receivables	918,985	(1,180,080)
Increase / (Decrease) in Payables	<u>2,144,032</u>	<u>(99,828)</u>
	<u>3,063,017</u>	<u>(1,279,908)</u>
Net Cash Flow from Operating Activities	10,216,222	9,323,993
CASHFLOW FROM FINANCING ACTIVITIES		
Net Contributions	<u>(2,055,570)</u>	<u>(26,017,273)</u>
Net cashflow from Financing Activities	(2,055,570)	(26,017,273)
CASHFLOW FROM INVESTING ACTIVITIES		
Net cashflow from Investing Activities	(66,982,941)	6,567,996
Net Cash Inflow/Outflow	(58,822,289)	(10,125,284)
Cash and cash equivalents at start of year	65,081,121	75,206,405
Cash and cash equivalents at end of year	<u>6,258,833</u>	<u>65,081,121</u>

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

Notes

1. Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below :

2. Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya Shillings (Kshs) and prepared under the historical cost convention as modified by the carrying of available - for -sale investments at fair values.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Trustee's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(a) Revenue Recognition

The income comprises of interest from fixed income securities. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends are recognised as income in the period in which the right to receive payment is established.

(b) Investments

The Fund classifies its investments depending on the purpose for which the investments were acquired. The appropriate classification of the Fund's investments is determined at the time of the purchase and re-evaluated on a regular basis as follows:

Investments intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital.

Purchases and sales of investments are recognised on the trade date, which the fund commits to purchase or sell the asset. The cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Realised gains and losses arising from changes in the fair value of available-for -sale investments are recorded in the profit and loss account in the period in which they arise and are included in other operating income.

ZIMELE UNIT TRUST BALANCED FUND
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Notes (continued)

3. Interest income	2017 Kshs	2016 Kshs
Call account	2,154,249	-
Money market fund	5,893,358	10,406,842
Treasury bonds	1,567,706	3,626,765
Custody account	-	9,400
	<u>9,615,314</u>	<u>14,043,007</u>

4. Capital Gains on disposal of Investment	2017 Kshs	2016 Kshs
This relates to the sale of shares	<u>618,604</u>	<u>-</u>

5. Investments	2017 Kshs	2016 Kshs
Unit Trust Investments	10,810,769	36,917,410
	<u>10,810,769</u>	<u>36,917,410</u>

The money is invested in money market fund in accordance with the provisions of the Capital Market Act.

6. Government Securities	2017 Kshs	2016 Kshs
	25,161,208	19,980,824
	<u>25,161,208</u>	<u>19,980,824</u>

Government bonds includes treasury bonds and corporate debt.

7. Quoted Equities	No. of shares	2017 Kshs	No. of shares	2016 Kshs
Commercial and services- Express	457,054	1,819,203	457,054	1,622,542
Commercial and services- KQ	36,200	640,740	-	-
Banking	687,550	24,715,353	681,000	17,361,688
Manufacturing & allied	2,300,302	2,530,332	2,300,302	2,990,393
Energy & petroleum	1,500	25,500	1,500	25,500
Telecommunication	1200000	31,500,000	-	-
	<u>4,682,606</u>	<u>61,231,127</u>	<u>3,439,856</u>	<u>22,000,122</u>

ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
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Notes (continued)

	2017	2016
8 Call Deposits	Kshs	Kshs
Commercial Bank of Africa	17,500,000	-
Diamond Trust Bank	25,000,000	-
Equity Bank	13,000,000	-
	<u>55,500,000</u>	<u>-</u>

	2017	2016
9 Bank and Cash Balances	Kshs	Kshs
Standard Chartered Securities	5,653,235	64,892,084
Kenya Commercial Bank	318,633	69,331
Barclays Bank	233,665	66,406
Standard Chartered Bank	53,300	53,300
	<u>6,258,833</u>	<u>65,081,121</u>

	2017	2016
10 Receivables	Kshs	Kshs
Interest receivable	<u>261,095</u>	<u>1,180,080</u>

Interest receivable is the Interest income earned from Treasury bonds which was not yet received at the end of the year.

	2017	2016
11 Payables and Accruals	Kshs	Kshs
Management fees payable	331,631	313,386
Administrative fees	35,540	9,150
Trustees fees	33,853	31,990
Audit Fees	46,400	46,400
Bond settlement	2,097,534	-
	<u>2,544,958</u>	<u>400,926</u>

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
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Notes (continued)

12 Financial Risk Management objectives and policies

The Fund's activities expose it to a variety of financial risks, including market risk and the effects of changes in market prices and interest rates. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize adverse effects on its financial performance.

Risk management is carried out by the Investment Manager, Zimele Asset Management Company Limited which identifies, evaluates and manages financial risks, with emphasis on specific areas such as interest rate risk, credit risk and investing excess liquidity.

i) Market risk

Market risk is the risk arising from changes in market prices, such as interest rates, equity prices and exchange rates which will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

ii) Interest rate risk

The unit trust is exposed to interest rate risk as it invests funds at floating interest rates and also holds cash deposits with financial institutions. Management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes.

iii) Operational risk

The fund is exposed to operation risks such as lawsuits and fraud risks since it deals with the public.

iv) Business risk

The fund invest in stock and bonds therefore exposed to business risk should the issuer go bankrupt, the fund managers closely monitors the business risks.

The Fund has policies in place to ensure compliance with international best practice in corporate governance.

v) Foreign exchange Risk

Foreign investment involves exchange of currencies in order to purchase foreign stock, there is risk if you hold for a year, you will have to convert the currency yet it's not certain what the exchange rate will be. The management engage good professionals who are able to mitigate the risk.