Unit Trust Funds (UTFs) Performance, Q3’2022, & Cytonn Monthly

Focus of the Week

Unit Trust Funds (UTFs) are Collective Investment Schemes that pool funds from different investors and are managed by professional fund managers. The fund managers invest the pooled funds in a portfolio of securities such as equity stocks, bonds or any authorized financial securities, with the aim of generating returns to meet the specific objectives of the fund. Following the release of the Capital Markets Authority (CMA) Quarterly Statistical Bulletin-Q4’2022, we analyze the performance of Unit Trust Funds, whose total Assets Under Management (AUM) have been steadily increasing, being among the most popular investment options in the Kenyan market. We will further analyze the performance of Money Market Funds, a product under Unit Trust Funds.

In our previous focus on Unit Trust Funds, we looked at the Q2’2022 Unit Trust Funds Performance by Fund Managers, where we highlighted that their AUM stood at Kshs 145.8 bn, a 3.6% increase from Kshs 140.7 bn recorded in Q1’2022. In this topical, we focus on the Q3’2022 performance of Unit Trust Funds where we shall analyze the following:

I. Performance of the Unit Trust Funds Industry,
II. Spread of Investments,
III. Performance of Money Market Funds,
IV. Comparing Unit Trust Funds AUM Growth with other Markets, and,
V. Recommendations

Section I: Performance of the Unit Trust Funds Industry

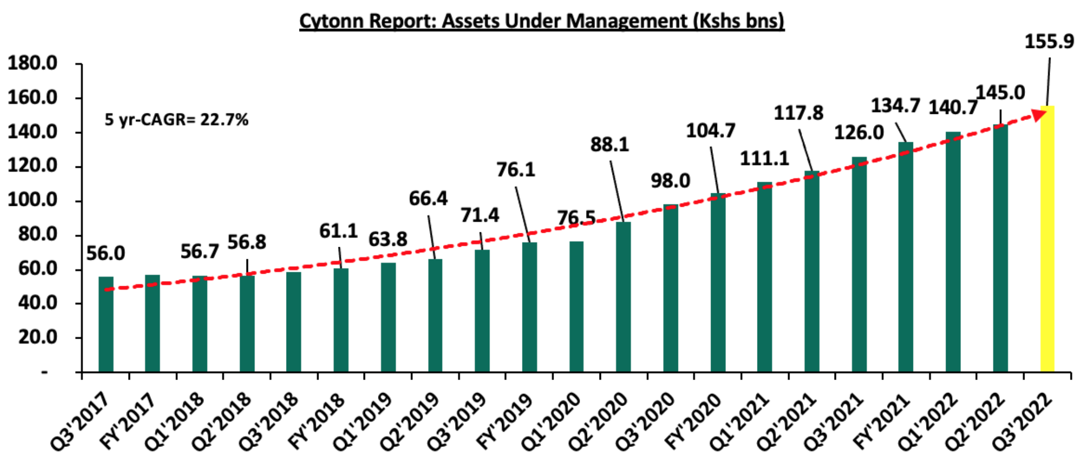
Unit Trust Funds are investment schemes that pool funds from investors and are managed by professional Fund Managers. The fund manager invests the pooled funds with the aim of generating returns in line with the specific objectives of the fund. The Unit Trust Funds earn returns in the form of dividends, interest income, rent and/or capital gains depending on the underlying security. The main types of Unit Trust Funds include:

i. **Money Market Funds** – These are funds that invest in fixed income securities such as fixed deposits, treasury bills and bonds, commercial papers, etc. They are very liquid, have stable returns, and, they are suitable for risk averse investors,
ii. **Equity Funds** – These are funds which largely invest in listed securities and seek to offer superior returns over the medium to long-term by maximizing capital gains and dividend income. The funds invest in various sectors to reduce concentration risk and maintain some portion of the fund’s cash in liquid fixed income investments to maintain liquidity and pay investors if need be without losing value,
iii. **Balanced Funds** – These are funds whose investments are diversified across the Equities and the Fixed Income market. Balanced Funds offer investors long-term growth as well as reasonable levels of stability of income,
iv. **Fixed Income Funds** – These are funds which invest in interest-bearing securities, which include

treasury bills, treasury bonds, preference shares, corporate bonds, loan stock, approved securities, notes and liquid assets consistent with the portfolio's investment objective, and,

v. **Sector Specific Funds** – These are funds that invest primarily in a particular sector or industry. The funds provide a greater measure of diversification within a given sector than may be otherwise possible for the other funds. They are specifically approved by the capital Markets Authority as they are not invested as per the set rules and regulations.

As per the Capital Markets Authority (CMA) Quarterly Statistical Bulletin-Q4'2022, the industry's overall Assets under Management (AUM) grew by 7.0% on a quarter on quarter basis to Kshs 155.9 bn as at the end of Q3'2022 from Kshs 145.8 bn recorded in Q2'2022. Similarly, on a y/y basis, the total AUM increased by 23.7% to Kshs 155.9 bn as at the end of Q3'2022, from Kshs 126.0 bn as at the end of Q3'2021. Key to note, Assets under Management of the Unit Trust Funds have registered an upward trajectory over the last five years, growing at a 5-year CAGR of 22.7% to Kshs 155.9 bn in Q3'2022, from Kshs 56.0 bn recorded in Q3'2017. The chart below shows the growth in Unit Trust Funds' AUM;

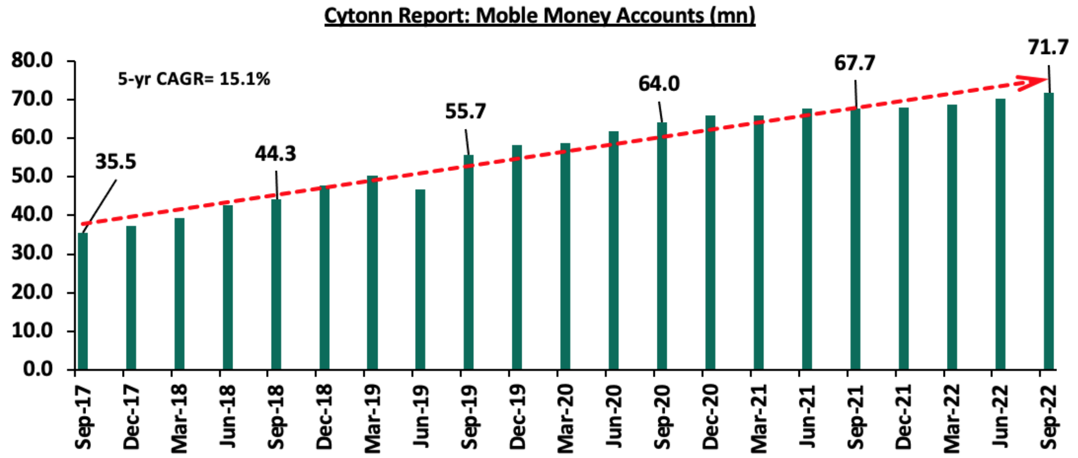


Source: Capital Markets Authority Quarterly Statistical bulletins

The growth can be largely attributed to:

- **Low Investments minimums**: Majority of the Unit Trust Funds Collective Investment Schemes' (CIS) in the market require a relatively low initial investment ranging between Kshs 100.0 - Kshs 10,000.0. This has in turn made them attractive to retail and individual investors, boosting their growth,
- **Increased Investor Knowledge**: There has been a drive towards investor education mainly by the fund managers on the various products offered by trust funds, which has meant that more people are aware and have a deeper understanding of the investment subject. As a result, their confidence has been boosted leading to increased uptake,
- **Diversified product offering:** Unit Trust Funds are also advantageous in terms of providing investors with access to a wider range of investment securities through pooling of funds. This allows investors the opportunity of diversifying their portfolios which would have not been accessible if they invested on their own,
- **Efficiency and ease of access to cash/High Liquidity**: Funds invested in UTFs are invested as portfolios with different assets and the fund managers always maintain a cash buffer. Unit trusts are highly liquid, as it is easy to sell and buy units without depending on demand and supply at the time of investment or exit, and,
- **Adoption of Fintech**: Digitization and automation within the industry has enhanced liquidity, enabling investors to immediately access their investments via M-pesa withdrawals and 3 to 5 working days if they are withdrawing to their bank accounts. According to the Central Bank of Kenya, more individuals are transacting through mobile money services as evidenced by the

sustained growth in the total number of registered mobile money accounts. During the period under review, registered mobile money accounts recorded a 5.9% y/y increase to 71.7 mn accounts in September 2022, from 67.7 mn accounts registered in September 2021. Notably the total number of registered mobile money accounts also grew at a 5-year CAGR of 15.1% to 71.7 mn in September 2022, from 35.5 mn recorded in September 2017. The upward trajectory is attributable to Fintech incorporation that has increased the efficiency of processing both payments and investments for fund managers. As a result, Collective Investment Schemes have become more accessible to retail investors. The graph below shows the trend of registered mobile money accounts from 2017 to 2022;



Source: CBK

According to the Capital Markets Authority, as at the end of Q3'2022, there were 32 Collective Investment Schemes (CISs) in Kenya, remaining unchanged from 32 recorded at the end of Q2'2022, but an 18.5% y/y increase from 27 recorded at the end of Q3'2021. Out of the 32, 20, equivalent to 62.5% were active while 12 (37.5%) were inactive. The table below outlines the performance of the Collective Investment Schemes comparing Q3'2022 and Q2'2022:

Cytonn Report: Assets Under Management (AUM) for the Approved Collective Investment Schemes

No.	Collective Investment Schemes	Q2'2022 AUM (Kshs mns)	Q2'2022 Market Share	Q3'2022 AUM (Kshs mns)	Q3'2022 Market Share	AUM Growth Q2'2022 -Q3'2022
1	CIC Unit Trust Scheme	57,126.4	39.2%	60,579.0	38.9%	6.0%
2	NCBA Unit Trust Scheme	20,152.1	13.8%	23,687.8	15.2%	17.5%
3	ICEA Unit Trust Scheme	14,317.7	9.8%	14,939.0	9.6%	4.3%
4	Sanlam Unit Trust Scheme	12,676.3	8.7%	14,542.6	9.3%	14.7%
5	British American Unit Trust Scheme	13,868.3	9.5%	13,439.1	8.6%	(3.1%)
6	Old Mutual Unit Trust Scheme	6,883.6	4.7%	7,363.3	4.7%	7.0%
7	Dry Associates Unit Trust	3,611.9	2.5%	3,849.3	2.5%	6.6%

Cytonn Report: Assets Under Management (AUM) for the Approved Collective Investment Schemes

No.	Collective Investment Schemes	Q2'2022 AUM (Kshs mns)	Q2'2022 Market Share	Q3'2022 AUM (Kshs mns)	Q3'2022 Market Share	AUM Growth Q2'2022 -Q3'2022
8	Coop Unit Trust Scheme	3,725.4	2.6%	3,341.6	2.1%	(10.3%)
9	Nabo Capital Ltd	3,016.0	2.1%	3,158.7	2.0%	4.7%
10	Madison Asset Unit Trust Funds	2,734.3	1.9%	2,806.8	1.8%	2.7%
11	Zimele Unit Trust Scheme	2,297.4	1.6%	2,485.3	1.6%	8.2%
12	ABSA Unit Trust Scheme	1,048.1	0.7%	1,536.3	1.0%	46.6%
13	African Alliance Kenya Unit Trust Scheme	1,743.4	1.2%	1,476.6	0.9%	(15.3%)
14	Apollo Unit Trust Scheme	730.5	0.5%	809.5	0.5%	10.8%
15	Cytonn Unit Trust Fund	771.4	0.5%	795.7	0.5%	3.1%
16	Genghis Unit Trust Funds	575.1	0.4%	626.4	0.4%	8.9%
17	Orient Collective Investment Scheme	262.0	0.2%	247.9	0.2%	(5.4%)
18	Equity Investment Bank	199.5	0.1%	189.3	0.1%	(5.1%)
19	Amana Unit Trust Funds	27.3	0.0%	27.8	0.0%	1.9%
20	Wanafunzi	0.7	0.0%	0.7	0.0%	1.0%
21	Genghis Specialized Funds	-	-	-	-	-
22	Standard Investments Bank	-	-	-	-	-
23	Diaspora Unit Trust Scheme	-	-	-	-	-
24	Dyer and Blair Unit Trust Scheme	-	-	-	-	-
25	Jaza Unit Trust Fund	-	-	-	-	-
26	Masaru Unit Trust Fund	-	-	-	-	-
27	Adam Unit Trust Fund	-	-	-	-	-

Cytonn Report: Assets Under Management (AUM) for the Approved Collective Investment Schemes

No.	Collective Investment Schemes	Q2'2022 AUM (Kshs mns)	Q2'2022 Market Share	Q3'2022 AUM (Kshs mns)	Q3'2022 Market Share	AUM Growth Q2'2022 -Q3'2022
28	First Ethical Opportunities Fund	-	-	-	-	-
29	Natbank Unit Trust Scheme	-	-	-	-	-
30	GenAfrica Unit Trust Scheme	-	-	-	-	-
31	Amaka Unit Trust (Umbrella) Scheme	-	-	-	-	-
32	Mali Money Market Fund	-	-	-	-	-
	Total	**145,767.5**	**100.0%**	**155,902.6**	**100.0%**	**7.0%**

Source: Capital Markets Authority: Quarterly Statistical Bulletin, Q4'2022, and CMA October 2022 List of Licensees

Key take outs from the above table include:

- **Assets Under Management: CIC Unit Trust Scheme remained the largest overall Unit Trust Fund, with an AUM of Kshs 60.6 bn in Q3'2022, from an AUM of Kshs 57.1 bn in Q2'2022, translating to a 6.0% AUM growth,**

- **Growth**: In terms of AUM growth, Absa Unit Trust recorded the highest growth of 46.6%, with its AUM increasing to Kshs 1.5 bn, from Kshs 1.0 bn in Q2'2022 while African Alliance Kenya recorded the largest decline with its AUM declining by 15.3% to Kshs 1.5 bn in Q3'2022, from Kshs 1.7 bn in Q2'2022,
- **Market Share**: CIC Unit Trust Scheme remained the largest overall Unit Trust with a market share of 38.9%, a 0.3% points decline from 39.2% achieved in Q2'2022. The decline in market share, albeit slow, is an indication of increasing competition as new collective schemes enter the market,
- **14 UTFs remained inactive during Q3'2022**: GenAfrica Unit Trust Scheme, Natbank Unit Trust Scheme, First Ethical Opportunities Fund, Adam Unit Trust Fund, Masaru Unit Trust Fund, Jaza Unit Trust Fund, Dyer and Blair Unit Trust Scheme, Diaspora Unit Trust Scheme, Standard Investments Bank, Genghis Specialized Fund, Jubilee Unit Trust, Enwealth Capital Trust, Amaka Unit Trust and Mali Money Market Fund remained inactive as at the end of Q3'2022.

Key to note, Mali Money Market Fund became fully operational in November 2022 following the release of the updated terms and conditions of Mali M-pesa menu, and,

- **Developments after period of review:** The Capital Markets Authority approved Etica Capital and Kuza Unit Trust Schemes in November 2022.

Section II: Spread of Investments

Money Market Funds (MMFs) have gained popularity in Kenya with MMFs accounting for Kshs 121.3 bn out of the Kshs 155.9 bn managed by Collective Investments Schemes as at end of Q3'2022, equivalent to 77.8%, which is the largest share of investments allocation by the Collective Investment Schemes. Further, this translates to a 6.4% y/y increase from Kshs 114.0 bn recorded as at end of Q3'2021. The popularity of MMFs is driven by the ease in investing in terms of time and requirements, coupled with the higher returns they offer compared to the returns on bank deposits and treasury bills. The table below shows investment allocations of the different funds comparing Q3'2021 and Q3'2022:

Cytonn Report: Investment Allocation in Different Funds

Item	Sep-21	Q3'2021 Investment Share	Jun-22	Q2'2022 Investment Share	Sep-22	Q3'2022 Investment Share
Money Market Funds	114.0	90.3%	113.9	78.5%	121.3	77.8%
Fixed Income Funds	2.1	1.7%	19.4	13.4%	21.2	13.6%
Equity Funds	3.6	2.8%	3.0	2.1%	3.0	1.9%
Other funds	6.5	5.2%	8.7	6.0%	10.4	6.7%
Total	**126.0**	**100.0%**	**145.8**	**100.0%**	**155.9**	**100.0%**

**All amounts in Kshs bns unless indicated otherwise*

Source: CMA Q3'2022 Collective Investment Schemes Statistical bulletin

Key take outs from the table above include:

- **Money Market Funds:** MMFs have the largest investment allocation, coming in at 77.8% in Q3'2022, a decline from 78.5% and 90.3% allocations in Q2'2022 and Q3'2021, respectively. Despite the decline in investment allocation, the high percentage of 77.8% in Q3'2022 is an indication of its preference by majority of investors due to its ease of investing and high liquidity, coupled with high returns,
- **Fixed Income Funds** recorded tremendous y/y growth to Kshs 21.2 bn in Q3'2022, up from Kshs 2.1 in Q3'2021. Similarly, on a q/q basis, Fixed Income allocation increased by 9.3% to Kshs 21.2 bn, from Kshs 19.4 bn. The growth can be attributed to higher yields, following the upward readjustment of the yield curve, with investors demanding a higher premium to compensate for the perceived risks on the Kenyan economy. For the short term papers, weighted average yields for the 91-day T-bill increased by 190.0 bps to 8.6% from 6.7% recorded in Q3'2021 while both the 182-day and 364-day T-bills increased by 230.0 bps each to 9.4% and 9.9% from 7.1% and 7.6%, respectively, as recorded in Q3'2021, and,
- **Equity Funds** recorded dismal performance declining by 16.5% to Kshs 3.0 bn as at end of Q3'2022, from Kshs 3.6 bn as at end of Q3'2021. The decline in equity fund's portfolio holdings is largely attributable to market movements, with the Nairobi All Share Index (NASI) registering a 23.2% YTD decline as at 30th September 2022 following increased selloffs in the Nairobi Securities Exchange.

In terms of UTFs' distribution of investments by asset classes, the Fixed income segment had the largest share of investments, with Q3'2022 coming in at a total of Kshs 121.7 bn, equivalent to 78.1% of the total investments. Investments in Government securities constituted Kshs 58.4 bn (37.5%)

while Fixed Deposits had Kshs 63.3 bn (40.6%). The concentration of investments on the fixed income assets highlights the lack of diversification of investments and the overreliance on one investment asset class. The table below shows the distribution of investments into various asset classes:

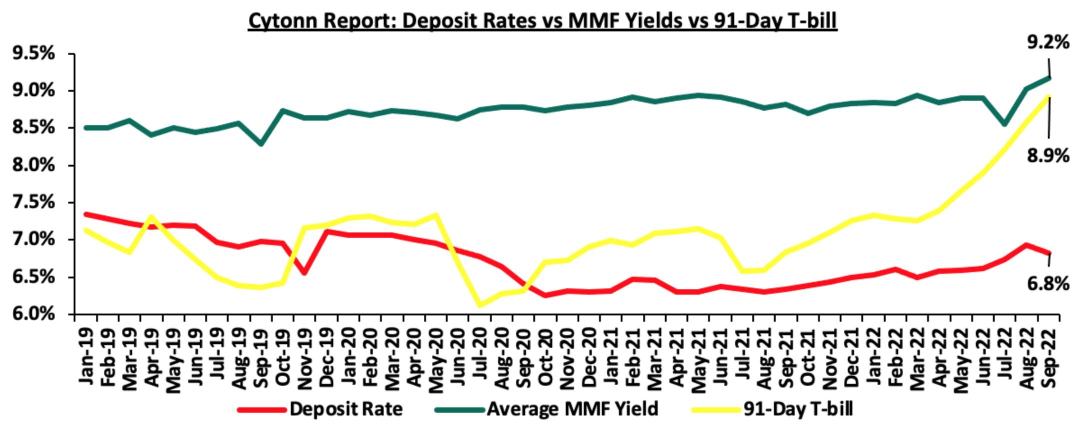
Cytonn Report: Q3'2022 Distribution of Investments in terms of Asset Classes (Kshs bn)

Asset Class	Sep-21	Q3'2021 %	Jun-22	Q2'2022 %	Sep-22	Q3'2022 %	y/y Change
Government securities	51.8	41.1%	66.1	45.6%	58.4	37.5%	(3.6%)
Fixed Deposits	55.5	44.0%	62.9	43.4%	63.3	40.6%	(3.4%)
Nairobi Stock Exchange (NSE) Listed Securities	8.7	6.9%	6.1	4.2%	19.6	12.6%	5.7%
Cash and Demand Deposits	5.7	4.5%	4.4	3.0%	5.4	3.5%	(1.1%)
Other securities not listed at the NSE	3.3	2.6%	2.9	2.0%	6.3	4.0%	1.5%
Other collective investments schemes	0.7	0.6%	1.6	1.1%	1.2	0.8%	0.2%
Off-shore investments	0.5	0.4%	0.5	0.3%	1.2	0.8%	0.4%
Total	**126.0**	**100.0%**	**145.8**	**100.0%**	**155.9**	**100.0%**	

Source: CMA

Section III: Performance of Money Market Funds

According to the Central Bank of Kenya data, the average deposit rate increased by 20.0 bps to 6.8% in Q3'2022 from 6.6% recorded in Q2'2022. During the period under review, the 91-Day T-bill and the average deposit rate continued to offer lower yields, with the average yields for the month of September 2022 coming in at 8.9% and 6.8%, respectively, compared to September's average MMF yield of 9.2%. Notably, the increased return on the 91-day T-bill at 8.9% comes on the back of an upward adjustment in the yield curve, with investors demanding higher compensation for the perceived risks in the country driven by high inflation and currency depreciation. The graph below shows the performance of the Money Market Fund to other short-term financial instruments:



Source: Central Bank of Kenya, Cytonn Research

As per the regulations, funds in MMFs should be invested in short-term liquid interest-bearing securities with an average tenor to maturity of 18 months of less. The short-term securities include bank deposits, fixed income securities listed on the Nairobi Securities Exchange (NSE) and securities issued by the Government of Kenya. The Money Market funds are best suited for investors who require a low-risk investment that offers capital stability, liquidity, and require a high-income yield. The fund is also a good safe haven for investors who wish to switch from a higher risk portfolio to a low risk portfolio, especially in times of uncertainty.

Top Five Money Market Funds by Yields

During the quarter under review, the following Money Market Funds had the highest average effective annual yield declared, with the Cytonn Money Market Fund having the highest effective annual yield at 10.6% against the industry Q3’2022 average of 9.1%.

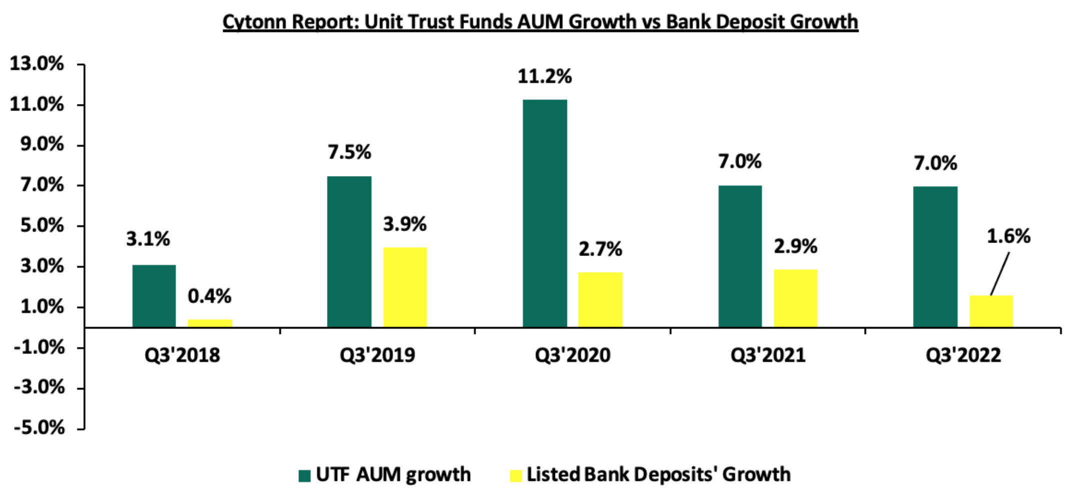
Cytonn Report: Top 5 Money Market Fund Yields in Q3'2022

Rank	Money Market Fund	Effective Annual Rate (Average Q3'2022)
1	Cytonn Money Market Fund	10.6%
2	Zimele Money Market Fund	9.9%
3	Sanlam Money Market Fund	9.5%
4	Nabo Africa Money Market Fund	9.5%
5	Dry Associates Money Market Fund	9.3%
	Average of Top 5 Money Market Funds	**9.7%**
	Industry average	**9.1%**

Source: Cytonn Research

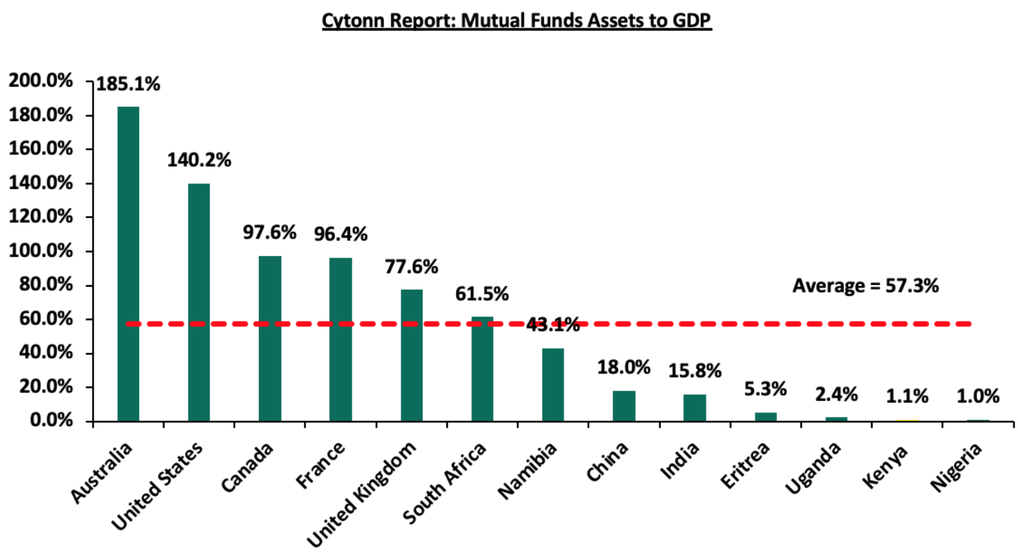
Section IV: Comparison between Unit Trust Funds AUM Growth and other Markets

Unit Trust Funds’ assets recorded a q/q growth of 7.0% in Q3’2022, while the listed bank deposits recorded a slower growth of 1.6% over the same period. For the Unit Trust Funds, the growth of 7.0% remained unchanged, similar to what was recorded in Q3’2021. On the other hand, for the bank deposits, the growth of 1.6% was a 1.3% points decline compared to the growth of 2.9% recorded in Q3’2021, respectively. The chart below highlights the Unit Trust Funds AUM growth vs bank deposits growth over the last five years;



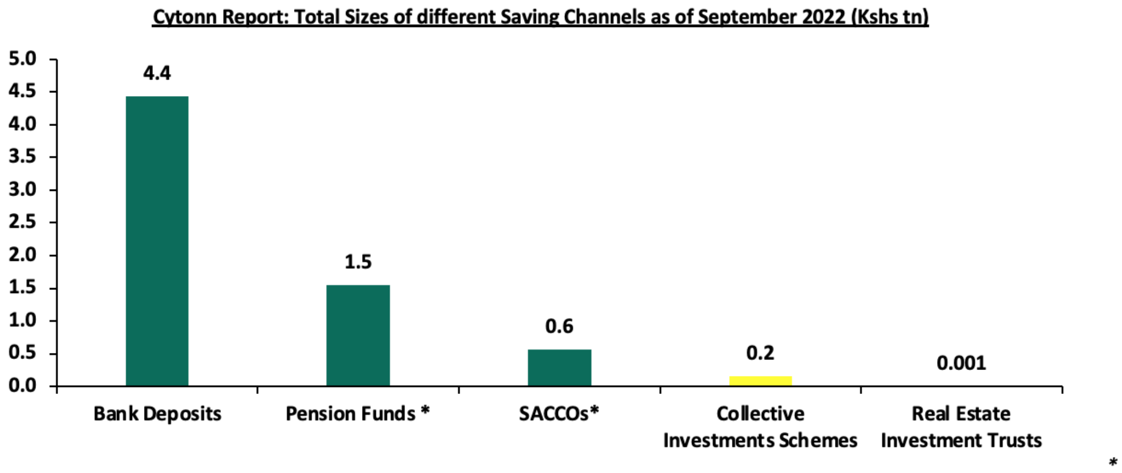
Source: Cytonn Research

The Unit Trust Funds' (UTF) growth has outpaced the listed banking sector's deposit growth with Q3'2022 growth coming in at 7.0% against 1.6% growth for listed banking sector's deposit. We note that while the Unit Trust Funds' growth has been higher as shown in the graph above, Kenya's capital market remains constrained, driven by overreliance on the banking sector for funding. According to the World Bank data, in developed economies, businesses rely on bank funding for 40.0% of the funding; with the larger percentage of funding at 60.0% coming from the Capital markets. However, closer home, the World Bank noted that businesses in Kenya relied on banks for 99.0% of their funding while less than 1.0% comes from the capital markets, an indication of constraints in our capital markets. Notably, our Mutual Funds/UTFs to GDP ratio for Q3'2022 came in at 1.1%, similar to what was recorded as at end of Q2'2022, remaining significantly very low compared to an average of 57.3% amongst select global markets. Additionally, Sub-Saharan African countries such as South Africa and Namibia have higher mutual funds to GDP ratios of 61.5% and 43.1%, respectively as at end of 2021, compared to Kenya's 1.1% depicting that Kenya's UTF industry suffers from low penetration rate, driven by an underdeveloped capital market. As such, we still have room to improve and enhance our capital markets. The chart below shows some countries' mutual funds as a percentage of GDP:



Source: World Bank Data

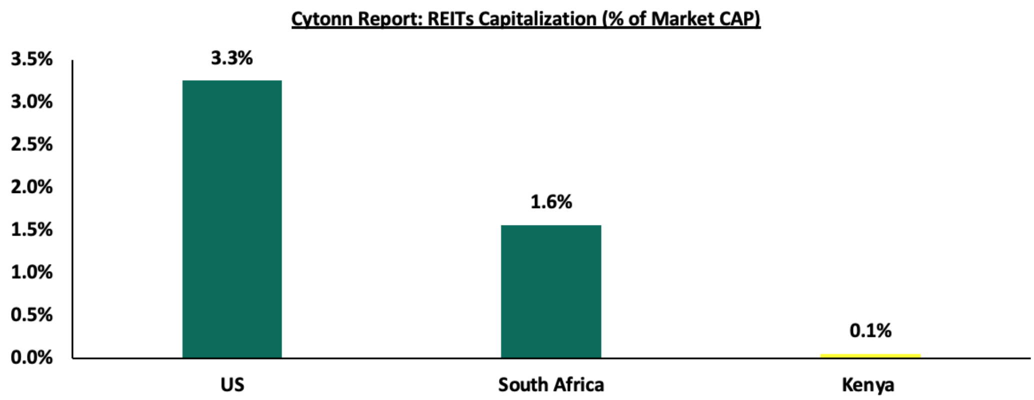
Over the past 5 years, Unit Trust Funds (UTFs) AUM has exhibited positive performance, with the Unit Trust Funds AUM having grown at a 5-year CAGR of 22.7% to Kshs 155.9 bn in Q3'2022, from Kshs 56.0 bn recorded in Q3'2017. However, even at Kshs 155.9 bn, the industry is overshadowed by asset gatherers such as bank deposits at Kshs 4.4 tn and the pension industry at Kshs 1.5 tn as of Q3'2022. Below is a graph showing the sizes of different saving channels and capital market products in Kenya as at September 2022;



**Data as of December 2021*

Source: CMA, RBA, CBK, SASRA Annual Reports and REITs Financial Statements

Comparing other Capital Markets products like REITS, Kenya still has a lot of room for improvement. The listed REITs capitalization as a percentage of total market cap in Kenya stands at a paltry 0.1%, as compared to 3.3% in the United States (US) and 1.6% in South Africa, as of 3rd February 2023. Below is a graph showing comparison of Kenya's REITs to Market Cap Ratio to that of US and South Africa:



Source: Online research, Nairobi Securities Exchange (NSE)

Section V: Recommendations

Notably, we commend the Capital Markets Authority (CMA) for the gazettement of the Investment-based Crowdfunding Regulations 2022 on 30th September 2022 as the regulations now allow for proper licensing, authorizing and regulating of the all crowdfunding platforms and operators. As such, the regulations will enable crowdfunding platforms to operate within a distinguished legal framework while at the same time providing adequate security and assurance to investors. As highlighted in our Cytonn Weekly #43/2022, we note that the move will help boost investor confidence in Kenya's capital market. Additionally, the Capital Markets Authority reduced the annual regulatory fee for crowdfunding platforms by 50.0% to Kshs 100,000.0 from the previous Kshs 200,000.0 and consequently reducing the cost of managing such platforms. The move acts as an incentive to operators within the Capital market. While the aforementioned regulations are a step in the right direction, we believe that more needs to be done to propel Unit Trust Funds (UTFs) performance in Kenya.

In order to improve our Capital Markets and stimulate UTFs growth, we recommend the following actions:

i. **Encourage innovation and diversification of UTFs' investments: At the end of Q3'2022, investment in the fixed income segment constituted 78.1% of all total investments by the collective investments schemes depicting concentration risk. Notably, 40.6% of UTFs' AUM was invested in Fixed Deposits with Commercial banks, a market that is in competition with Unit Trust Funds in terms of deposit mobilization with investments in Government Securities following at 37.5% of total Assets under Management. As a result, there is need to revisit regulations and encourage fund managers to diversify investments as well as enhance innovation of investment vehicles,**
ii. **Lower the minimum investment amounts**: Currently, the minimum investment for sector specific funds is Kshs 1.0 mn, while that for Development REITS is currently at Kshs 5.0 mn. According to the Kenya National Bureau of Statistics, 42.2% of employees in the formal sector earn a monthly median gross income of Kshs 50,000.0 or less and another 45.5% earn a gross income range of Kshs 50,000.0 to Kshs 100,000.0, resulting in 87.7% of employees earning below Kshs 100,000.0 monthly. As such, the high minimum initial and top up investments amounts deter potential investors. Furthermore, these high amounts disadvantage the majority of retail investors by restricting their options for investments,
iii. **Update regulations:** The current Collective Investments Schemes Regulations in Kenya were formulated in 2001 and have not been updated since, despite the dynamic nature of the capital markets worldwide. This has led to the regulations lagging behind by not including provisions for private offers that have grown in importance over the years, as well as lack of clear special funds guidelines to cater for the sophisticated investors' interest in regulated alternative investments products. However, while there are efforts to update the regulations, we note that they remain in progress and are yet to be completed,
iv. **Allow for sector funds:** Under the current capital markets regulations, UTFs are required to diversify. However, one has to seek special dispensation in the form of sector funds such as a financial services fund, a technology fund or a Real Estate Unit Trust Fund. Regulations allowing unit holders to invest in sector funds would go a long way in expanding the scope of unit holders interested in investing,
v. **Eliminate conflicts of interest in the capital markets governance and allow non-financial institutions to also serve as Trustees:** The capital markets regulations should foster a governance structure that is more responsive to both market participants and market growth. In particular, restricting Trustees of Unit Trust Schemes to Banks only limits options, especially given the direct competition between the banking industry and capital markets,
vi. **Provide Support to Fund Managers:** In our opinion, the regulator, CMA needs to include market stabilization tools as part of the regulations/Act that will help Fund Managers meet fund obligations especially during times of distress like when there are a lot of withdrawals from the funds. We commend and appreciate the regulator's role in safeguarding investor interests. However, since Fund Managers also play a significant role in the capital markets, the regulator should also protect the reputation of different fund managers in the industry. This can be done by collaborating with industry players to find solutions rather than publicly shunning and alienating industry players facing challenges as this may not be in the best interest of investors,
vii. **Encourage different players to enter the market to increase competition:** Increased competition in capital markets will not only push Unit Trust Fund managers to provide higher returns for investors but it will also eliminate conflicts of interest in markets and enhance the provision of innovative products and services, and,
viii. **Improve fund transparency to provide more information to investors:** To increase transparency for investors, each Unit Trust Fund should be required to publish their portfolio holdings on a quarterly basis and make the information available to the public. Providing more information to investors will increase accountability by enabling them to make more informed decisions, which will boost investor confidence.

In May 2022, the Capital Markets Authority (CMA) publicized the Draft Capital Markets Public Offers Listing and Disclosures Regulations 2022, meant to replace the Public Offers Listing and Disclosures Regulations 2002, which have been in effect since 2002, with the only amendments done in 2016. The Draft Regulations main objective is to create a more favorable environment in Kenya's Capital Markets so as to encourage more listings on the Nairobi Securities Exchange. As highlighted in our Cytonn weekly#18/2022, we anticipate that more corporations and State Owned Enterprises will take advantage of this opportunity and seek capital markets funding through IPOs, which will further increase the percentage of funding for businesses provided by the Capital Markets. Additionally, In June 2022, the Capital Markets Authority (CMA) published the final draft regulations; Capital Markets (Collective Investment Schemes) Regulations 2022 and the Capital Markets (Alternative Investment Funds) Regulations 2022. Given the changes in market dynamics, the proposed regulations seek to update the current Collective Investment Scheme and Alternative Investment Funds Regulations while also addressing emerging issues.

We believe that in order to further spur the growth of UTFs in Kenya, there is a need to leverage more on innovation, digitization and product development in the capital markets given the high internet and mobile (SIM) subscription rates at 48.5 mn and 65.5 mn, respectively as at end of September 2022. Moreover, due to the high demand for innovative and convenient products by consumers in the retail money market, the use of technology as a distribution channel for mutual fund products opens up the funds to the retail segment. Furthermore, instead of restricting UTF growth and diversification, regulators should encourage and facilitate it. This will boost the development of the capital markets and encourage the entry of new players.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com