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Quarterly Markets and Products Updates

05th February, 2024

Cytonn

Cytonn Investments

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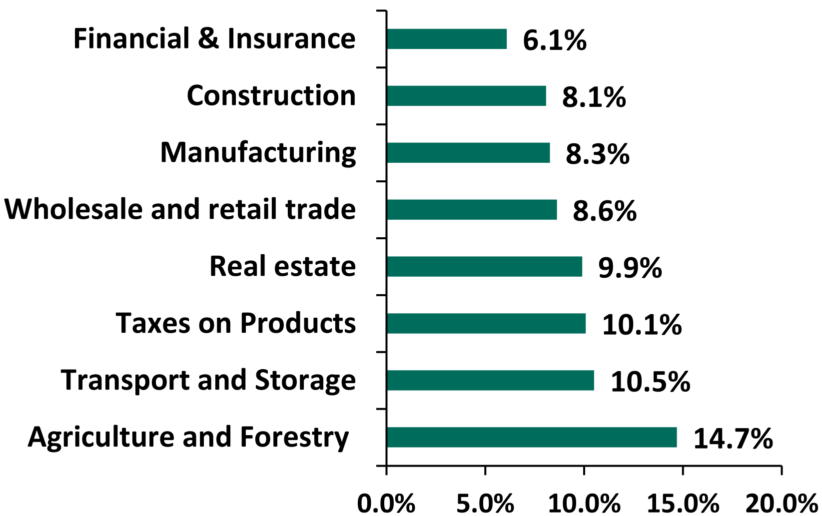
Economic Update

Cytonn

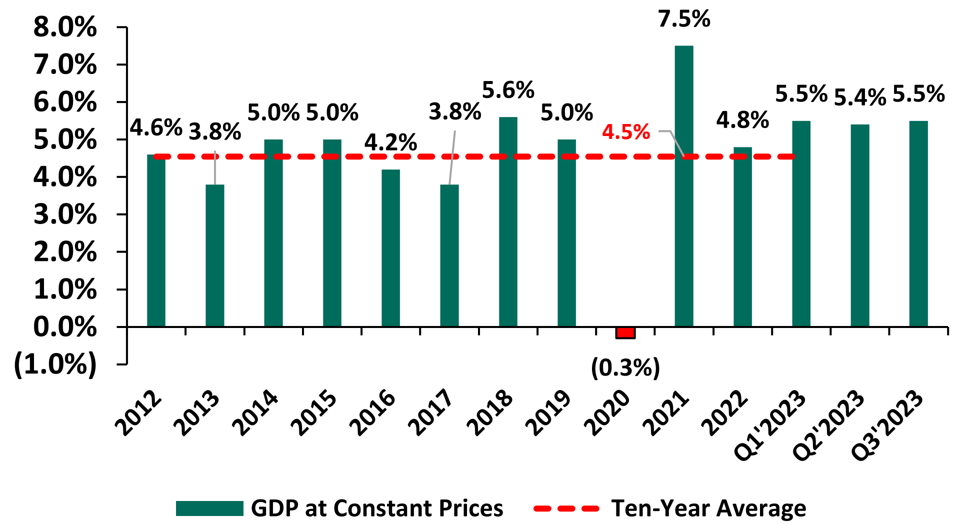
GDP Growth

The Kenyan economy grew by 5.5% in Q3’2023, slower than the 5.6% growth in Q3’2022

Q3'2023 GDP Contribution by Sector



GDP Growth Rates



- The Kenyan economy recorded an average growth of 5.5% in the period between January to September 2023, with Q3’2023 GDP coming in at 5.9%, adding to the 5.4% growth recorded in Q2’2023. The average GDP growth of 5.5% marked a slight decline from the 5.6% average growth recorded in a similar period in 2022
- The performance in Q3’2023 was mainly driven by the 6.7% growth in the agricultural sector due to the favourable weather conditions and government interventions with subsidies, which led to more agricultural output as evidenced by the 28.0% increase in tea output to 138.8 thousand metric tonnes coupled with the 84.3% growth in fruit exports to 59.6 thousand metric tonnes in the quarter under review

**Source: KNBS, Central Bank of Kenya*

GDP Growth

The Kenyan Economy is projected to grow at an average rate of 5.2% in 2024

No.	Organization	2023 GDP Projections
1	International Monetary Fund	5.0%
2	National Treasury	5.5%
3	World Bank	5.2%
4	Fitch Solutions	5.2%
5	Cytonn Investments Management PLC	5.1%
Average		**5.2%**

Source: Cytonn Research

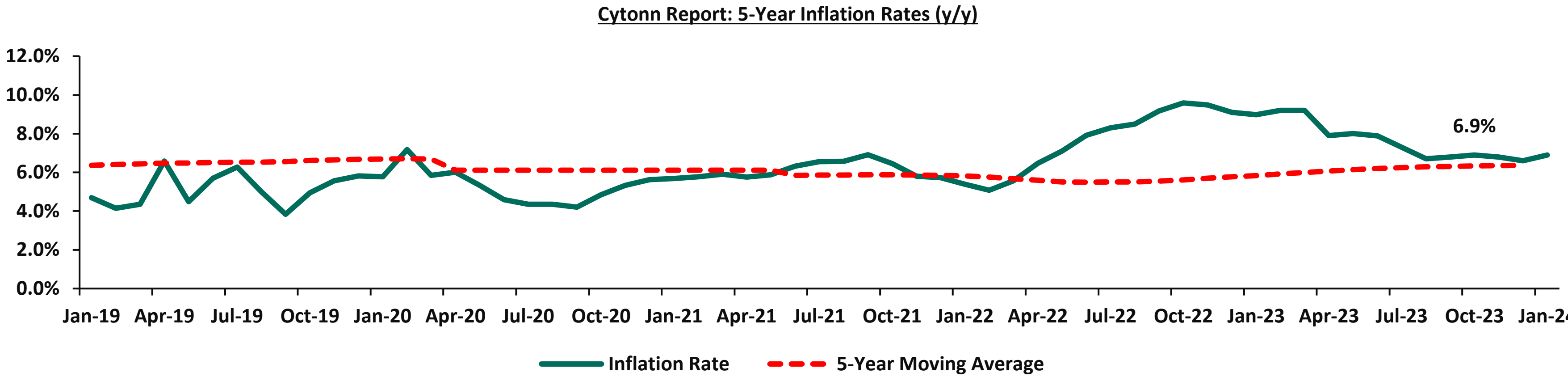
- Overall, the economy is expected to grow at a slower average of 5.2% in 2024, given the subdued general business environment in the country, mainly as a result of elevated inflationary pressures, which continue to lower consumer purchasing power, resulting in reduced demand for goods and services and consequentially slow economic growth
- The rising interest rates is also set to increase the cost of credit, hence discouraging borrowing, which will in turn lead to reduced investment spending in the economy by both individuals and businesses
- However, we expect the agricultural sector to continue recuperating following the sufficient long rains that have been experienced in the country, coupled with recent fiscal policies such as subsidizing the costs of crucial farm inputs such as fertilizers that will enhance growth in the sector, which remains Kenya's largest contributor to GDP, as well as food prices being a major contributor to headline inflation.

**Source: National Treasury, World Bank, IMF, S&P Global*

Inflation

Inflation

The inflation in Jan 2024 increased marginally by 0.3% points to 6.9%, from the 6.6% recorded in Dec 2023



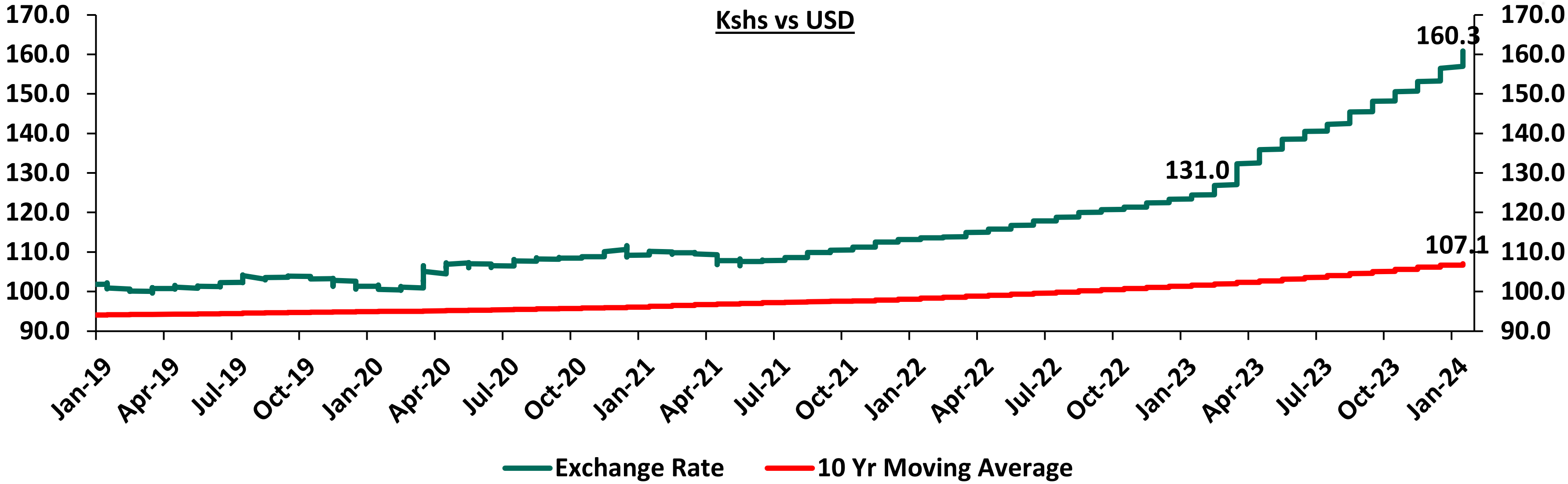
- The average inflation rate tightened to 6.9% in Q3'2023, compared to 8.7% in Q3'2022, attributable to a decrease in the price of food and beverages following the favorable weather conditions that boosted agricultural production
- In July 2023, Kenya's inflation rate decreased to 7.3% from the 7.9% recorded in June 2023, marking the first time in 14 months that Kenya's inflation fell within the Central Bank of Kenya (CBK) target range of 2.5% - 7.5%. The inflation in October 2023 increased marginally by 0.1% points to 6.9%, from the 6.8% recorded in September 2023, driven by increased fuel prices that spiked commodity prices
- Going forward, we expect the inflationary pressures to remain elevated in the short to medium term, mainly on the back of high fuel prices, which is key components of the headline inflation index. Additionally, the complete removal of the fuel subsidy, coupled with the increase in VAT on petroleum products to 16.0% from 8.0% in the new Finance Act 2023 to add more upward pressure on the fuel prices in the country

**Source: KNBS*

Currency Performance

Currency

The Kenya Shilling depreciated by 26.8% in 2023 to close at Kshs 156.5 against the US Dollar, compared to Kshs 123.4 recorded at the beginning of the year



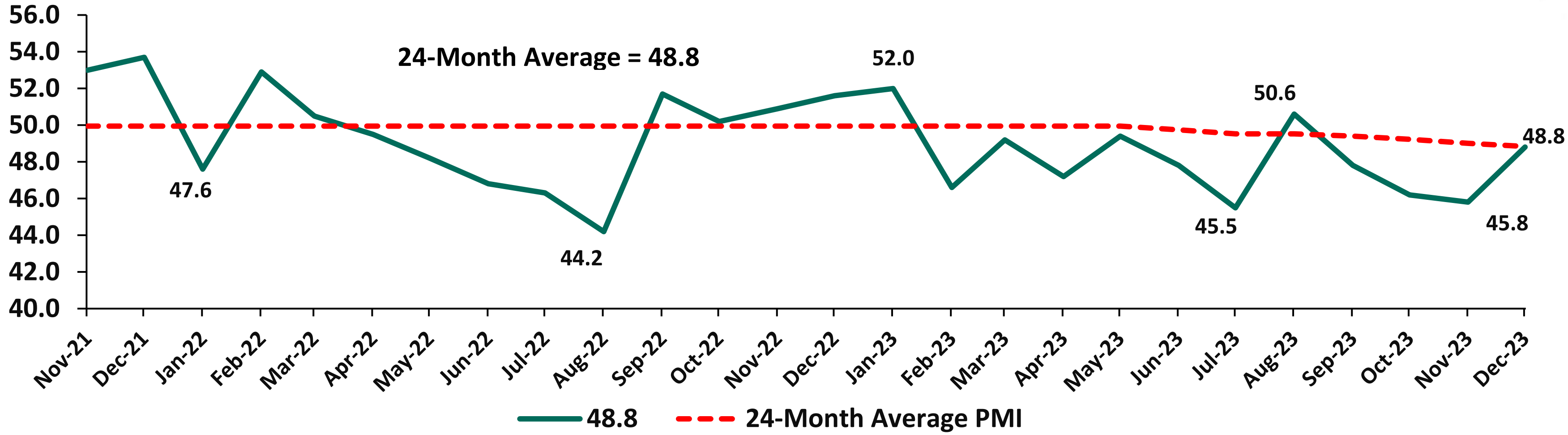
- The Kenya Shilling depreciated by 26.8% in 2023 to close at Kshs 156.5 against the US Dollar, compared to Kshs 123.4 recorded at the beginning of the year, driven by increased dollar demand from importers, especially oil and energy sectors, the ever-present current account deficit and the need for government debt servicing which has continued to put pressure on the country's forex reserves
- We expect the Kenya Shilling to trade within the range of between Kshs 183.2 and Kshs 189.6 against the USD by the end of 2024 based on the purchasing power parity (PPP) and interest rate parity (IRP) approach respectively, with a bias of a 16.4% depreciation

**Source: Central Bank of Kenya*

Purchasing Managers Index (PMI)

The Stanbic PMI for the month of December 2023 came in at 48.8, up from 45.8 in November 2023

Kenya's Purchasing Manager's Index for the Last 24 Months



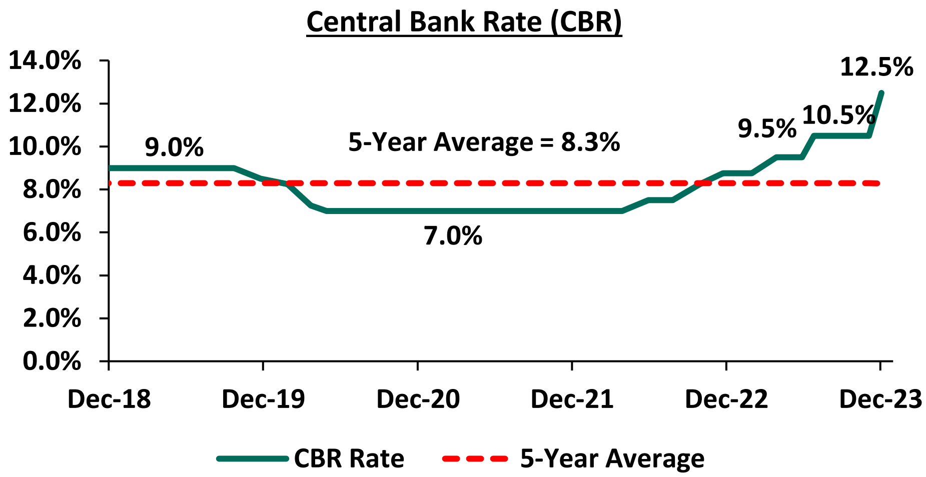
- The Stanbic Purchasing Managers Index (PMI) for December 2023 improved slightly, coming in at 48.8, up from 45.8 in November 2023, signaling a modest improvement in operating conditions across Kenya. Key to note, a PMI reading of above 50 indicates improvements in the business environment, while a reading below 50 indicates a worsening outlook
- The modest and softer downturn of the general business environment is mainly attributable to easing inflation and the service sector experiencing improved business conditions
- Going forward, we project that the business environment will be restrained in the short to medium term on the back of higher food and fuel prices, as well as the sustained depreciation of the Kenyan shilling, which continues to raise the cost of production and importation

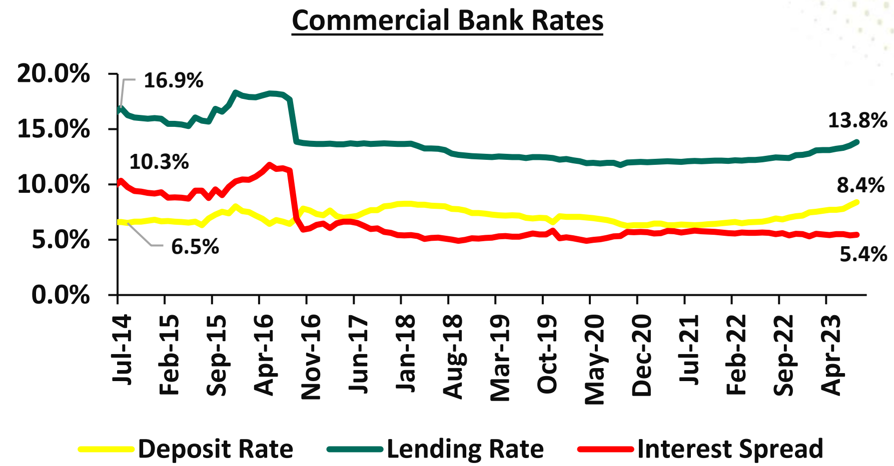
**Source: Central Bank of Kenya*

Interest Rates and Monetary Policy

Interest Rates and Monetary Policy

The MPC raised the Central Bank Rate to 12.50% in the December 2023 sitting





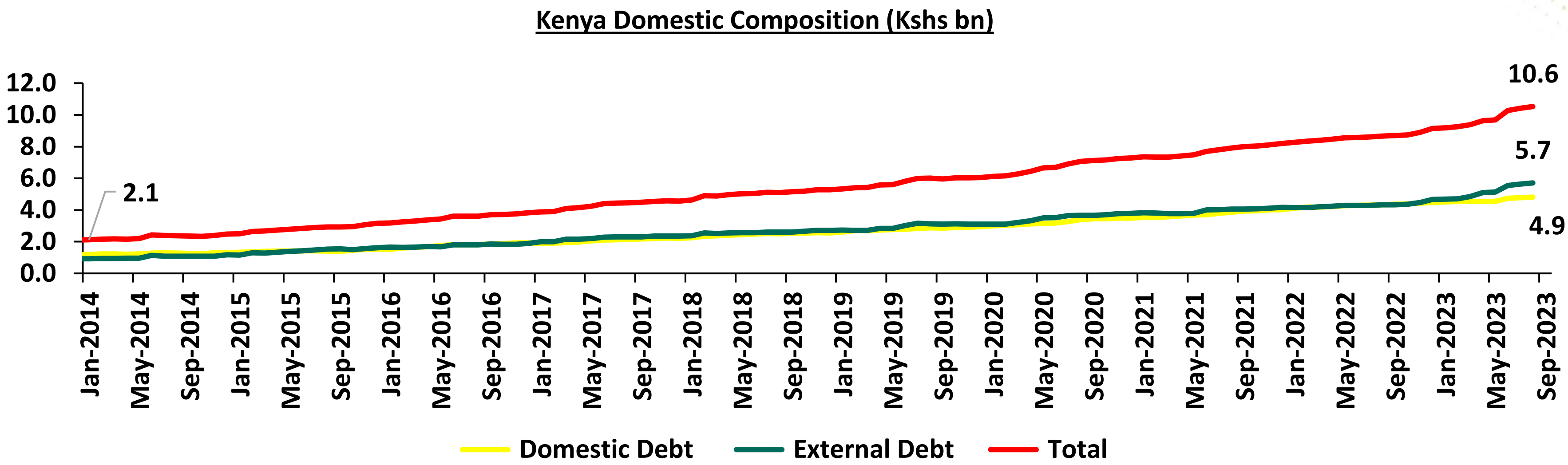
- During the year the Monetary Policy Committee (MPC) met 7 times, and in its latest meeting held in December, the MPC raised the CBR rate by 200.0 bps to 12.50% to tame the local currency depreciation, which the Committee noted had a significant contribution to the country's inflation, contributing 3.0% of the 6.8% inflation rate recorded in November, as well as the high cost of debt service
- In total, MPC raised rates in 2023 by 3.75%, from 8.75% in January to 12.50% in December. We expect the MPC to continue raising the CBR rates in a bid to anchor the Kenyan shilling that has suffered a 26.8% depreciation against the US Dollar in the year 2023
- Consequently, we expect to see slight upward pressure on the interest rates as the ripple effects of the increased CBR continue to reflect in the economy in the short to medium term.

Government Borrowing

Cytonn

Government Borrowing

Kenya's public debt stood at Kshs 10.6 tn as of September 2023



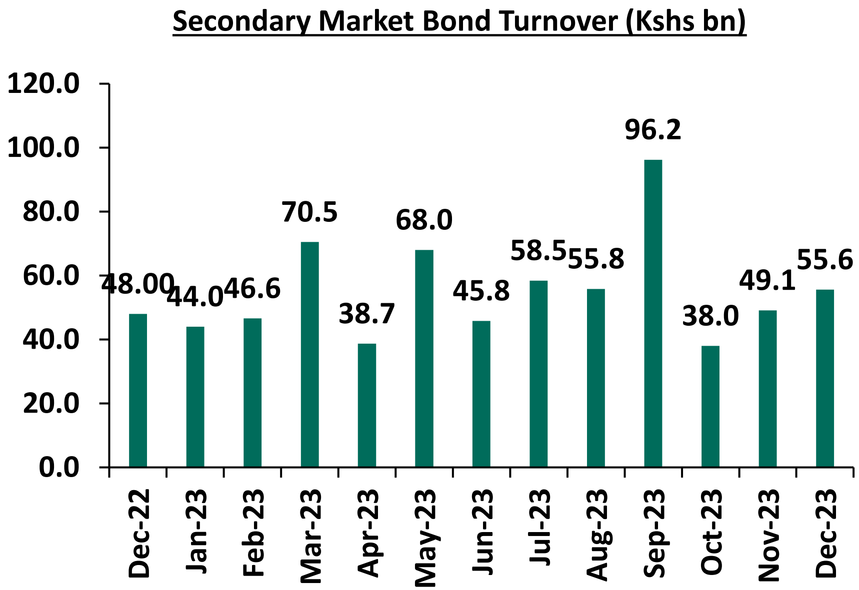
- The government's domestic debt stood at Kshs 4.9 tn as of September 2023, 13.2% lower than external debt that came in at Kshs 5.7 tn in the same period. Notably, domestic debt recorded an 9.2% increase from the year's opening position of Kshs 4.5 tn relative to a 21.1% growth in external debt from the year's opening position of Kshs 4.7 tn
- Additionally, debt service to revenue ratio stood at 64.3% as of September 2023, 34.3% points above IMF's recommended threshold of 30.0%, highlighting the stress public debt servicing places on the country's expenditure
- Going forward, it is our view that debt service will grow in FY'2023/24 with debt servicing cost remaining high amid the shilling's depreciation, the upcoming Eurobond maturity worth USD 2.0 bn and continued local debt maturities

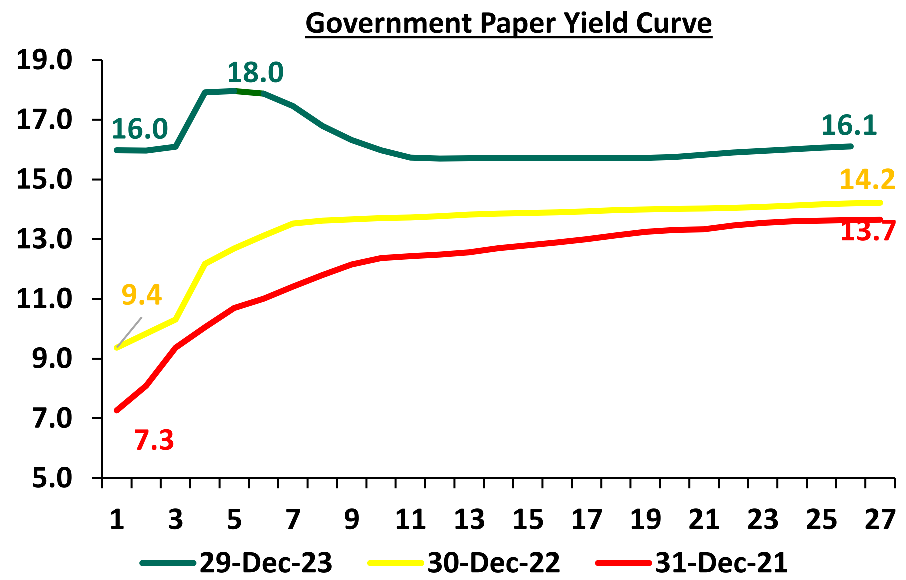
**Source: National Treasury*

Asset Class Performance

Kenyan Fixed Income Market

The secondary bond market recorded reduced activity in 2023



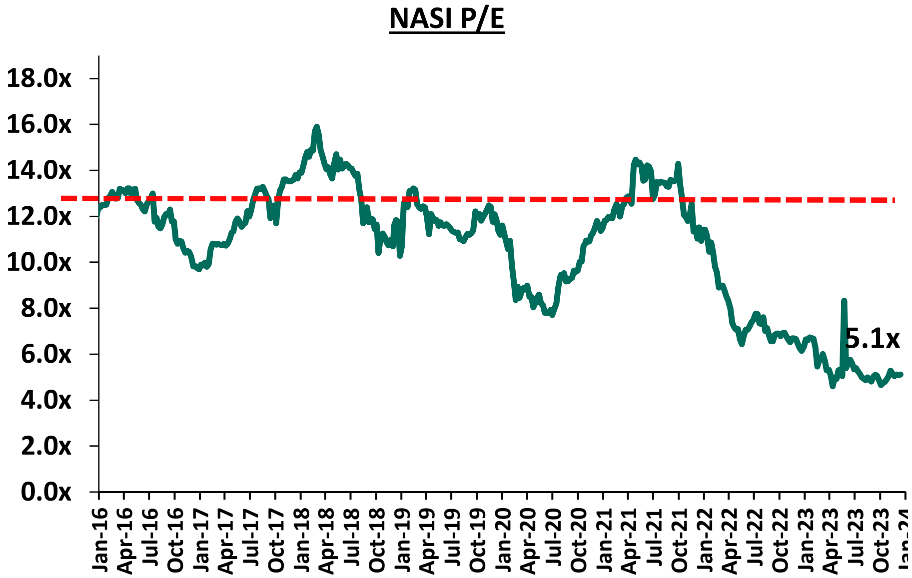


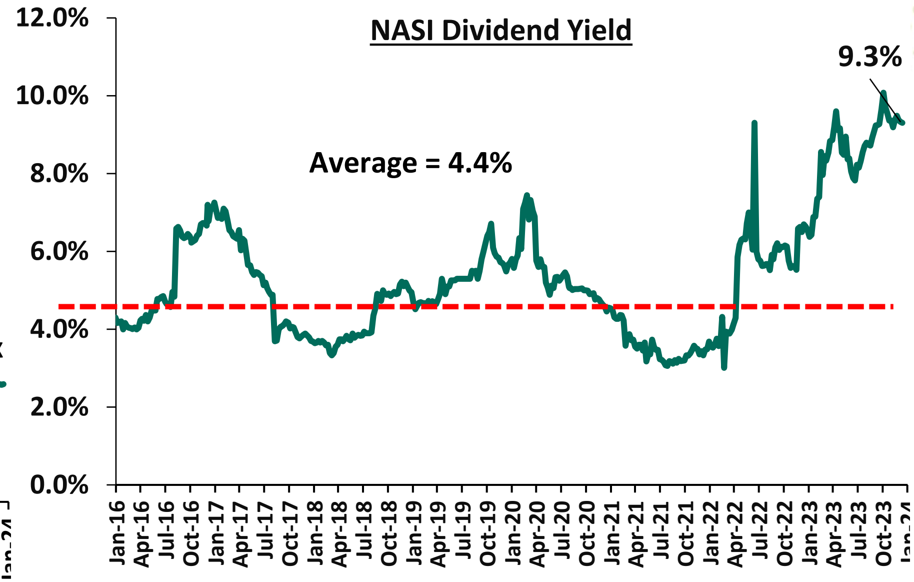
- The secondary bond market recorded reduced activity during 2023, with the turnover having declined by 9.5% to Kshs 666.9 bn, from Kshs 736.9 bn in 2022. In 2023, the yield curve experienced an upward adjustment, mainly attributable to the increased government borrowing, local currency depreciation and the heighted credit risk amidst constrained liquidity ahead of the upcoming USD 2.0 bn Eurobond maturity due in 2024
- As such, investors will continue to demand higher yields to compensate for inflation and currency depreciation risk leading to rise across the yield curve

**Source: Central Bank of Kenya , NSE*

Kenyan Equities Markets

The market closed Q3'2023 trading at a price to earnings ratio (P/E) of 5.0x





- During the year, the Kenyan equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 27.7%, 10.4%, and 24.2%, respectively. NASI's PEG ratio currently stands at 0.7 an indication that the market is undervalued relative to its future earnings growth. A PEG ratio greater than 1.0x indicates the market is overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued
- We are "Neutral" on the Equities market in the short term due to the current adverse operating environment and huge foreign investor outflows, and, "Bullish" in the long term due to current cheap valuations and expected global and local economic recovery

Real Estate Market

Key Factors Driving the Real Estate Sector

Improving infrastructure, recovery of the hospitality sector, expansion by retailers and positive demographics continue to drive Kenya's Real Estate sector performance

Factors	DESCRIPTION
Infrastructural development	Infrastructure development remains a key driver for Real Estate sector growth in Kenya, with the government prioritizing projects such as Makupa Bridge, Nairobi Expressway, and Eastern/Western Bypasses. These initiatives aim to position the country as a regional hub. Anticipated projects in 2024 include the completion of phase two of the Dongo Kundu bypass
Affordable housing initiative	The Kenyan government remains committed to providing affordable housing, with the Affordable Housing Programme (AHP) pipeline currently featuring approximately 838,876 housing units under construction by both the public and private sectors. This information is based on the Architectural Association of Kenya's (AAK) Status of the Built Environment Report for 2023. As part of its efforts, the government aims to bolster resources for affordable housing by reintroducing the affordable housing levy, a move being addressed by the Affordable Housing Bill 2023 for regularization
Focus on mortgage financing by the KMRC	Kenya Mortgage Refinance Company (KMRC) has continued to drive the availability and affordability of home loans to Kenyans by providing single-digit fixed rate, and long-term finance to Primary Mortgage Lenders (PMLs) such as banks and SACCOs. As at August 2023, KMRC had disbursed Kshs 7.2 bn to nine PMLs
Recovery of the hospitality sector	The hospitality sector shows increased investor confidence with a rise in hotel activities and a 28.7% year-on-year surge in international arrivals to 1,238,330 persons as of October 2023. According to the Hotel Chain Development Pipelines in Africa Report 2023 by W Hospitality Group, 25 global hotel brands are considering establishing new facilities in Kenya in 2023, adding 3,729 new hotel rooms and positioning Kenya among the top ten hotspots for upcoming luxury hotels
Aggressive expansion in the retail sector	The retail sector experiences sustained growth, marked by aggressive expansion efforts from both local and international retailers like Naivas, QuickMart, and Carrefour. These endeavors aim to reinforce market dominance and fill gaps left by distressed retailers such as Choppies, Nakumatt, Tuskys, and Uchumi. Furthermore, the ongoing entry and expansions of global brands like Adidas, Puma, Aldo, and Micheal Kors contribute to the sector's positive trajectory
Positive Demographics	With relatively high urbanization and population growth rates of 3.7% p.a and 1.9% p.a, respectively, against the global average of 1.5% p.a and 0.8% p.a, respectively, as at 2022, there is a sustained demand for more housing units in the country, and Real Estate in general

Key Challenges Facing the Real Estate Sector

Rising construction costs is a challenge affecting the Real Estate sector's performance

Factors	DESCRIPTION
Oversupply in Select Sectors	With approximately 5.8 mn SQFT in the NMA commercial office market, approximately 3.0 mn SQFT in the Nairobi Metropolitan Area (NMA) retail market, with the rest of the Kenyan retail market having an oversupply of approximately 1.7 mn SQFT. This has led to prolonged vacancy rates in the respective Real Estate sectoral themes
Constrained Financing for Developers	Lenders continue to tighten their lending requirements and demand more collateral from developers as a result of the high credit risk in the real estate sector. This is evidenced by a 20.9% surge in gross Non-Performing Loans (NPLs) in the Real Estate sector, reaching Kshs 96.0 bn in Q2'2023, up from Kshs 79.4 bn recorded during the same period in 2022
Underdeveloped Capital Markets	It is difficult to develop pools of capital focused on projects, particularly in the private markets, to supplement government efforts in providing housing. Banks in Kenya are the primary source of funding for real estate developers, providing nearly 95.0% of funding as opposed to 40.0% in developed countries. This means that capital markets contribute only 5.0% of Real Estate development funding, compared to 60.0% in developed countries
Tough Micro-economic Conditions	High inflation and rising interest rates have led to eroded purchasing power and expensive borrowing respectively. This impacts the Real Estate sector negatively as developers enjoy less profit margins due to the inflated construction costs. Additionally, increased interest rates make borrowing more expensive, further dampening demand for mortgages and lending to developers
Rising construction costs	In 2023, construction costs increased by 27.0% to an average of Kshs 71,200 per SQM from an average of Kshs 56,075 per SQM recorded in 2022. The rise is primarily due to the hike in prices of key construction materials such as cement, steel, paint, aluminum, and PVC on the back of rising inflation. These higher costs are expected to impede development activities in the sector
Subpar performance of listed Real Estate	The REITs market in Kenya continues to be subdued owing to various challenges such as the large capital requirements of Kshs 100.0 mn for trustees which limits the role to banks, prolonged approval process for REITs, only a few entities capable of incorporating REITs, high minimum investment amounts set at Kshs 5.0 mn which discourage investments and lack of adequate knowledge of the financial asset class by investors

Real Estate Performance Summary and Outlook

Cytonn

Real Estate Performance Summary and Outlook

We have a NEUTRAL outlook for the residential, office and retail Real Estate sub-sectors

Thematic Performance and Outlook		
Themes	**2024 Outlook**	**Effect**
Residential	• The demand for housing is expected to persist in 2024, driven by positive population demographics. Increased efforts by the government to implement its affordable housing agenda is expected to spur further growth in the sector. Additionally, expansion and development of infrastructural projects is set boost the sector, as well as efforts by the government to avail low cost loans to Kenyans through Kenya Mortgage Refinance Company (KMRC) which is poised to enhance homeownership. Conversely, we expect the sector to be weighed down by the prevailing tough economic environment such as weakening shilling, high inflation, the low penetration of mortgages, as well as soaring cost of construction	**Neutral**
Commercial Office	• We expect a slight increase in performance by 0.2% points, attributable to the expected increase in the overall rental rates. However, we expect that an increased incoming supply compared to a similar period last year and the existing oversupply estimated at 5.8 mn SQFT in the Nairobi Metropolitan Area (NMA) will weigh down on the sector's performance by stifling absorption rates	**Neutral**
Retail	• We expect a slight increase in rental yields by 0.3% points as a result of increased rental charges of retail spaces and demand for existing supply amid the aggressive expansion by retailers taking up new and previously occupied spaces, infrastructure developments opening areas for investments, and positive demographics. However, oversupply of physical space, increased adoption of e-commerce, and a tougher economic environment for businesses are expected to undermine the performance of the sector in turn affecting rental yields of the sector during the year	**Neutral**
Hospitality	• We anticipate positive growth in the hospitality sector, with expected improvements in overall hotel operations, bookings, and occupancies. The newly launched direct flights from Dubai to Mombasa by FlyDubai offer a convenient travel option, potentially increasing international tourist arrivals in Mombasa. However, challenges may arise due to cautionary statements from governments like China and Canada, advising against travel to Kenya over concerns about terrorism, crime, power outages, and unsafe transport. Additionally, the weakened Kenyan Shilling may elevate operational costs, and difficulties in accessing finance and a projected decline in mergers and acquisitions could pose challenges to the sector	**Positive**

Real Estate Performance Summary and Outlook

We expect a positive outlook in the land sector with an annual capital appreciation of 3.0%

Thematic Performance and Outlook		
Themes	**2024 Outlook**	**Effect**
Land	• We expect the sector to witness an annual capital appreciation of 3.0%, primarily driven by high prices in satellite towns. This optimistic outlook is supported by the completion of significant infrastructure projects, a growing demand for development land in satellite towns, and an overall increased demand for land. However, a potential challenge lies in the anticipated slowdown of average selling prices for land in the Nairobi Metropolitan Area (NMA), with a slight decline to Kshs 128.5 million in FY'2024 from Kshs 128.6 million in FY'2023. This decline is attributed to factors like heightened uncertainty, diminished purchasing power, and a deteriorating business environment, potentially impacting demand and leading to a moderation in land prices	**Positive**
Infrastructure	• We expect to witness more infrastructural developments. The government's proactive approach involves the construction and rehabilitation of various critical components like roads, bridges, railways, airports, and affordable housing units. Additionally, diplomatic efforts and partnerships with neighboring nations, along with intensified competition for regional and international investors, particularly against countries like Tanzania, are anticipated to drive developments in railway connections and ports infrastructure • However, potential challenges loom as recent budgetary cuts to the state department for housing, coupled with a general reduction in the country's development expenditure, may impede the sector's optimal performance. The Supplementary Budget FY'2023/24 indicates an 8.3% reduction in the allocation to the State Department of Roads, decreasing from Kshs 250.8 billion to Kshs 230.1 billion. This reduction is attributed to the reallocation of funds to other key sectors, particularly education, and addressing escalating debt repayment costs due to the depreciation of the Kenyan Shilling. These shifts signal a change in the government's spending priorities, suggesting a potential decrease in roads expenditure in the FY'2023/24	**Neutral**

Real Estate Performance Summary and Outlook

With 3 themes having a positive outlook and 6 neutral, the general outlook for the sector therefore is NEUTRAL

Thematic Performance and Outlook		
Themes	**2024 Outlook**	**Effect**
Industrial	• We expect continued growth in the sector as investors continue to respond to the growing demand for industrial space. Data centers, cold rooms, growth in e-commerce and fast-moving consumer goods will drive growth in the industrial sector • In 2024, we expect heightened development activities in the sector with projects such as the Africa Data Centres' (ADC) new facility scheduled for completion in the first quarter of 2024. This facility is set to deliver an additional 15 MW of IT load, expanding ADC's current infrastructure and addressing the increasing demand for digital services in East Africa	**Positive**
Listed Real Estate	• In 2024, the Kenyan REIT market foresees limited activity, with ILAM Fahari I-REIT planning to delist from the NSE and move to the USP. This decision aligns with the operational restructuring strategy of the REIT manager, ICEA Lion Asset Management, placing Fahari I-REIT alongside Acorn REITs on the USP. The sector, facing challenges like restricted investor access and a lag behind other African nations, aims to improve through initiatives such as the proposed Kenya National REIT (KNR) and business restructuring efforts by industry players, contributing to the overall enhancement of the real estate capital markets • Challenges persist, including low investor awareness, prolonged approval procedures, a high minimum capital requirement for trustees, and a steep minimum investment amount. Nevertheless, initiatives like KNR, operational restructuring, and the Vuka Investment Platform launched in late 2022 are anticipated to neutralize these challenges, fostering improved performance in Kenya's real estate capital markets • In 2024, based on the above, we retain a NEUTRAL outlook for the sector, leaning more towards the negative	**Neutral**

With 3 themes having a positive outlook and 5 neutral, the general outlook for the sector therefore is NEUTRAL. The sector's performance will be supported by; i) infrastructural development, ii) government and private sector focus on affordable housing, iii) focus on mortgage financing through the KMRC, iv) improved investor confidence amid recovery of the hospitality sector, v) aggressive expansion by both local and international retailers in a bid to maintain market dominance, and, vi) Kenya's positive demographics driving housing demand. However, factors such as increased construction costs on the back of inflation, constrained financing to developers with increased underdeveloped capital markets, oversupply in select sectors and low of investor appetite in Real Estate Investments Trusts (REITs) are expected to continue impeding performance of the sector

Regulated Products

Our Collective Schemes Offerings

CYTONN ASSET MANAGERS

Cytonn Money Market Fund (KES)
The Cytonn Money Market Fund provides investors with a high level of current income while protecting their capital and offering added liquidity. The Fund has been outperforming the market and offering above average returns.

Cytonn Money Market Fund (USD)
The Cytonn Money Market Fund provides investors with a high level of current income while protecting their capital and offering added liquidity. The Fund is ideal for investors who wish to invest directly using the U.S Dollar currency.

Cytonn Balanced Fund
The Cytonn Balanced Fund focuses on offering investors current income, while also offering capital appreciation to investors in the Fund.

Cytonn High Yield Fund
CAML also offers a sector specific Fund called Cytonn High Yield Fund (CHYF).This fund invests heavily in the Real Estate sector thus giving investors access to the high returns in this sector and also offering capital appreciation to investors in the Fund.

Cytonn Africa Financial Services Fund
Cytonn Africa Financial Services Fund is another sector specific Fund by CAML that seeks tap into the attractive returns in the financial services sector in the larger Sub-Saharan Africa Region.

Cytonn Equity Fund
The Cytonn Equity Fund is focused on investing in the best risk-adjusted returns in the equities market in Kenya and East Africa

Regulated by CMA

Our Pension Products Offerings

Cytonn Personal Retirement Benefits Scheme

The Cytonn Personal Retirement Benefits Scheme targets self employed individuals or individuals employed by organizations that do not have an occupational retirement benefits scheme. It gives them an opportunity to regularly save for their retirement.

Cytonn Umbrella Retirement Benefits Scheme

The Cytonn Umbrella Retirement Benefits Scheme targets organizations that do not have an occupational retirement benefits scheme or do not have the capacity to start one. It gives them an opportunity to regularly save for their retirement.

Cytonn Income Drawdown Fund

The Cytonn Income Drawdown Fund is designed to provide individuals and members of retirement schemes an option to access their benefits as a regular income through an investment fund upon retirement and also enjoy investment income as their funds are invested by the Fund Manager and continue to grow

Segregated Fund Management

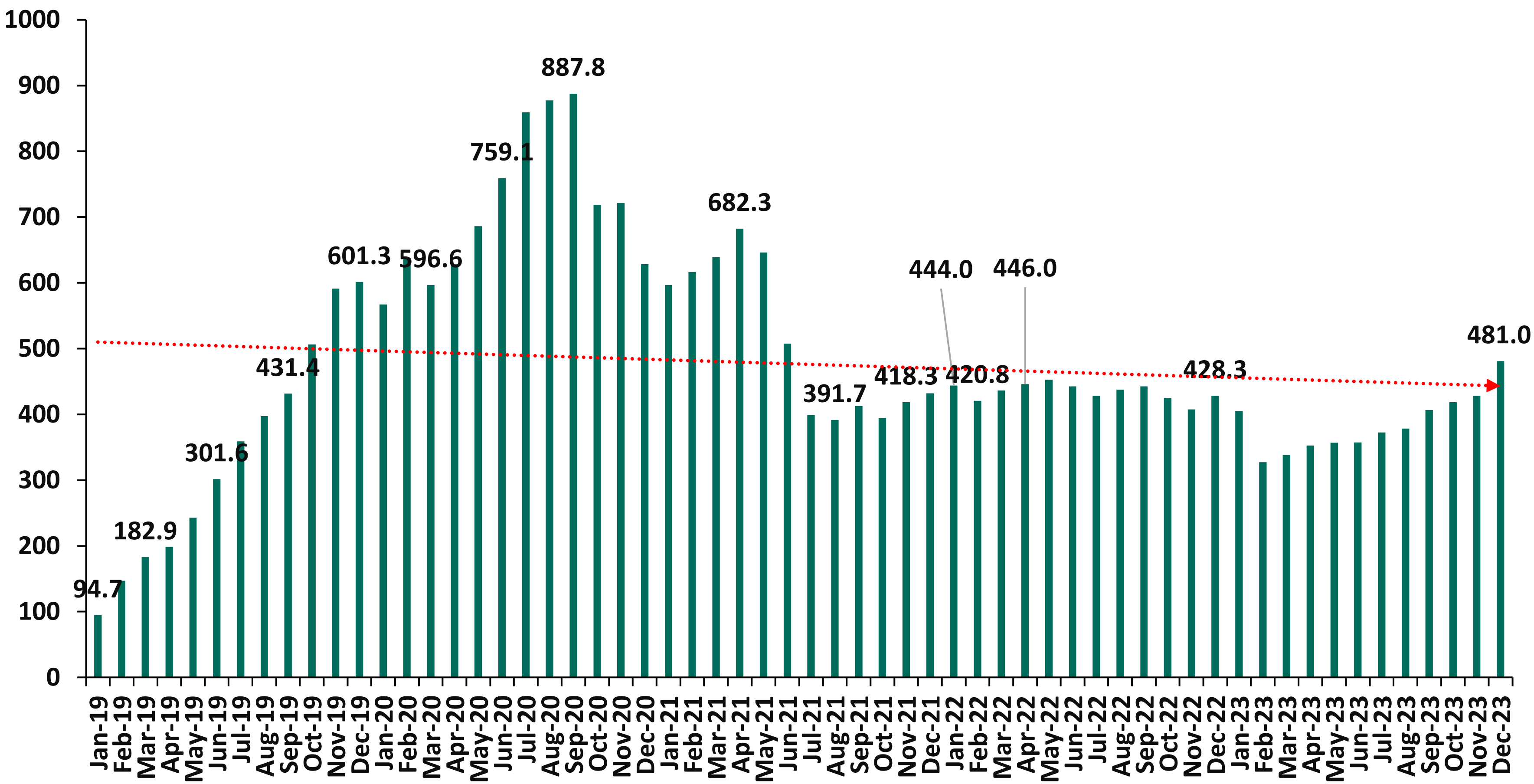
Segregated Funds are those where members' contributions are invested directly by the Trustees via an appointed Fund Manager. Cytonn Asset Managers offers fund management services to existing and new segregated retirement benefits schemes.

Regulated by RBA

CYTONN ASSET MANAGERS

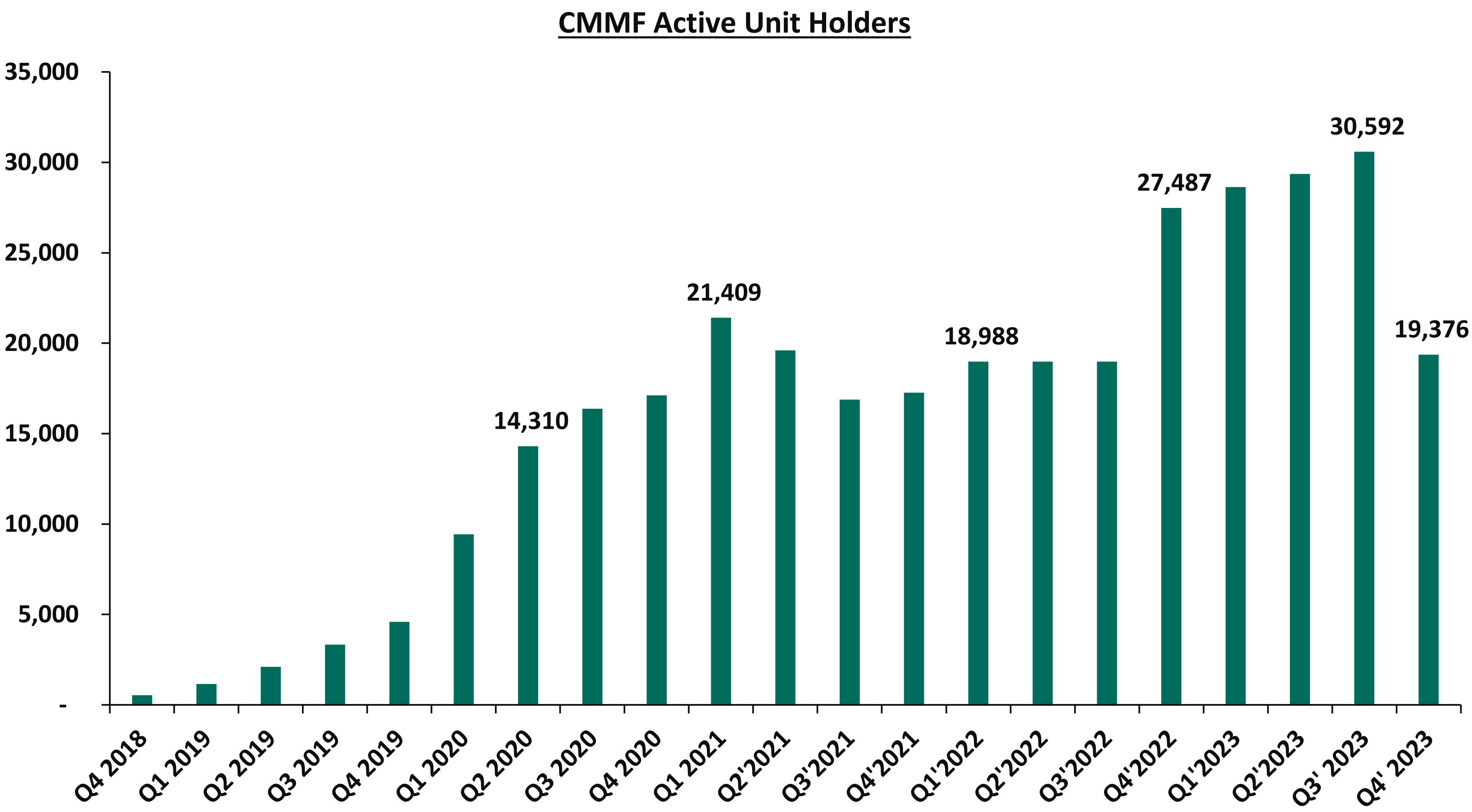
CMMF AUM Growth

The AUM rose by 12.3% to Kshs 481.0 mn in December 2023, from Kshs 428.3 mn in December 2022



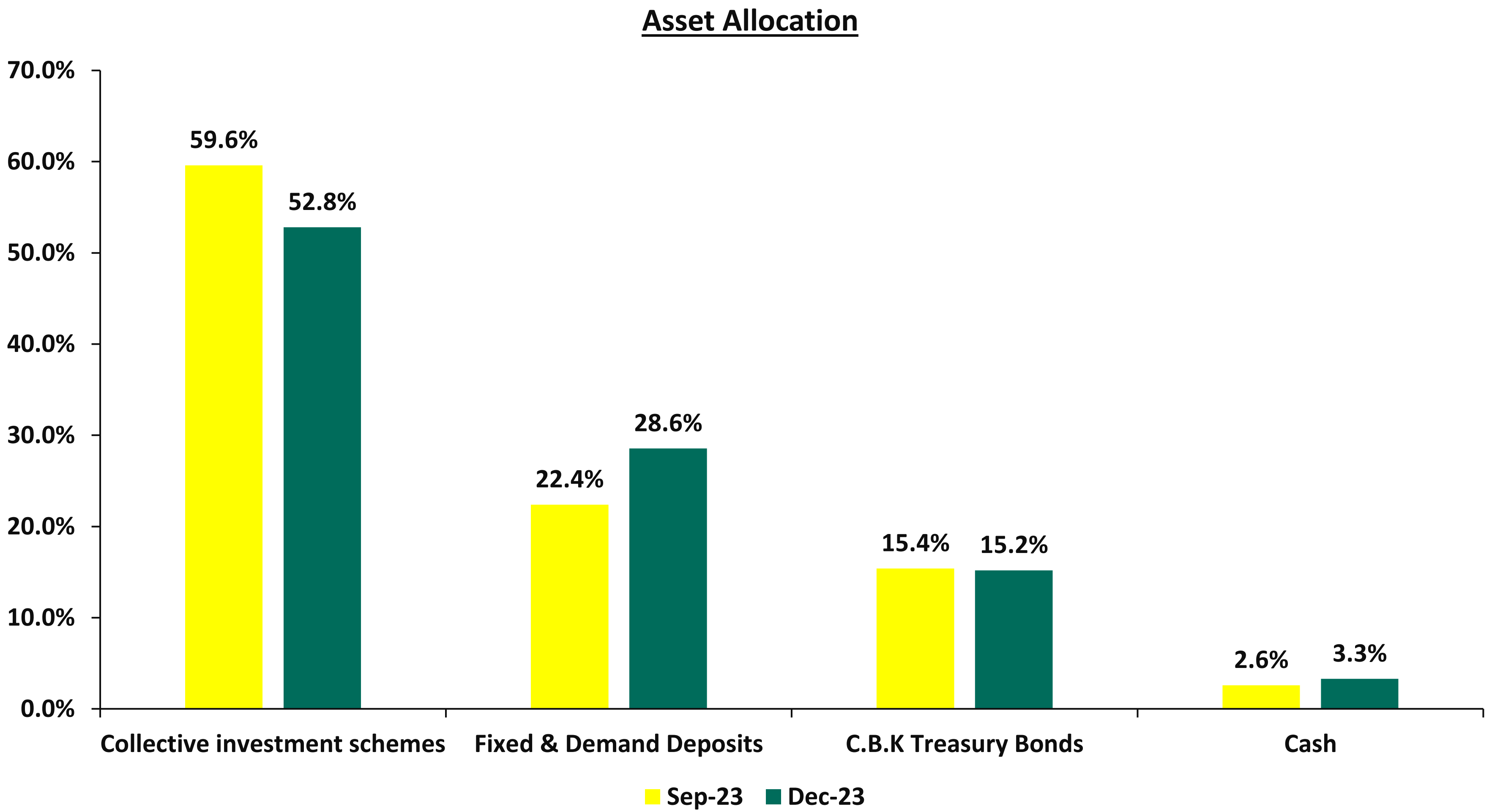
Cytonn Money Market Fund Summary

CMMF's unit holders has been growing rapidly since December 2018



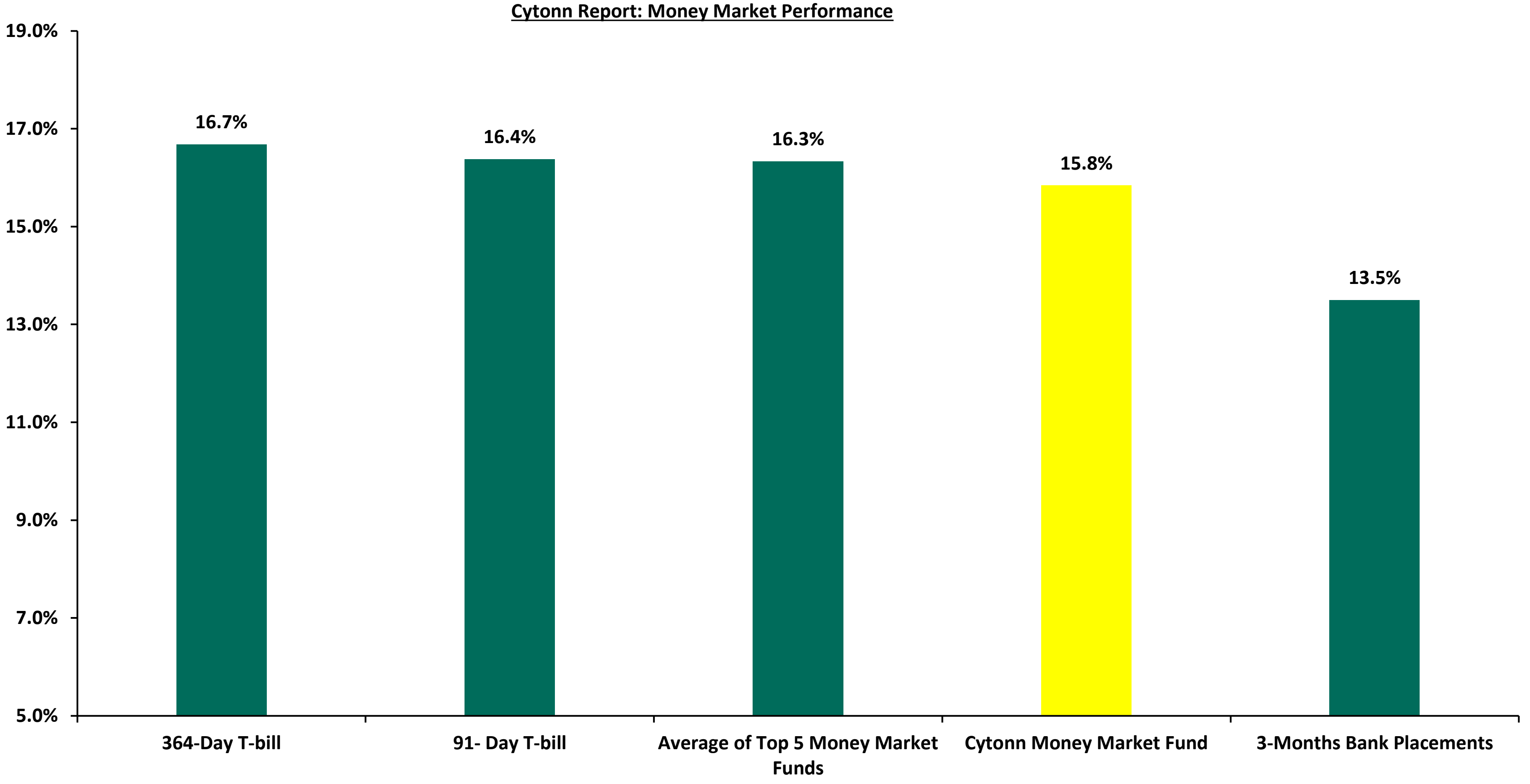
Cytonn Money Market Fund Summary

CMMF continues to maintain a well diversified portfolio with sufficient liquidity



Cytonn Money Market Fund Summary

CMMF has continued to offer above industry average returns



Data as of 2nd February 2024

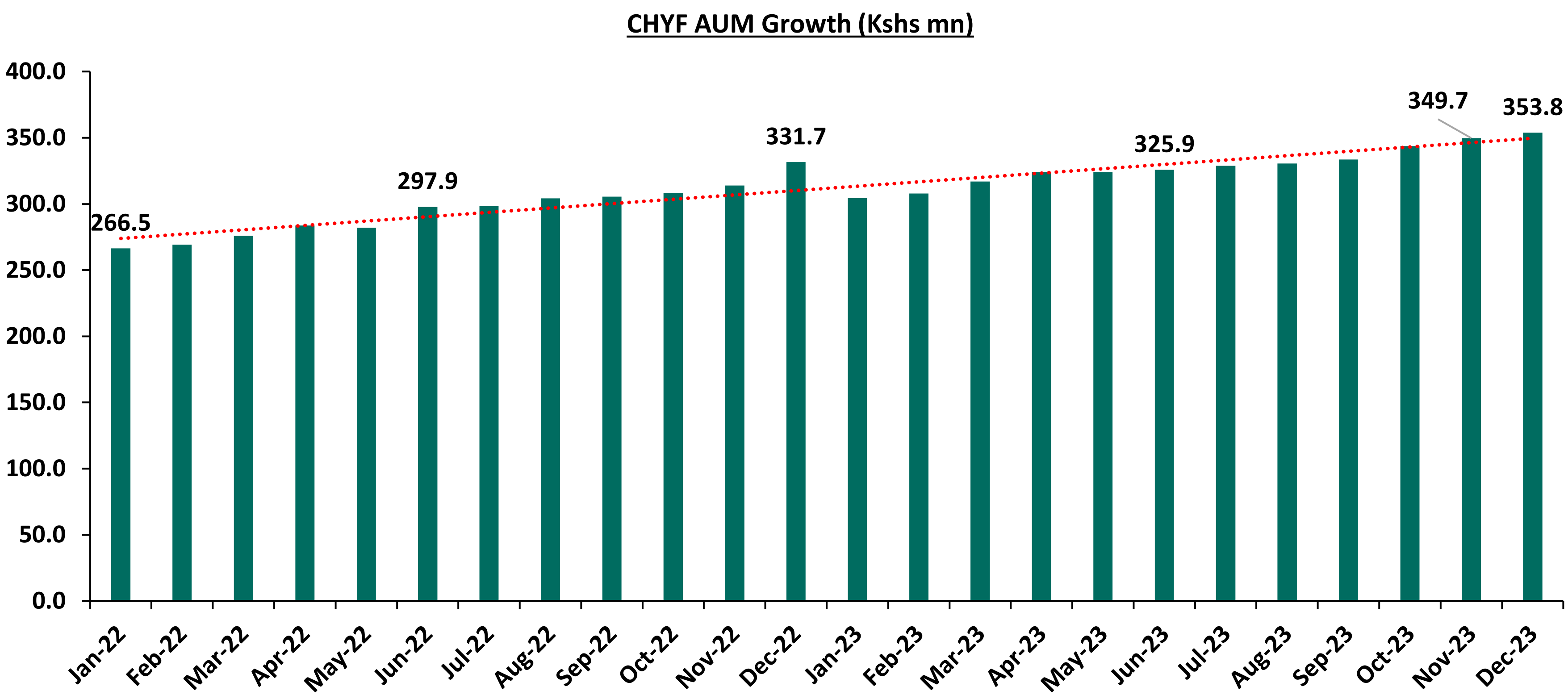
Cytonn Money Market Fund Summary

CMMF has continued to offer above industry average returns

Money Market Fund Yield for Fund Managers as published on 2nd February 2024		
Rank	**Fund Manager**	**Effective Annual Rate**
1	Etica Money Market Fund	17.20%
2	Lofty-Corban Money Market Fund	16.63%
3	Nabo Africa Money Market Fund	16.03%
4	GenAfrica Money Market Fund	15.96%
5	Cytonn Money Market Fund	15.84%
6	Madison Money Market Fund	15.19%
7	Enwealth Money Market Fund	14.94%
8	Apollo Money Market Fund	14.92%
9	Kuza Money Market fund	14.90%
10	Co-op Money Market Fund	14.64%
11	GenCap Hela Imara Money Market Fund	14.32%
12	Absa Shilling Money Market Fund	14.26%
13	AA Kenya Shillings Fund	14.23%
14	Sanlam Money Market Fund	14.19%
15	Jubilee Money Market Fund	14.13%
16	Mayfair Money Market Fund	13.84%
17	KCB Money Market Fund	13.62%
18	Mali Money Market Fund	13.41%
19	Old Mutual Money Market Fund	13.15%
20	Orient Kasha Money Market Fund	12.87%
21	Dry Associates Money Market Fund	12.76%
22	CIC Money Market Fund	12.24%
23	ICEA Lion Money Market Fund	11.99%
24	Equity Money Market Fund	11.50%

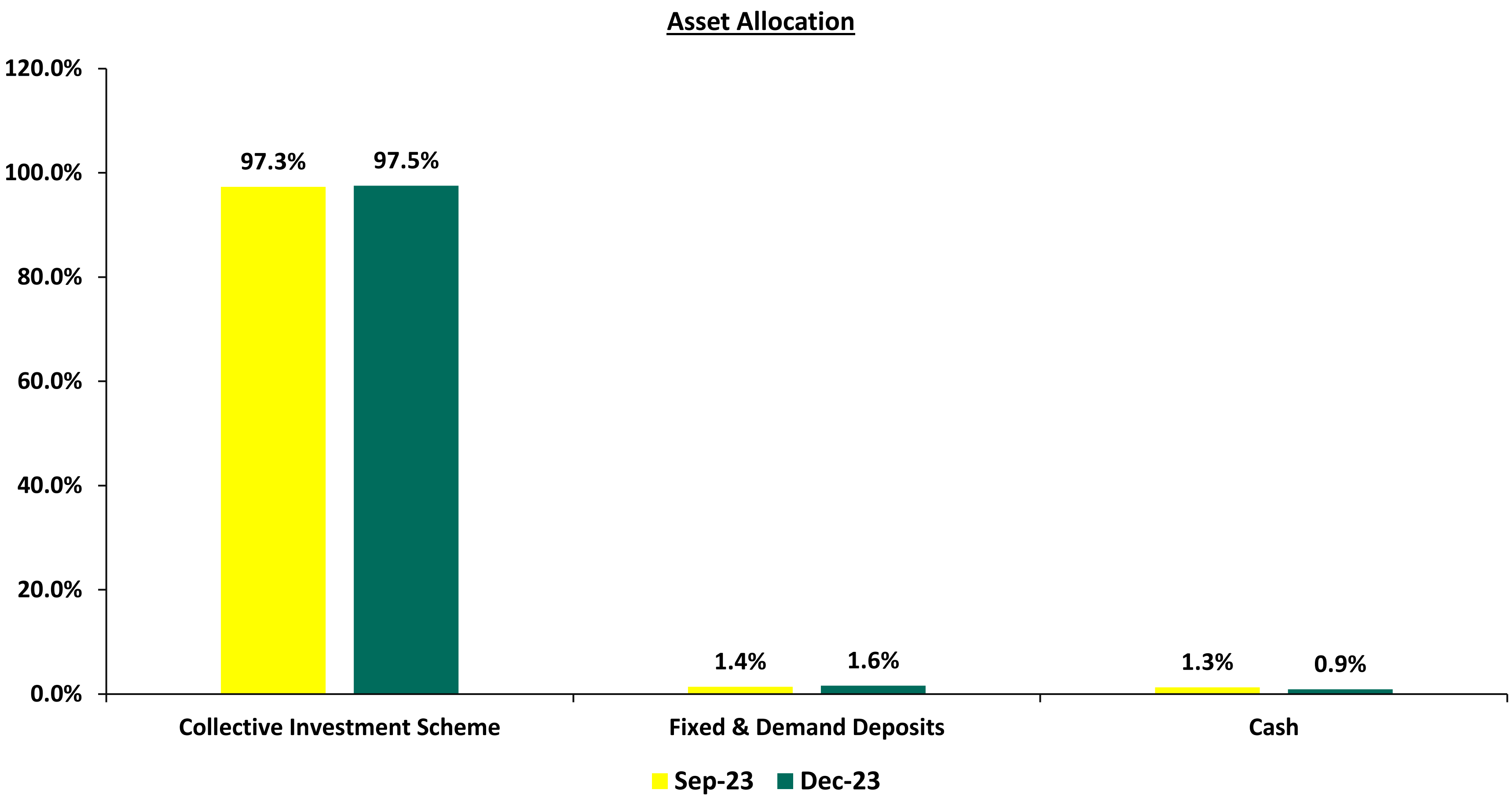
Cytonn High Yield Fund Summary

The AUM has grown to Kshs 353.8 mn as at 31st December 2023



Cytonn High Yield Fund Summary

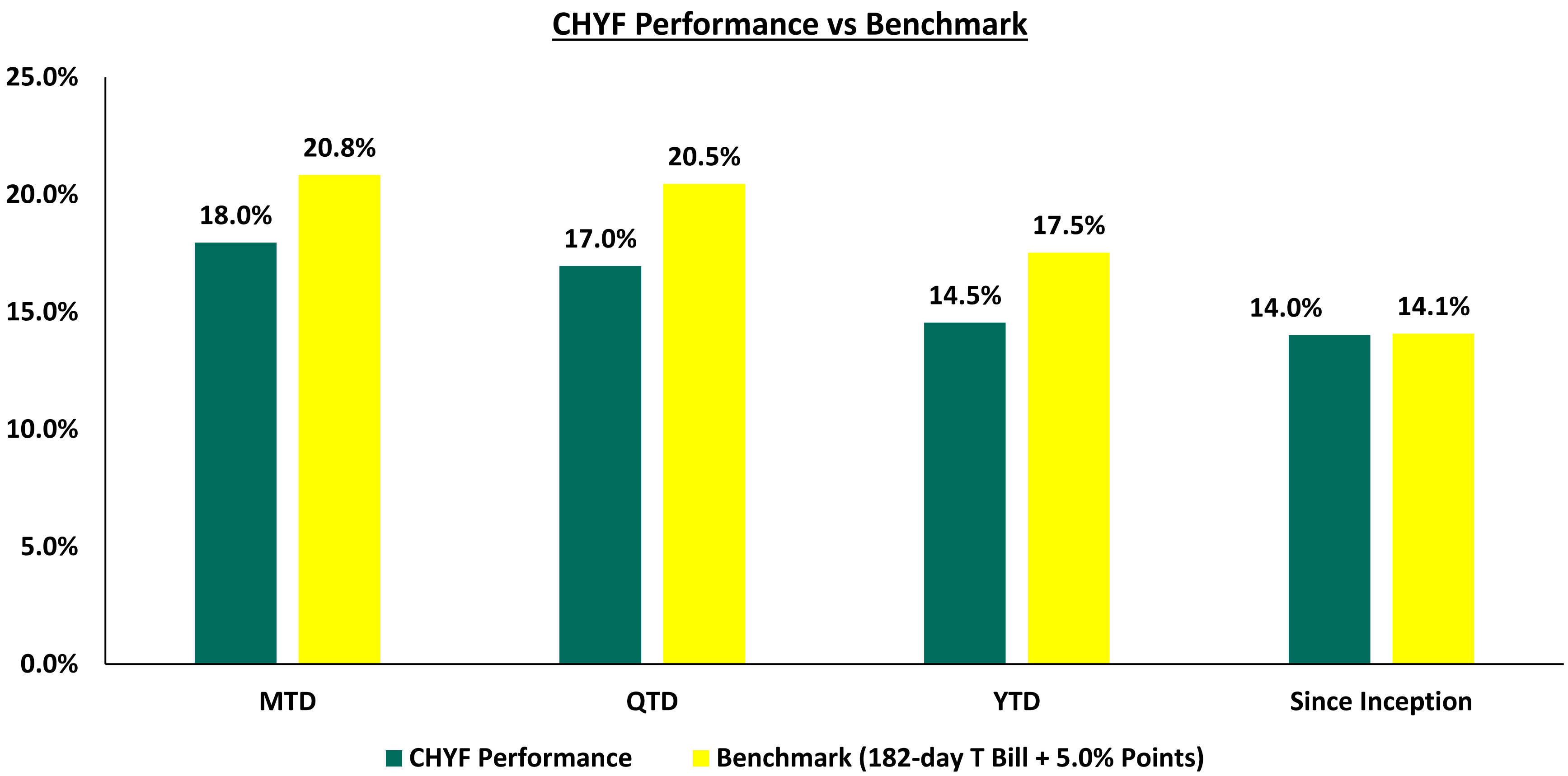
We continue to be overweight in Real Estate backed notes in-line with the fund objectives



Data as of 30th September 2023

Cytonn High Yield Fund Summary

The Fund's performance was at par with the benchmark on a since inception



Data as of 31st December 2023

Q&A

Cytonn

Cytonn