CIC ASSET MANAGEMENT LTD - CICAM

CIC FIXED INCOME FUND

Fact Sheet

Dec 2022

CIC GROUP

Key Features

Fund Manager	CIC Asset Management Ltd
Launch Date	June - 11
Risk Profile	Moderate
Trustee	Kenya Commercial Bank
Custodian	Co-op Custodial Services
Auditors	PWC
Minimum Investment:	Ksh 5,000.00
Minimum Additional investment	Ksh 1,000.00
Initial Fee	1.50%
Annual management Fee:	2.00%
Distribution	Semi-annual

Market Commentary

GDP: The economy grew by 4.7% in Q3'22; down from 9.9% in Q3'21. Services sector continued to perform strongly; particularly trade (+9.1%), accommodation & food services (+22.9%) and professional, administrative & support services (+8.7%). Agriculture, a key growth sector, continued to underperform (-0.6%) as unfavourable weather conditions and higher input costs weighed in on low production. Presently, developed nations i.e US, China, UK, and EU macro indicators hang in the balance with projections of a slip into a recession by some economies. This could resultantly have a negative ripple effect to Kenya as we have several trading relations with the big nations aside from our external debt in foreign currency. World Bank projects our GDP to average 5% in 2023-24 largely boosted by private investments; we are less optimistic due to the recession fears globally.

Exchange rates: The shilling has lost substantial value against the USD year to date (-9.04%). It exchanged at Ksh 123.37 per USD on 31 Dec, losing a further 2% in Q4. Lower foreign funding amid a faster growth in imports and slowdown of remittances weakened the Kes. The fed rate hikes coupled with increased demand for hard currency also led to wider forex spreads in 2022. Kenya's reserves remained adequate at USD 7,439 million (4.17 months of import cover) as at Dec 29, but this was largely tied to a boost of IMF funding. Globally, signs are clear that currency weakness will overwhelm many policymakers across markets. A weaker shilling is detrimental to Kenya as it increases the cost of financing foreign debt which is currently at levels deemed as unsustainable.

Inflation: Headline inflation increased by an average 9.4% in Q4'22 from 8.7% in Q3'22. This was largely driven by supply side factors that exerted upward pressure on food and energy prices. The uptick in the cost of living reduces the purchasing power ofhouseholds and subsequently lower savings and investments to the economy. We anticipate inflation will remain above CBK's upper band target of 7.50 % in Q1'23. Domestic price pressures will remain elevated although inflation will ease back from the highs of 2022 and ebb slowly into being transitory in 2H'23.

Interest rates: The Monetary Policy Committee (MPC) raised the central bank rate (CBR) from 8.25% to 8.75 % in Nov'22; a cumulative rise of 1.75% in 2022. The CBR hikes' intention have largely been to taper inflation, which averaged 9.4% in Q4 from 8.7% in Q3, and to manage the KES depreciation (-2% in Q4) against major currencies. Short term rates maintained an upward trajectory in Q4 with the 91,182 and 364 papers closing at 9.4%, 9.8% and 10.3%. Inflationary pressures will be the main driver of monetary policy actions in 2023. Barring any further rate hikes, we expect interest rates to edge upwards in Q1'23 and remain sticky for the remainder of the year.

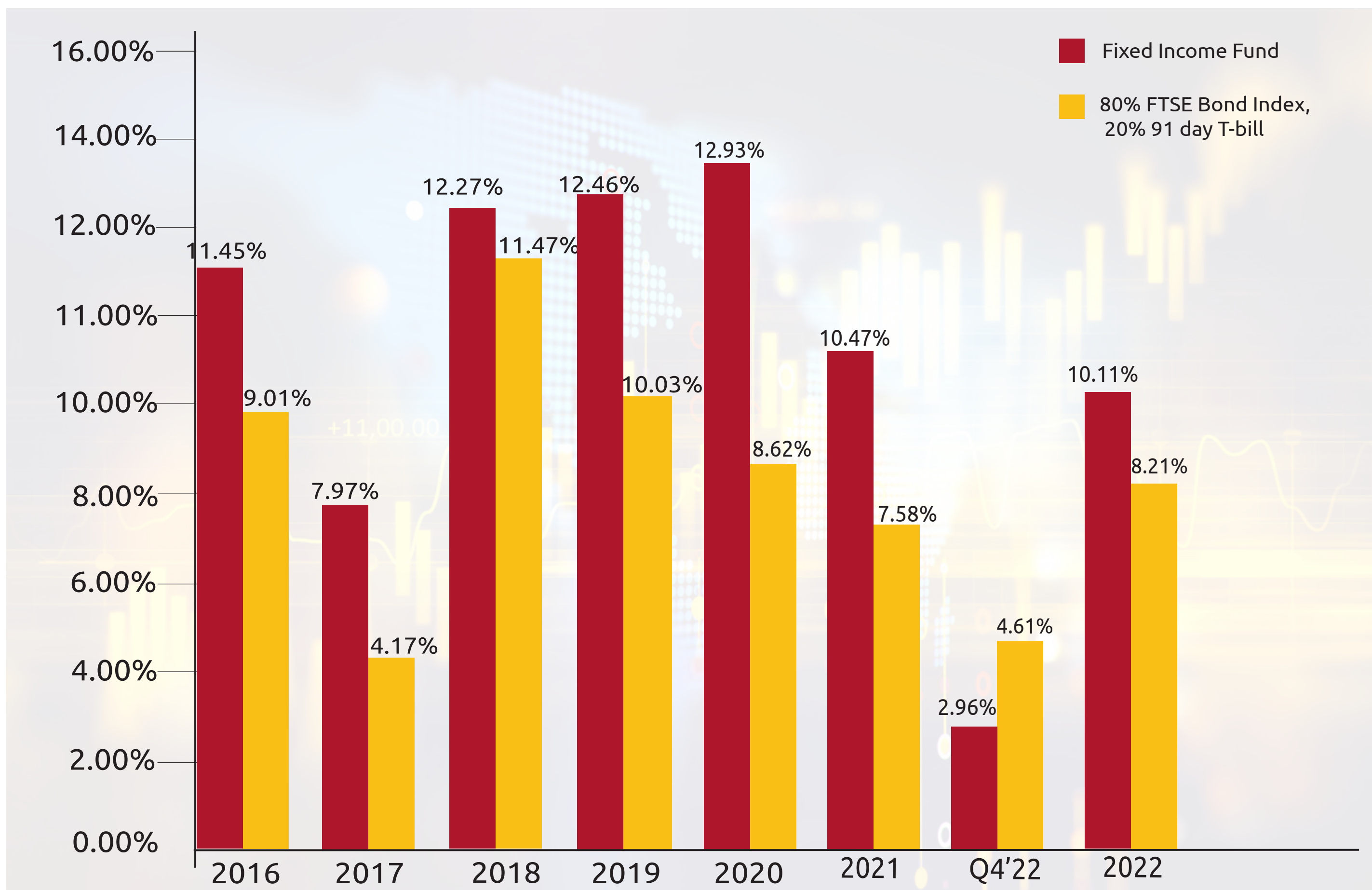
Outlook: Tight global financial conditions coupled with foreign debt being expensive (as a result of the KES depreciating) will see government continue relying on the domestic market and rates will carry on increasing.

The fixed income fund is anticipated to register gradual increment in gains as we continue taking advantage of the higher rates. The fund provides an opportunity for investors with low liquidity needs to lock in higher returns.

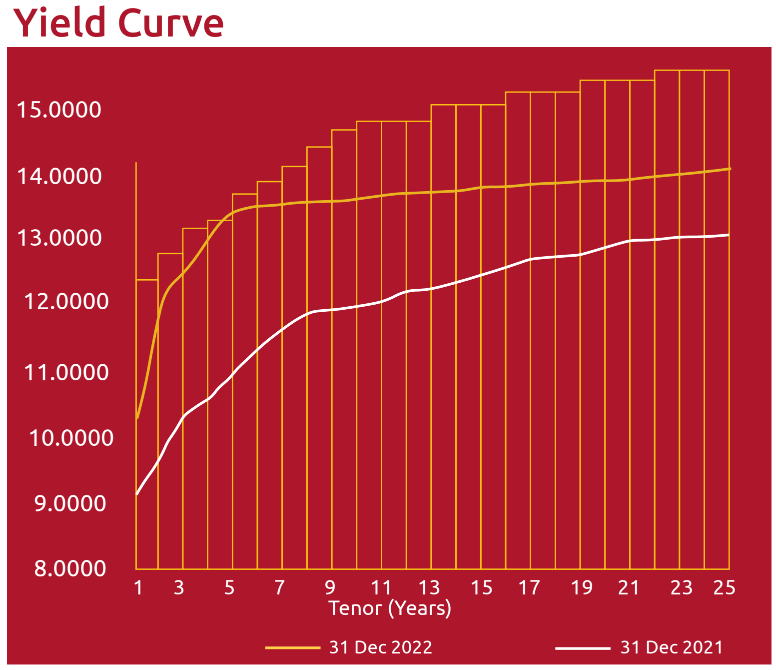
Who should invest?

- Typically ready to invest over the medium to long-term.
- Need extra returns at moderate risk.
- Seek a reasonable return from a well diversified portfolio of fixed income securities.

Fund Performance



Yield Curve



Asset Allocation