

**ZIMELE UNIT TRUST  
BALANCED FUND  
REPORT TO THE UNIT HOLDERS  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

**DENNIS PAUL & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS  
FOUR GREEN WAY APARTMENTS  
FOUR GREEN STREET OFF WESTLANDS ROAD  
P.O BOX 75374-00200  
NAIROBI**

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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**TRUSTEES**

KCB Bank Kenya Limited  
KCB Towers, 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](http://www.dpconsulting.co.ke)

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
REPORT OF THE TRUSTEES  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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**TRUSTEE'S REPORT**

The Trustee submits its report together with the audited financial statements for the period ended 31st December 2019 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 2019**

The market value of the fund as at 31st December 2019 was Kshs 161,277,500

**MEMBERSHIP**

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

	<b>2019</b>	<b>2018</b>
	<b>Members</b>	<b>Members</b>
At start of year	4,113	4,117
Entrants	19	15
Exits	(25)	(19)
At end of year	<u><b>4,107</b></u>	<u><b>4,113</b></u>

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
REPORT OF THE TRUSTEES (CONTINUED)  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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**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 Corporate Trustee:**  
For: KCB BANK KENYA LTD.

.....  
.....  
CORPORATE TRUSTEE

Date...16/04.....2020

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 31ST DECEMBER 2019**

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The Kenyan Capital Markets Act requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the financial position of the Fund at the end of the financial year and its financial performance for the year then ended. The Trustees are responsible for ensuring that the Fund Managers keep proper accounting records that are sufficient to show and explain the transactions of the Fund, disclose with reasonable accuracy at any time the financial position of the Fund and that enables them to prepare financial statements of the Fund that comply with prescribed financial reporting standards and the requirements of the Kenyan Capital Markets Act. They are also responsible for safeguarding the assets of the Fund and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Capital Markets Act. They also accept responsibility for:

- i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii) Selecting suitable accounting policies and then apply them consistently; and
- iii) Making judgements and accounting estimates that are reasonable in the circumstances.

**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).

In preparing the financial statements, the Trustees have assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements.

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 the Corporate Trustee:  
FOR: KCB BANK KENYA LTD.

.....  
CORPORATE TRUSTEE  
.....

Date..... 12/04/2020

For: KCB BANK KENYA LTD.

.....  
CORPORATE TRUSTEE  
.....

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FUND MANAGER'S COMMENTARY  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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Optimism returned to the equity market last year after a difficult run in 2018. Despite the tough operating environment that continued to cause distress to many corporates, prices of listed shares edged upwards, mostly in the fourth quarter of last year. The NSE all-share index went up by 19% last year compared to a decline of 18% in 2018. The NSE-20 share index posted negative returns of 6% and 24%, in 2019 and 2018, respectively. By comparison, the Zimele Balanced Fund posted a return of 21% in 2019 compared to a gain of 1% in 2018. The Balanced Fund's investment performance last year was partly influenced by increasing the allocation of equities from 25% to 30%, and realization of capital gains from sale of shares.

The favorable performance of some listed companies is partly attributed to the lifting of the cap on lending rates, which among other reasons, was limiting access to credit to the private sector because of restrictive lending by banks. Favorable weather conditions, especially in the second half of the year, resulted in improved economic growth, which improved investor confidence on the likely favorable performance of some listed companies.

Going forward, it appears that the global economy is headed for an unprecedented upheaval arising from the adverse effects of covid-19. A combination of supply chain disruptions and demand suppression is likely to lead to a phenomenal negative shock to the economy, and substantial erosion of value of risky assets, including shares. A global recession may also be mirrored at the domestic front, with a serious toll on economic activity leading to a significant decline in tax revenue, earnings from exports, inflows from remittances, and distress to corporates in many sectors. The fiscal stimulus and monetary-easing measures that were activated were not only timely, but will go a long way in absorbing the multiple negative shocks that would have resulted had they not been put in place on time. Overall, the monetary measures are likely to lead to a further decline in interest rates in the money market in 2020, which is likely to lift share prices once covid-19 is on its last legs. Most business models are likely to be radically and permanently altered in the post covid-19 period.

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FUND MANAGER'S COMMENTARY (CONT'D)  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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The greatest challenge in 2020 will be to limit exposure on equities during the time that the covid-19-induced crisis will result in maximum pessimism causing an unprecedented decline in share prices, to getting back to equities when confidence starts to build up. In the short-term, while reviewing the possible nature of the post crisis period, prudence dictates leaning more on fixed income securities for safety and stability.

**5 Year Comparative Investment Performance**

	<b>ZBF</b>	<b>NSE-20 Index</b>	<b>NAS Index</b>
2015	5%	-21%	-11%
2016	2%	-20%	-8%
2017	7%	16%	29%
2018	1%	-24%	-18%
2019	21%	-6%	19%

**Notes:**

**ZBF:** Zimele Balanced Fund

**NAS Index:** NSE All Share Index



**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
REPORT OF THE CUSTODIAN  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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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 1<sup>st</sup> January 2019 to 31<sup>st</sup> December 2019, 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*.....

**REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEES OF ZIMELE UNIT TRUST BALANCED FUND  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

**Opinion**

We have audited the accompanying financial statements of Zimele Unit Trust Balanced Fund, set out on pages 10 to 19 which comprise the statement of comprehensive income, statement of financial position as at 31st December 2019, 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 and the requirements of the Capital Markets Authority.

**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.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Key audit matters are selected from the matters communicated with the Trustees, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole.

In our professional judgement, there were no key audit matters that were significant in the audit of the financial statements of the fund for the year ended 31st December 2019

**Other Information**

The trustees are responsible for the other information. The other information includes report of the Trustees, statement of trustees' responsibilities, fund manger's commentary report of the custodian among others.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**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 and the requirements of the Capital Markets Authority (Collective Investments Schemes) Regulations 2001 and for such internal control as the Trustees determine 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 Fund'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 Fund's financial reporting process.

**REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEES OF ZIMELE UNIT TRUST BALANCED FUND FOR THE YEAR ENDED 31ST DECEMBER 2019**

**Cont'd**

**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 skepticism throughout the audit. We also: Identify and assess the risks of material misstatement of the 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 Fund'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 Fund'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 Fund 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 Capital Markets Authority.**

As required by the Capital Markets Authority 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 Fund, so far as appears from our examination of those books; and
- iii. The Fund'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

  
Dennis Paul M Ireri

Certified Public Accountants

Date ;16th April 2020

AUDITING • TAXATION • ACCOUNTING • FINANCIAL CONSULTANCY

F1 Greenway Street off Westlands Road, next to Imperial Bank, Fourway Green Apartments, 1st Floor - Rm F1,  
P.O. Box 75374 - 00200 Nairobi - Kenya, Office Cell: + 254 (0) 774 421 228  
Email: dpassociates12@gmail.com, paul@dpconsulting.co.ke, www.dpconsulting.co.ke

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

**STATEMENT OF COMPREHENSIVE INCOME**

		<b>2019</b>	<b>2018</b>
	<b>Notes</b>	<b>Kshs</b>	<b>Kshs</b>
<b>INCOME</b>			
Dividend income		2,570,900	1,930,068
Interest income	5	11,508,371	10,816,354
Capital gains on disposal of investments	6	1,823,960	3,626,260
		<hr/>	<hr/>
<b>Total</b>		<b>15,903,231</b>	<b>16,372,682</b>
 <b>EXPENDITURE</b>			
Management fees		4,092,247	4,111,078
Trustee Fees		491,641	429,246
Custody Fees		589,838	567,592
CMA Annual Scheme Fees		60,000	60,000
Secretarial Fees		69,245	59,849
Administration fees		156,433	161,780
AGM fees		4,405	7,974
Audit Fees		46,400	46,400
Newspaper Publication Expenses		57,994	69,126
Bank charges		18,029	16,497
		<hr/>	<hr/>
		<b>5,586,232</b>	<b>5,529,542</b>
<b>Net Surplus</b>		<b>10,316,999</b>	<b>10,843,140</b>

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2019**

**STATEMENT OF FINANCIAL POSITION**

	Notes	2019 Kshs	2018 Kshs
<b>NON-CURRENT ASSETS</b>			
Unit trust investments	7	17,466,513	17,168,951
Government securities	8	69,994,200	55,718,594
Quoted equities	9	49,600,129	42,414,697
Call and fixed deposits	10	28,000,000	50,000,000
		<b>165,060,842</b>	<b>165,302,242</b>
<b>CURRENT ASSETS</b>			
Bank and cash balances	11	976,801	1,944,598
Receivables	12	2,104,746	3,045,465
		<b>3,081,547</b>	<b>4,990,063</b>
<b>TOTAL ASSETS</b>		<b>168,142,390</b>	<b>170,292,305</b>
<b>CURRENT LIABILITIES</b>			
Payables and accruals	13	469,715	449,243
<b>TOTAL NET ASSETS</b>		<b>167,672,674</b>	<b>169,843,063</b>
<b>FINANCED BY:</b>			
Net Unit holders funds		36,292,740	61,821,284
Retained earnings reserve		153,133,727	142,816,728
Fair value investment reserve		(21,753,793)	(34,794,949)
<b>Members Net Worth</b>		<b>167,672,674</b>	<b>169,843,063</b>

The financial statements set out on pages 10 to 19 were approved by the Corporate Trustee on

..... 16/04/2020 and signed on their behalf by:

For: KCB BANK KENYA LTD. For: KCB BANK KENYA LTD.

.....  
CORPORATE TRUSTEE  
Trustee

.....  
CORPORATE TRUSTEE  
Trustee

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

**STATEMENT OF CHANGES IN EQUITY**

	<b>Net Unit Holders Funds Kshs</b>	<b>Retained Earnings Reserve Kshs</b>	<b>Fair Value of Investments Reserve Kshs</b>	<b>Total Kshs</b>
<b>Financial year 2018</b>				
As at 1st January 2018	55,634,542	132,231,164	(31,187,631)	156,678,075
Net Contributions	6,186,742	-	-	6,186,742
Surplus for the Period	-	10,843,140	-	10,843,140
Prior year adjustments	-	(257,576)	-	(257,576)
Changes in Fair Value of Investment	-	-	(3,607,318)	(3,607,318)
<b>As at 31 st December 2018</b>	<b>61,821,284</b>	<b>142,816,728</b>	<b>(34,794,949)</b>	<b>169,843,063</b>
<b>Financial year 2019</b>				
As at 1st January 2019	61,821,284	142,816,728	(34,794,949)	169,843,063
Net Contributions	(25,528,544)	-	-	(25,528,544)
Surplus for the Period	-	10,316,999	-	10,316,999
Changes in Fair Value of Investment	-	-	13,041,156	13,041,156
<b>As at 31 st December 2019</b>	<b>36,292,740</b>	<b>153,133,727</b>	<b>(21,753,793)</b>	<b>167,672,674</b>

The Net Unit Holders Fund represents the funds received and paid out to holders

The Net Surplus Fund represents the cumulative profit/loss of the scheme

The Change in Fair Value of Investments represents the cumulative gains on the government securities

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

**STATEMENT OF CASHFLOWS**

	2019 Kshs	2018 Kshs
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>		
Surplus during the year	10,316,999	10,843,140
Prior year adjustments	-	(257,576)
<b>Operating surplus before changes in working capital</b>	<b>10,316,999</b>	<b>10,585,564</b>
Decrease/(increase) in Receivables	940,721	(2,784,373)
Increase / (decrease) in Payables	20,472	(2,095,715)
<b>Net cash flows generated from operating activities</b>	<b>11,278,192</b>	<b>5,705,476</b>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>		
Unit trust investments	(297,562)	(6,358,182)
Government securities	(14,275,606)	(30,557,386)
Quoted equities	(7,185,432)	18,816,430
Deposits on call	22,000,000	5,500,000
<b>Net cashflows used in Investing Activities</b>	<b>241,400</b>	<b>(12,599,138)</b>
<b>CASHFLOW FROM FINANCING ACTIVITIES</b>		
Changes in fair value of investments	13,041,156	(3,607,318)
Net unit holders funds	(25,528,544)	6,186,742
<b>Net cashflows used in /generated from Financing Activities</b>	<b>(12,487,388)</b>	<b>2,579,424</b>
<b>Decrease in cash and cash equivalents</b>	<b>(967,797)</b>	<b>(4,314,234)</b>
Cash and cash equivalents at start of year	1,944,598	6,258,832
<b>Cash and cash equivalents at end of year</b>	<b>976,801</b>	<b>1,944,598</b>

Note 11.

**ZIMELE UNIT TRUST BALANCED FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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**Notes**

**1. BASIS OF PREPARATION**

*i) Basis of preparation and compliance*

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

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.

*ii) New and revised standards*

IFRS 9 Financial Instruments (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018.

**2. ACCOUNTING POLICIES**

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

**(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  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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**Notes (Continued)**

**(c) Cash and Cash Equivalents**

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

**(d) Financial Instruments**

**Financial Assets**

A financial asset or liability is recognised when the Fund becomes party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than for an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

***Impairment and Uncollectability of Financial Assets***

The Fund assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account.

The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

**Financial Liabilities**

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

Accounts payable are classified as Payables and other accruals if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as Non-Payables and other accruals. Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(e) Distribution**

All income or loss arising from investment is distributed to unit holders after provision of all expenses. All distributions including unclaimed distributions are reinvested in the unit holder's accounts.

**(f) Unit Holder Balances**

Unit holders' funds are redeemable on demand at an amount equal to a proportionate share of the unit portfolios net asset value. The balances are carried at the redemption amount that is payable at the financial reporting date if the holder exercised their right to redeem the balances.

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Notes (continued)

**3 CRITICAL JUDGEMENT IN APPLYING THE FUNDS**

In the process of applying the Fund's accounting policies, management has made estimates and judgements in valuation of financial instruments as discussed in note 2(d). Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**4 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.

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Notes (continued)

	2019 Kshs	2018 Kshs
<b>5. INTEREST INCOME</b>		
Call account	801,634	4,378,162
Investment in unit trust	2,957,904	2,358,182
Treasury bonds	7,748,833	4,080,011
	<u>11,508,371</u>	<u>10,816,355</u>
<b>6. CAPITAL GAINS ON DISPOSAL OF INVESTMENTS</b>		
Sale of shares	1,823,960	3,626,260
	<u>1,823,960</u>	<u>3,626,260</u>
<b>7. UNIT TRUST INVESTMENTS</b>		
Unit Trust Investments	17,466,513	17,168,951
	<u>17,466,513</u>	<u>17,168,951</u>
The money is invested in money market fund in accordance with the provisions of the Capital Market Act.		
<b>8. GOVERNMENT SECURITIES</b>		
Kengen Corporate Bond 12.5%	69,994,200	55,528,167
	-	190,427
	<u>69,994,200</u>	<u>55,718,594</u>
Government bonds includes treasury bonds and corporate debt.		
<b>9. QUOTED EQUITIES</b>		
Commercial and services- Express		
Commercial and services- KQ	3,126,249	2,285,270
Banking	74,210	411,834
Manufacturing & allied	28,597,838	20,592,168
Energy & petroleum	2,010,582	1,334,175
Telecommunication	41,250	6,691,250
	15,750,000	11,100,000
	<u>49,600,129</u>	<u>42,414,697</u>

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Notes (continued)

	2019 Kshs	2018 Kshs
<b>10 CALL AND FIXED DEPOSITS</b>		
Standard Chartered bank - Call deposit	10,000,000	-
Standard Chartered bank - Fixed deposit	18,000,000	-
Equity Bank	-	22,000,000
Cooperative Bank	-	21,000,000
NIC Bank	-	7,000,000
	<u>28,000,000</u>	<u>50,000,000</u>

**11 BANK AND CASH BALANCES**

Standard Chartered Bank	789,173	1,309,617
Kenya Commercial Bank	91,054	224,570
Barclays Bank	43,274	357,111
Standard Chartered Bank	53,300	53,300
	<u>976,801</u>	<u>1,944,598</u>

**12 RECEIVABLES**

Dividend Receivable	-	522,500
Interest on call account (Note 14)	511,849	1,976,024
Interest earned from treasury bonds	1,592,897	546,941
	<u>2,104,746</u>	<u>3,045,465</u>

**13 PAYABLES AND ACCRUALS**

Management fees payable	357,407	302,316
Administrative fees	26,107	17,780
Trustees fees	39,801	74,773
Audit Fees	46,400	46,400
AGM Fees	-	7,974
	<u>469,715</u>	<u>449,243</u>

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Notes (continued)

**14 IFRS 9 disclosures**

***Expected Credit Loss (ECL):***

The Fund assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in the income and expenditure statement. **(Ref Note 2d)**

The fixed deposits in the year comprise of cash and demand deposits as follows;

	<b>2019</b>	
	<b>Kshs</b>	
Standard Chartered bank - Call deposit		10,000,000
Standard Chartered bank - Fixed deposit		18,000,000
Interest receivable;		
Interest receivable in the year	511,849	
Expected credit loss	-	
	<u>511,849</u>	511,849
		<u><u>28,511,849</u></u>

	Band 1	Band 2	Band 3	Band 4	Band 5
Time Bands	Within 30 days	31 - 60	61- 90	91-120	Over 120
ECL Rate	0.00%	0.25%	0.50%	0.75%	1.00%
Deposit Amount	28,511,849				
Lifetime ECL	-	-	-	-	-