
ZIMELE UNIT TRUST
FIXED INCOME FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2023

AUDITORS
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TRUSTEE AND PROFESSIONAL ADVISORS

TRUSTEE	: KCB Bank Kenya Limited, : KCB Tower, 7th Floor, Junction of Hospital and Kenya Road, : Upper Hill, : P.O. Box 30664 - 00100, : NAIROBI
FUND MANAGER	: Zimele Asset Management Company Limited, : Ecobank Towers , 7th Floor, : Muindi Mbingu Street, : P.O. Box 76528-00508, : NAIROBI.
CUSTODIAN	: Standard Chatered Securities Services Kenya, : Standard Chatered Bank of Kenya Ltd, : Level 5, 48 Westlands Road, : P.O. Box 40984-00100, : NAIROBI.
INDEPENDENT AUDITOR	: Louise & Associates, : Certified Public Accountants, : RAMCO Court , Mombasa Road, : P.O. Box 43272-00100, : NAIROBI.

REPORT OF THE TRUSTEE

The Trustee has the pleasure of submitting the Zimele Unit Trust Fixed Income Fund report together with the audited financial statements for the year ended 31st December 2023, which disclose the state of affairs of the fund.

TRUSTEES

The Fund was established and 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

Application for additional sub fund to the Zimele Unit Trust Funds was submitted on February 11, 2021 to Capital Markets Authority, which the Authority considered and reviewed the executed incorporation documents submitted therewith and was satisfied that they complied with the provisions of the Capital Markets (Collective Investment Schemes), Regulations 2002. Consequently the approval was granted to register the fund as a sub fund of the Zimele Unit Trust Fund.

INVESTMENT OBJECTIVES

The objective of the Zimele Unit Trust Money Market 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 2023

The market value of the fund as at 31st December 2023 was Kshs 2,679,136,851 (Kshs 2,410,259,807 in 2022)□

MEMBERSHIP

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

	2023	2022
	Members	Members
At start of year	24,411	11,937
Entrants	14,089	12,489
Exits	(167)	(15)
At end of year	<u>38,333</u>	<u>24,411</u>

REPORT OF THE TRUSTEE

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 fund are borne by the fund.□

AUDITORS

Louise & Associates, Certified Public Accountants, who were appointed in the financial year 2023, have expressed their willingness to continue in office.□

For the Trustees:

For: KCB BANK KENYA LTD.

.....
CORPORATE TRUSTEE

For: KCB BANK KENYA LTD.

.....
CORPORATE TRUSTEE

Date.....26/03/2024

STATEMENT OF TRUSTEE' RESPONSIBILITIES

The Capital Markets Act requires the Trustee 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 Trustee is responsible for ensuring that the Fund keeps 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 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 Trustee accepts 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. The Trustee also accepts responsibility for:

- i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii. Selecting and applying appropriate accounting policies; and
- iii. Making accounting estimates and judgements that are reasonable in the circumstances;

'DECLARATIONS STATEMENT

The Zimele Unit Trust Fixed Income 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 Fixed Income 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.

The Trustee acknowledges that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Trustee on 26/03/2024 and signed on behalf of the Trustee by:

For: KCB BANK KENYA LTD.


CORPORATE TRUSTEE

For: KCB BANK KENYA LTD.


CORPORATE TRUSTEE

FUND MANAGERS' REPORT

Dear Esteemed Unit Holders,

Rising inflation was a global theme last year arising from supply bottlenecks and spillover effects of the war in Ukraine. Locally, the rate of inflation started the year at 8.98%, peaked at 9.2% and eased to 6.6% at the end of the year, largely driven by a four-year drought that caused prices of food to soar.

Matters were further complicated by developments in the USA where inflation started the year at 5.5% and gradually eased to 2.6% by year end, against a target of 2%. The US central bank raised its policy rate from 4.5% in January to 5.5% in December and in the process caused capital flight from the rest of the world, and Kenya was not spared. The shilling weakened by 27% against the US Dollar compared to a fall of 9% in 2022. The Shilling's depreciation was also accelerated by fears that the government would not be able to repay a US\$2 billion Eurobond maturing in June 2024.

The Central Bank of Kenya (CBK) is mandated to maintain the rate of inflation at a ceiling of 7.5% and a floor of 2.5% by adjusting its policy rate, the central bank rate (CBR), accordingly. Consequently, the CBR was raised from 8.75% at the start of the year to 12.5% in December in an attempt to contain the rising prices. This had a huge knock-on effect on domestic interest rates with the average bank lending rate rising to a seven-year high of 14.63% while the 364 days treasury bill rate jumped to an eight-year high of 15.91%, which effectively locked out most borrowers and slowed down investment activities in the economy. The weaker shilling also had the secondary effect of raising energy prices, including petroleum and electricity prices, which are heavily dependent on the Shilling exchange rate.

The current year has started with some optimism on the economic front. The government allayed default fears after successfully issuing another Eurobond in February with the proceeds expected to repay the June 2024 maturity, leading multilateral lenders have also committed financial support to the government in its effort to meet its debt obligations and stabilize the economy. There are also signs that the US central bank may stop further policy rate hikes since the rate of inflation eased further to 2.4% in January which is close to its target of 2%. A pause in the steady appreciation of the US Dollar is good for the Kenya Shilling and the economy at large.

Periods of economic turbulence associated with rapidly rising interest rates and unpredictable exchange rates usually lead to speculation by some investors in an effort to make gains from the market volatility. However, this is the time one should remain vigilant to avoid the temptation of moving their investments into risky territory given the near-impossible venture of trying to predict market peaks and troughs. It is very important to understand your risk profile in order to know which investments you should seek and where you should never venture.

At the personal finance level, emergency savings should never be used for other purposes, and in particular not for speculation. Emergencies such as income disruption, sudden healthcare demands and even bereavement often come with no prior warning, and the only solution is always being prepared by having an emergency fund.

FUND MANAGERS' REPORT (CONTINUED)

If you are a member of a chama or welfare group we highly recommend that you try the recently launched Zimele Chama Manager Platform which is designed to enable the efficient and effective administration of chamas and related groups and associations.

Finally, we thank you for your support and commitment and assure you that we shall do our best to ensure that you continue to enjoy good investment performance and a wonderful customer experience at all times.

ZIMELE UNIT TRUST FIXED INCOME FUND HISTORICAL PERFORMANCE

Table 1: Investment Performance Table

5 Year Comparative Investment performance			
	ZFIF	TB-364	Inflation
2023	14.20%	12.74%	7.70%
2022	13.2%	9.9%	7.6%
2021	13.00%	8.60%	6.10%
2020	12.70%	8.60%	5.30%
2019	13.10%	9.50%	5.20%

The performance of the Zimele Fixed Income Fund (formerly Zimele Money Market Fund) Gross Returns over 5-year period together with the average 364-day Treasury Bill and the inflation rates

Table 2: Changes in Yield Over 5 Year Period

Highest and Lowest Yields 5 Years Comparison					
YEAR	2023	2022	2021	2020	2019
Highest Yield (%)	10.75%	10.78%	10.40%	10.06%	9.89%
Lowest Yield (%)	9.65%	9.36%	8.57%	8.36%	9.01%
Average Yield (%)	10.25%	9.84%	9.56%	9.58%	9.60%

Zimele Fixed Income Fund retained above average yield over the 5-year period, with the latest yield increasing marginally.

Table 3: The Net Surplus Distribution Table for the 5 Year Period

Net Surplus Distribution Breakdown					
YEAR	2023	2022	2021	2020	2019
Net Surplus for the Year	241,775,501	165,183,152	95,235,468	56,452,052	46,409,675
Surplus Distributed per Unit	0.095	0.07	0.06	0.05	0.05

The Zimele net Surplus distribution over the 5-year period shows an increasing net surplus per unit.

FUND MANAGERS' REPORT (CONTINUED)

Table 4: The Closing Fund under Management (FMU) and Units in Issue over the 5 Year Period

The Closing Fund Under Management (FMU) 2019-2023					
YEAR	2023	2022	2021	2020	2019
Total Fund Value	2,678,218,084	2,410,726,733	1,741,760,625	1,261,280,261	931,058,295
Price Per Unit	1	1	1	1	1
Number of Units in Issue	2,678,218,084	2,410,726,733	1,741,760,625	1,261,280,261	931,058,295
Percentage Annual Growth	11.10%	38.40%	38.10%	35.50%	14.30%

Zimele Fixed Income continued to record a double digit growth in FUM despite a tough year characterized with emergence of new products and capital out flows.




REPORT OF THE CUSTODIAN

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the regulations) and the Custody Agreement between the Standard Chartered Bank Kenya Limited as the Custodians and Zimele Asset Management Company Limited as the Fund Manager, we confirm that for the year ended 31st December 2023:

- We have discharged the duties prescribed for a Custodian under Regulations 35 of the Regulations to Zimele Unit Trust Fixed Income Fund; and
- We have held the assets for the Zimele Unit Trust Fixed Income Fund, including 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

Signed on behalf of the Custodian on 26 / 03 / 2024





**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF ZIMELE UNIT TRUST - FIXED INCOME FUND**

Opinion

We have audited the accompanying financial statements of Zimele Unit Trust - Fixed Income Fund set out on pages 12 to 20 which comprise of the statements of financial position at 31 December 2023 and the statements of profit and loss and other comprehensive income, changes in unit holders' balance and cash flows for the year ended and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Zimele Unit Trust - Fixed Income Fund at 31 December 2023 and of its financial performance and cash flows for the year that ended in accordance with International Financial Reporting Standards and the requirements of the Capital Markets (Collective Investments Schemes) Regulations, 2001

Basis for 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 Trust in accordance with the International Ethics Standards Board for Accountants (IESBA), International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

We have determined that there are no key audit matters to communicate in our report.

Other information

The other information comprises Trustee and professional advisors, Report of the Trustee, Statement of Trustee's Responsibilities, Fund manager's report and the Report of the Custodian which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information we have received 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.



LOUISE & ASSOCIATES
TRUST. EXPERTISE. RESULTS

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ZIMELE UNIT TRUST - FIXED INCOME FUND

Responsibilities of Trustee for the financial statements

The Trustee is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of Capital Markets Authority (Collective Investments Schemes) Regulations 2001, and for such internal control as the trustee 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 Trustee is responsible for assessing the Funds' 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 Trustee either intends to liquidate the fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 judgement and maintain professional skepticism throughout the audit. We also:

- i) 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.
- ii) 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 managers' internal control.
- iii) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- iv) Conclude on the appropriateness of the Fund managers' 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 date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- v) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF ZIMELE UNIT TRUST - FIXED INCOME FUND**

Auditor's responsibilities for the audit of the financial statements

We communicate with the Trustee 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.

From the matters communicated with the Trustees, we determine those matters that were of most significance in the audit of the financial statement of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

We confirm that the financial statements have been properly prepared in accordance with the Capital Markets Authority (Collective Investment Schemes) Regulations, 2001.

The Capital Markets Authority (Collective Investment Schemes) Regulations, 2001 also requires that in carrying out our audit we consider and report to you on the following matters:

- 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

**Engagement partner responsible for the audit resulting in this independent auditors report is
CPA Louisa Okwaro, Practicing certificate number: P/2920**

Louise & Associates

**Louise & Associates
Certified Public Accountants
Nairobi, Kenya**

Date: 26 / 03 /2024



Zimele Unit Trust
Fixed Income Fund
Annual report and financial statements
For the year ended 31st December 2023

STATEMENT OF COMPREHENSIVE INCOME

	Note	2023 KES	2022 KES
Income			
Interest income : government securities	5	274,014,643	196,339,770
Interest income : bank deposits	6	39,422,746	27,690,234
Total income		313,437,388	224,030,004
Expenditure			
Bank charges		1,668,951	2,379,237
Publication fees		386,264	506,275
Management fees		52,553,188	42,052,340
Trustee fees		7,315,403	5,824,662
Custody fees		9,214,642	7,383,613
CMA annual scheme fees		130,000	135,000
Secretarial fees		107,210	98,098
Audit fees		286,230	466,926
		71,661,888	58,846,151
Net surplus		241,775,501	165,183,853

STATEMENT OF FINANCIAL POSITION

	Notes	2023 KES	2022 KES
ASSETS			
Government securities	7	2,098,318,667	2,009,354,316
Bank deposits	8	440,000,000	275,000,000
Cash at banks	9	64,744,709	62,555,505
Interest receivables	10	76,073,475	63,816,912
Total assets		2,679,136,851	2,410,726,733
LIABILITIES			
Current liabilities			
Payables and accruals	11	918,767	466,926
		918,767	466,926
Equity			
Unit holders funds	Page 9	2,678,218,084	2,410,259,807
Total assets		2,679,136,851	2,410,726,733

The financial statements set out on pages 12 - 20 were approved by the Trustee and signed on-----

For: KCB BANK KENYA LTD.

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 CORPORATE TRUSTEE

Trustee

For: KCB BANK KENYA LTD.

.....
 CORPORATE TRUSTEE

Trustee

STATEMENT OF UNIT HOLDER FUNDS

	Net Unit Holders funds	Retained	Change in Fair value of investments	Total
	KES	KES	KES	KES
FY 2022				
Balance as at 01-01-2022	1,720,384,170	21,376,455	-	1,741,760,625
Net contributions	282,970,878	-	-	282,970,878
Surplus for the period	-	165,183,853	-	165,183,853
Changes in fair value of investment	-	-	(11,121,022)	(11,121,022)
Transfers from money market fund	231,465,473	-	-	231,465,473
Balance as at 31-12-2022	<u>2,234,820,521</u>	<u>186,560,308</u>	<u>(11,121,022)</u>	<u>2,410,259,807</u>
FY 2023				
Balance as at 01-01-2023	2,234,820,521	186,560,308	(11,121,022)	2,410,259,807
Net contributions	181,934,370	-	-	181,934,370
Surplus for the period	-	241,775,501	-	241,775,501
Changes in fair value of investment	-	-	(155,751,595)	(155,751,595)
Balance as at 31-12-2023	<u>2,416,754,892</u>	<u>428,335,809</u>	<u>(166,872,617)</u>	<u>2,678,218,084</u>

STATEMENT OF CASH FLOWS

	2023	2022
	KES	KES
CASHFLOWS FROM OPERATING ACTIVITIES		
Surplus during the year	241,775,501	165,183,853
Operating surplus before changes in working capital	241,775,501	165,183,853
	-	
Increase in receivables	(12,256,563)	(38,704,915)
Increase in payables	451,841	406,926
Net cash flows generated from operating activities	229,970,779	126,885,864
CASHFLOWS USED IN INVESTING ACTIVITIES		
Treasury bills	(35,525,736)	-
Treasury bonds	(54,111,767)	(721,185,068)
Corporate bonds	673,152	(6,896,820)
Call deposits	(165,000,000)	159,817,600
Net cash flows used in investing activities	(253,964,351)	(568,264,288)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net unit holder funds	181,934,370	514,436,351
Changes in fair value of investments	(155,751,595)	(11,121,022)
Net cash flows from financing activities	26,182,776	503,315,329
Net cash inflows	2,189,204	61,936,906
Cash and cash equivalents at start of year	62,555,505	618,599
Cash and cash equivalents at the end of year	64,744,709	62,555,505

NOTES TO THE AUDITED FINANCIAL STATEMENTS

1 BASIS OF PREPERATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

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.

1.2 Significant 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.

(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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONT'D)

(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.

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

(f) Unity 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONT'D)

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) Operational risk

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

(iii) 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.

(iv) 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONT'D)

	2023	2022
	KES	KES
5 INTEREST INCOME FROM INVESTMENTS		
Government securities	273,568,934	195,790,758
Corporate bonds	445,709	549,012
	<u>274,014,643</u>	<u>196,339,770</u>
6 INTEREST FROM BANK DEPOSITS		
Interest on bank deposits	39,422,746	26,690,234
	<u>39,422,746</u>	<u>26,690,234</u>
7 GOVERNMENT SECURITIES		
Treasury bills	35,525,736	-
Treasury bonds	2,056,569,263	2,002,457,496
Corporate bonds	6,223,668	6,896,820
	<u>2,098,318,667</u>	<u>2,009,354,316</u>
<i>Investments are stated at fair value as at the end of the financial year</i>		
8 CALL DEPOSITS		
Call deposits	440,000,000	275,000,000
	<u>440,000,000</u>	<u>275,000,000</u>
9 CASH AT BANKS		
Standard Chartered Bank Custody a/c	32,377,247	39,133,092
Standard Chartered Bank Collection a/c	572,000	394,831
Standard Bank Collection	436,650	18,177
ABSA Bank collection a/c	1,647,768	2,221,755
KCB Bank collection a/c 1	1,768,719	1,537,245
KCB Bank collection a/c 2	828,533	10,909,779
Safaricom MPESA disbursement	13,531,502	-
Safaricom MPESA collection	13,582,289	8,340,626
	<u>64,744,709</u>	<u>62,555,505</u>

NOTES TO THE AUDITED FINANCIAL STATEMENTS (CONT'D)

	<u>2023</u> KES	<u>2022</u> KES
10 INTEREST RECEIVABLES		
Bank deposits	6,944,959	57,093,350
Corporate bond	261,596	6,723,562
Treasury bonds	67,455,118	-
Treasury bills	1,411,802	-
	<u>76,073,475</u>	<u>63,816,912</u>

Interest receivable includes interest earned but was not yet received at the end of the financial year

11 PAYABLES AND ACCRUALS

Audit fees	286,230	466,926
Trustee fees	632,537	-
	<u>918,767</u>	<u>466,926</u>