# AA Kenya Managed Fund

**31 May 2023**

African Alliance Asset Management

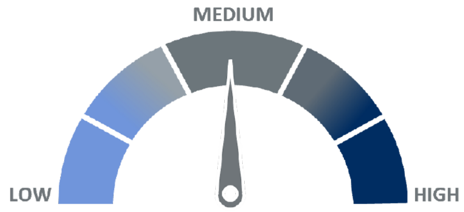
## General Fund Information

| | |
|---|---|
| Fund Structure | CIS |
| Region | Kenya |
| Currency | KES |
| Asset Class | Balanced |
| Portfolio Manager | AA Kenya Investment Team |
| Headline Fee | 1.00% |
| TER (includes Headline Fee) | 0.03% |
| Initial Fee | 2.0% |
| Distribution Frequency | Semi-annually |
| Launch Date | May 30, 2007 |
| Financial Year End | December |
| Minimum Lump Sum Investment | 100000 |
| Risk Rating | Medium |
| Net Asset Value (NAV) | 18.37 |
| Assets Under Management (AUM) | 695,093,991.00 |

## Fund Objective

The primary objective of this Fund is to seek long-term capital growth consistent with higher than moderate investment risk and a reasonable level of current income.

## Risk Rating




## Gross Performance (%)

| | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years* | 3 Years* | 5 Years* |
|---|---|---|---|---|---|---|---|
| Fund | -0.89 | -1.28 | 0.78 | 4.00 | 2.09 | 6.27 | 5.18 |
| Benchmark** | -0.27 | -1.37 | 0.46 | 3.19 | 0.46 | 4.77 | 3.90 |
| Value Add | -0.62 | 0.09 | 0.32 | 0.81 | 1.63 | 1.50 | 1.28 |

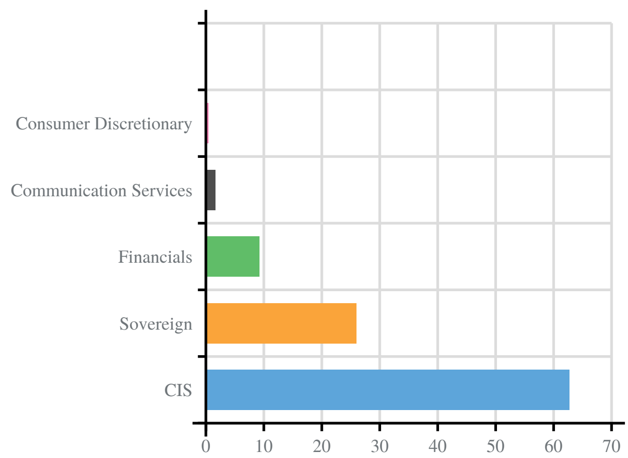
*Annualised

**91.00-day T-Bill (60.00%), NSE All Share (25.00%), MSCI World (9.75%), Citi WGBI (3.75%), USD LIBID (1.50%)

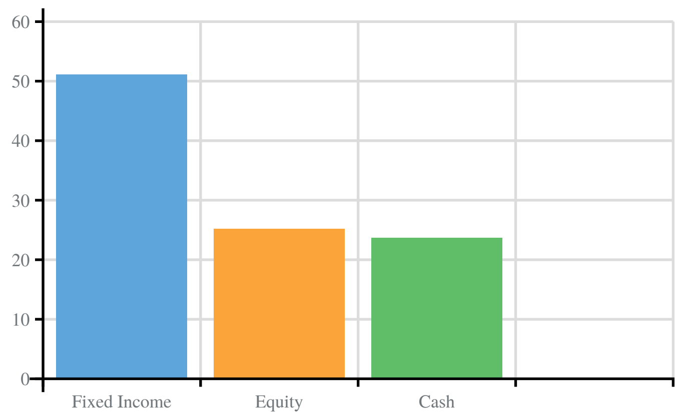
## Issuer Exposure (%)

| | |
|---|---|
| CIS | 62.7 |
| Central Bank of Kenya | 26.0 |
| Equity Bank | 8.1 |
| Safaricom Ltd | 1.6 |
| NCB | 0.4 |
| East African Breweries Limited | 0.4 |
| Stanbic Bank | 0.4 |
| Kenya Mortgage Refinance Company | 0.2 |

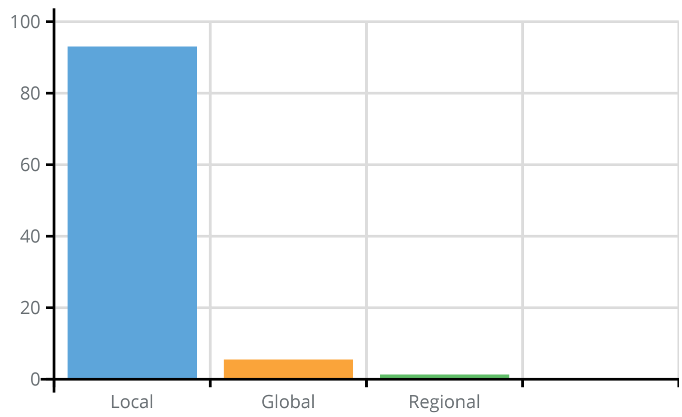
## Sector Allocations (%)




## Asset Class Breakdown (%)




## Region Breakdown (%)



## Portfolio Manager Commentary

The recently released Economic survey also showed that the Kenyan economy remained resilient in 2022, despite the subdued agriculture performance due to unfavourable weather conditions. Real GDP grew by 4.8% in 2022, reflecting a robust performance of the service sector, particularly transport and storage, financial and insurance, information and communication, and accommodation and food services. Leading indicators pointed to a strong economic performance in the first quarter of 2023 mainly driven by activity in the service sector and recovery in agriculture.

The Monetary Policy Committee (MPC) met at the end of May and retained the Central Bank Rate (CBR) at 9.50% to allow the previous policy actions to fully be transmitted into the economy. The committee cited expected acceleration in domestic inflationary pressures as a result of higher fuel prices. However, the MPC also noted that tightening at the March meeting was still transmitting through the economy, which combined with government measures to allow duty-free imports on specific food items should contribute to a decline in inflation.

The overall inflation increased to 8% during the month of May compared to 7.9% in April. This was mainly driven by an increase in the food and non-alcoholic beverages index (+1.4%) as well as the transport index (+1.2%), the latter driven by an increase in the prices of diesel (+3.8%) and petrol (1.8%) over the period. The increment in electricity prices and removal of fuel subsidies present further upside risks to the inflation outlook.

We anticipate that inflation will continue to moderate in the coming months on the back of the ongoing rains which should alleviate food pricing pressure. As such, we expect the MPC to maintain the policy rate unchanged through Q3:2023, though the risk of further tightening remains should inflationary pressures prove persistent.

Should inflation continue to ease as we anticipate, we believe that the MPC will keep the policy rate unchanged at 9.5%, allowing real rates to remain in positive territory and offer support to the currency. However, should upward surprises to the inflation outlook could see the MPC continue to hike the CBR to stem price pressures and re-anchor inflation expectations.

Dwindling forex reserves, coupled with FX weakness and further tightening of global financial conditions, could also put pressure on the MPC to hike the CBR further. During the month, the Kenya Shilling depreciated by 1.95% against the US Dollar, to close the month at Kshs 138.55, partly attributable to the increased dollar demand from importers.

The expected changes in the composition of the MPC, as the current governor and deputy governor's terms come to an end in June, could also usher in a change in the monetary policy stance.

We continue to take a "Neutral position" on the equities markets in the short term as we expect the current high foreign investors sell-offs to continue weighing down the equities outlook in the short term. However, we see a silver lining in the opportunity to take advantage of the attractive valuations and expected global and local economic recovery by selectively picking value stocks with strong earning growth and with good dividend yields that are trading at discounts to their intrinsic value.

## Disclaimer