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Alphafrica Hifadhi Fixed Income Fund

Annual Report and Financial Statements

For the year ended 31 December 2020

CONTENTS

FUND INFORMATION

CORPORATE TRUSTEE	: Co - operative Bank of Kenya Limited : CIC Plaza 2, 3rd Floor : Mara Road, Upper Hill : P.O Box 48231 - 00100 : NAIROBI
REGISTERED OFFICE	: Crawfold Business Park : Suite 26 & 26A, 4th Floor : State House Road : P.O. Box 34530 - 00100 : NAIROBI
FUND MANAGERS AND ADMINISTRATORS	: Alpha Africa Asset Managers Limited : Crawfold Business Park : Suite 26 & 26A, 4th Floor : State House Road : P.O. Box 34530 - 00100 : NAIROBI
CUSTODIANS	: Stanbic Bank Kenya Limited : Chiromo Branch : P.O. Box 30550 - 00100 : NAIROBI
INDEPENDENT AUDITOR	: PKF Kenya LLP : Certified Public Accountants (Kenya) : Kalamu House, Grevillea Grove, off Brookside Drive : P.O. Box 14077 - 00800 : NAIROBI

REPORT OF THE TRUSTEES

The Trustees have the pleasure of submitting the Fund's report together with the audited financial statements for the year ended 31 December 2020.

ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The Fund was established, and is governed by a Trust Deed dated 8 June 2018 as a Money Market Fund. The Fund was registered with the Capital Markets Authority on the 26 July 2018 and began operations on 17 September 2018.

The objective of the Fund is to achieve capital preservation by investing in short term money market instruments. It ultimately aims to mobilize savings and allow access to investment assets and returns in investments otherwise restricted to persons with access to large amounts of capital.

The Fund is a unit trust and the interest of the individual members is determined by the value of their units. It is administered by the Trustees who are responsible for its affairs.

The Fund is an approved collective investment scheme within the meaning of the Capital Markets Act; and the holders are not liable for the debts of the Fund.

FINANCIAL REVIEW

The statement of profit or loss on page 10 shows profit for the year of Shs. 8,446,188 The statement of financial position on page 11 shows total net assets of Shs. 117,032,031 as at 31 December 2020.

PERFORMANCE RECORD

The performance record of the Fund over the current period is as shown below:

a) The closing, lowest and yields prices of the units of the Fund:

	2020 Annual Yield	**2019 Annual Yield**
Closing yield	10.55%	12.34%
Lowest yield	9.03%	11.75%
Highest yield	11.77%	13.20%

b) The total Fund value and net income distributed for all units held at the end for the last period:

	2020 Shs	**2019 Shs**
Total Fund value	117,032,030	106,680,332
Net income distributed	8,446,188	10,148,026

INVESTMENT

Under the terms of their appointment, Alphafrica Hifadhi Fixed Income Fund is responsible for the investment of funds. The overall responsibility for investment and performance lies with the Trustees.

MEMBERSHIP

As at 31 December 2020, the Fund had 28 members.

FUND ADVISORS

The names and addresses of the Fund manager, Trustee, Custodian and Auditor are as shown on page 1.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to the Trustees at the time this report was approved:

(a) there is, so far as the Trustees are aware, no relevant audit information of which the Fund's auditor is unaware; and
(b) the Trustees have taken all the steps that ought to have been taken as Trustees so as to be aware of any relevant audit information and to establish that the Fund's auditor is aware of that information.

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya LLP, continues in office. The Trustees monitor the effectiveness, objectivity and independence of the auditor. The Fund Manager approved the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fee.

THE CO-OPERATIVE BANK OF KENYA LTD. TRUSTEE SERVICES

TRUSTEE
NAIROBI

1st April 2021

FUND MANAGER'S REPORT

The Alphafrica Hifadhi Fixed Income Fund's (the "Fund") investment objective is to achieve capital preservation. The Fund invests in short term money market instruments in the local market. The Fund average maturity of assets is less than one year. The Fund receives regular and significant amount of income inflows which are distributed to the unit holders. The Fund value as at 31 December 2020 was Shs. 117,032,030. The Fund achieved a daily average return of 10.55% during the period.

We appreciate your investment in the Fund and thank you for supporting us. We look forward to developing a long term relationship with you and to working closely with you as you secure your financial future and meet your investment goals.

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FUND MANAGER

____________________ 2021

REPORT OF THE CUSTODIAN

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between Stanbic Bank Limited as the Custodians and Alpha Africa Assets Managers Limited as the Fund Manager, we confirm that:

a) We have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations, to the Alphafrica Hifadhi Fixed Income Fund

b) For the period 1 January 2020 to 31 December 2020, we have held the assets for the Alphafrica Hifadhi Fixed Income Fund including securities and income that accrue thereof to the order of the Trustees and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund manager.

CUSTODIAN

06/04/21 2021

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Capital Markets (Collective Investment Schemes) Regulations, 2001 and trust deed requires the Trustees to prepare financial statements for each financial year which show a true and fair view of the state of affairs of the Fund at the end of the financial year and of the Fund's operating results for the period. It also requires the trustee to ensure that the Alphafrica Hifadhi Fixed Income Fund keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

The Trustees are responsible for the preparation of the financial statements which give a true and fair view in accordance with International Financial Reporting Standards and the requirements of Capital Markets (Collective Investment Schemes) Regulations, 2001, and for such internal controls as the Trustees determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. The Trustees are of the opinion that the financial statements give a true and fair view of the financial affairs of the Alphafrica Hifadhi Fixed Income Fund and of its operating results. The Trustees further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Trustees to indicate that Alphafrica Hifadhi Fixed Income Fund will not be able to meet its obligations for at least the next twelve months from the date of this statement.

THE CO-OPERATIVE BANK OF KENYA LTD.
TRUSTEE SERVICES

TRUSTEE

1st April 2021 2021

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF ALPHAFRICA HIFADHI FIXED INCOME FUND

Opinion

We have audited the financial statements of Alphafrica Hifadhi Fixed Income Fund set out on pages 10 to 25, which comprise the statement of financial position as at 31 December 2020, statement of profit or loss, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Alphafrica Hifadhi Fixed Income Fund as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of The Capital Markets (Collective Investment 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 Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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

We have determined that there are no Key Audit Matters to communicate in our report.

Other information

The Trustees are responsible for the other information. The other information comprises all information included in the annual report and the financial statements but excludes the financial statements and reports of the independent auditor.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF ALPHAFRICA HIFADHI FIXED INCOME FUND (CONTINUED)

Trustees' Responsibilities for the financial statements

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with The Capital Markets (Collective Investment Schemes) Regulations, 2001 and International Financial Reporting Standards and for such internal control as the trustee determine 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 Trustees are responsible for assessing the Fund's 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 to cease operations of the Fund, 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 International Standards on Auditing 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 International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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.

- 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's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.

- Conclude on the appropriateness of the trustee's 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 the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF ALPHAFRICA HIFADHI FIXED INCOME FUND (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year 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.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Salim Alibhai, Practising certificate No. 2151

___________________________ **(engagement partner's signature)**

For and on behalf of PKF Kenya LLP
Certified Public Accountants
Nairobi, Kenya

08 April **2021**

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STATEMENT OF PROFIT OR LOSS

	Notes	12 months to 31 December 2020 Shs	16 months to 31 December 2019 Shs
Investment income	2	14,030,965	14,707,744
Operating expenses	3.1	(4,442,330)	(4,264,076)
Expected Credit Losses (ECL)	3.2	(1,142,447)	(134,356)
Profit before tax	4	8,446,188	10,309,312
Tax	5	-	(161,286)
Profit for the year		8,446,188	10,148,026

The notes on pages 14 to 25 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2020 Shs	2019 Shs
ASSETS			
Call deposits	6	4,245,507	8,082,402
Commercial papers	7	34,090,364	17,089,356
Treasury bonds	8	80,539,803	63,116,841
Corporate bonds	9	1,121,412	1,249,875
Cash at bank	10	47,646	18,453,015
		120,044,732	107,991,489
LIABILITIES			
Trade payables	11	3,012,702	1,311,157
NET ASSETS		117,032,030	106,680,332
FUND BALANCE			
Unit holders Funds		108,585,842	96,532,306
Profit for the period		8,446,188	10,148,026
MEMBERS' FUNDS		117,032,030	106,680,332

The financial statements on pages 10 to 25 were approved and authorised for issue by the Trustee on 1st April 2021 and were signed on its behalf by:

________________ TRUSTEE

The notes on pages 14 to 25 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

STATEMENT OF CHANGES IN NET ASSETS

	12 months to 31 December 2020 Shs	16 months to 31 December 2019 Shs
Fund balance at start of the year/period	106,680,332	-
Proceeds from units issued in the year/period	50,959,704	128,907,296
(Refunds) made on withdrawals by unit holders	(47,325,114)	(31,321,235)
Interest on investments	(1,729,080)	(1,053,755)
Net proceeds made by unit holders in the period	108,585,842	96,532,306
Net movement in the Fund balance	108,585,842	96,532,306
Total income for the year/period	8,446,188	10,148,026
At end of year/period	117,032,030	106,680,332

The notes on pages 14 to 25 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

STATEMENT OF CASH FLOWS

Cash flows from operating activities	Notes	12 months to 31 December 2020 Shs	16 months to 31 December 2019 Shs
Profit before tax		8,446,188	10,309,312
Working capital changes:			
Increase in payables		1,701,546	1,311,157
Cash used in operations		10,147,734	11,620,469
Movement in expected credit loss provisions		1,000,314	101,174
Tax paid	5	-	(161,286)
Net cash from operating activities		11,148,049	11,560,357
Investing activities			
Gross movement in commercial papers		(17,826,527)	(17,109,356)
Gross movement in treasury bonds		(17,592,498)	(63,196,640)
Gross movement in corporate bonds		123,204	(1,251,250)
Net cash (used in) investing activities	7	(35,295,821)	(81,557,246)
Financing activities			
Proceeds from units issued		50,959,704	128,907,29
Refunds made on withdrawals by unit holders		(49,054,194)	(32,374,990)
Net cash from financing activities		1,905,510	96,532,306
(Decrease)/increase in cash and cash equivalents		(22,242,263)	26,535,41
Movement in cash and cash equivalents			
At start of year		26,535,417	-
(Decrease)/increase		(22,242,263)	26,535,41
At end of year	10	4,293,153	26,535,41
Represented by:			
Call deposits	6	4,245,507	8,082,402
Bank balances	10	47,646	18,453,015
		4,293,153	26,535,417

The notes on pages 14 to 25 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

1. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determinedon such a basis, except for measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

The financial performance of the Fund is set out in the report of the Trustees and in the statement of profit or loss. The financial position of the Fund is set out in the statement of financial position. Disclosures in respect of risk management are set out in Note 13.

Going concern

Based on the financial performance and position of the Fund and its risk management policies, the Trustees are of the opinion that the Fund is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

New standards, amendments and interpretations adopted by the Fund

The Fund has applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- **Amendments to IFRS 3: Definition of a Business (issued in October 2018)**
  The amendments, applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. These amendments had no impact on the financial statements of the Fund, but may impact future periods should the Fund enter into any business combinations.

- **Amendments to IAS 1 and IAS 8 Definition of Material (issued in October 2018)**
  The amendments, applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

- **Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform (issued in September 2019)**
  The amendments, applicable to annual periods beginning on or after 1 January 2020, provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Fund as it does not have any interest rate hedge relationships.

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

New standards, amendments and interpretations adopted by the Fund (continued)

- **Conceptual Framework for Financial Reporting issued on 29 March 2018**
  The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Fund.

- **Amendments to IFRS 16 Covid-19 Related Rent Concessions (issued on 28 May 2020)**
  The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Fund.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective for the year presented:

- **Amendments to IAS 1 'Classification of Liabilities as Current or Non-current' (issued in January 2020)**, effective for annual periods beginning or after 1 January 2023, clarify a criterion for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date.

- **Amendments to IAS 37 'Onerous Contracts – Costs of Fulfilling a Contract' (issued in May 2020)**, effective for annual reporting periods beginning on or after 1 January 2022, specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

- **Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards 'Subsidiary as a first-time adopter' (issued in May 2020)**, effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted, permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

- **Amendment to IFRS 9 Financial Instruments 'Fees in the '10 per cent' test for derecognition of financial liabilities' (issued in May 2020)**, effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted, clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The Fund plans to apply the changes above from their effective dates.

1. **Significant accounting policies (continued)**

b) **Critical accounting estimates and judgements**

In the application of the accounting policies, the Trustees are required to make judgments and estimates about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated judgements are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The Trustees have made the following estimates and judgements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- **Impairment of investments** - the Fund reviews their portfolio of investments on an annual basis. In determining whether investments are impaired, the Trustee makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

- **Measurement of expected credit losses (ECL)**

  The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

  A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

  - Determining criteria for significant increase in credit risk;
  - Choosing appropriate models and assumptions for the measurement of ECL;
  - Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
  - Establishing groups of similar financial assets for the purposes of measuring ECL.

  ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

  The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

  The ECL model applied for financial assets other than trade receivables and contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

b) **Critical accounting estimates and judgement (continued)**

- **Measurement of Expected Credit Losses (ECL) (continued)**

  - Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

  - Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

  - When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Assessment of significant increase in credit risk: The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The Fund uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions.

c) **Revenue recognition**

Investment income
Interest income is recognised in profit or loss as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognised when the right to receive the payment is established.

Realised/unrealised gains and losses
Unrealised/realised gains and losses on valuation of financial assets at the reporting date or sale of financial assets are recognised in profit or loss. Gain and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

d) **Financial instruments**

Financial instruments are recognised when, and only when, the Fund becomes party to the contractual provisions of the instrument.

- Financial assets

All financial assets are recognised initially using the trade date accounting which is the date the Fund commits itself to the purchase or sale.

1. **Significant accounting policies (continued)**

d) **Financial instruments (continued)**

- Financial assets

The Fund classifies its financial assets into the following categories:

Amortised cost:
Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

Fair Value Through Profit or Loss (FVTPL):
Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

Not withstanding the above, the Fund may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

At initial recognition of a financial asset, the Fund determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Fund reassess its business models each reporting period to determine whether the business models have changed since the preceding period.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the Fund has transferred substantially all risks and rewards of ownership, or when the Fund has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Impairment

Debt instruments that are subsequently measured at amortised cost or at impairment assessment. No impairment loss is recognised on investments measured at FVTPL.

The Fund recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- Cash and cash equivalents
- Call deposits
- Commercial papers
- Treasury bonds
- Corporate bonds

No impairment loss is recognised on investments measured at FVTPL.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

d) **Financial instruments (continued)**

- Financial assets (continued)

Impairment (continued)

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowanc are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the reporting date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are require to be sold to raise operating capital, in which case they are classified as current assets.

- Financial liabilities

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The Fund may also,on initial recognition, irrevocably designate a financi liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

All other financial liabilities are classified and measured at amortised cost.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition o a new liability. 'The difference in the respective carrying amounts is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a currently enforceable legal right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

e) **Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at cost. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three month or less, net of restricted balances.

f) **Taxation**

The Fund is exempt form corporation tax.

NOTES (CONTINUED)

2. Investment income

	12 months to 31 December 2020 Shs	16 months to 31 December 2019 Shs
Financial statements carried at amortised cost:		
Interest on treasury bonds	8,956,333	7,275,953
Interest on fixed deposits	111,639	477,819
Interest on call deposits	732,373	1,039,905
Interest on commercial papers	4,207,992	3,460,148
Interest on corporate bonds	151,664	422,654
Realised gain on investments in Government bonds	(129,036)	2,031,265
	14,030,965	14,707,744

3. Fund expenses

3.1 Operating expenses

Management fees (Note 12)	3,379,683	2,814,333
Legal and professional fees	-	390,050
Licence fees	75,000	75,000
Custody fees	236,054	211,162
Trustee fees	242,175	174,000
Bank charges	13,244	13,289
Brokerage commisions	16,340	186,242
Audit fees	479,834	400,000
Total operating expenses	4,442,330	4,264,076

3.2 Expected credit loss provisions

- call deposits (Note 6)	63,336	10,087
- commercial papers (Note 7)	845,519	20,000
- treasury bonds (Note 8)	249,335	79,799
- corporate bonds (Note 9)	6,634	1,375
- bank balances (Note 10)	(22,377)	23,095
Total expected credit loss provisions	1,142,447	134,356
Total Fund expenses	5,584,777	4,398,432

The Fund manager settled the custodial fees and trustees fees below:

	2020 Shs	2019 Shs
Custodial fees	236,054	211,162
Trustee fees	242,175	174,000

4. Profit before tax

The following item has been charged in arriving at the profit before tax:

Expected Credit Losses (Note 13)	1,142,447	134,356

5. Tax

Withholding tax expense	-	161,286
Withholding taxes paid	-	(161,286)
	-	-

The Fund is exempt from corporation tax.

NOTES (CONTINUED)

6. **Call deposits - Amortised cost**	**2020 Shs**	**2019 Shs**
Face value	4,289,553	8,070,000
Accrued interest	19,290	22,489
Less: expected credit loss provisions	(63,336)	(10,087)
	4,245,507	8,082,402

The weighted average effective interest rate on call deposits at 31 December 2020 was 6.93% (2019: 6.93%)

In the opinion of the trustee, the carrying amount of the call deposits approximate to their fair value.

The carrying amounts of the call deposits are denominated in Kenya Shillings.

7. **Commercial papers - Amortised cost**	**2020 Shs**	**2019 Shs**
Platinum credit	28,980,000	6,000,000
Premier credit	3,000,000	10,000,000
Accrued interest	2,955,883	1,109,356
Less: expected credit loss provisions	(845,519)	(20,000)
	34,090,364	17,089,356
Commercial papers maturity analysis		
Maturity within 365 days	34,935,883	17,109,356
Less: expected credit loss provisions	(845,519)	(20,000)
	34,090,364	17,089,356

The weighted average effective interest rate on commercial papers as at 31st December 2020 was 15.88% (2019: 15.88%)

In the opinion of the Trustees, the carrying amount of the commercial papers approximate to their fair value.

The carrying amounts of the commercial papers are denominated in Kenya Shillings.

8. **Treasury bonds - Amortised cost**	**2020 Shs**	**2019 Shs**
364 Days Treasury bonds	76,852,865	62,972,893
Accrued interest	3,936,273	223,747
Less: expected credit loss provisions	(249,335)	(79,799)
At end of year	80,539,803	63,116,841
Treasury bonds maturity analysis		
Maturity within 365 days	80,789,138	63,196,640
Less: expected credit loss provisions	(249,335)	(79,799)
	80,539,803	63,116,841

8. Treasury bonds (continued)

The weighted average effective interest rate on Treasury bonds as at 31 December 2020 was 12.51% (2019: 12.51%)

In the opinion of the trustee, the carrying amount of the Treasury bonds approximate to their fair value.

The carrying amounts of the Treasury bonds are denominated in Kenya Shillings.

9. Corporate bonds - Amortised cost

	2020 Shs	2019 Shs
Corporate bonds	1,098,625	1,100,000
Accrued interest	29,421	151,250
Less: expected credit loss provisions	(6,634)	(1,375)
	1,121,412	1,249,875

Corporate bonds maturity analysis

Maturity within 90 days (Note 10)	1,128,046	1,251,250
Less: expected credit loss provisions	(6,634)	(1,375)
	1,121,412	1,249,875

The weighted average effective interest rate on Treasury bonds as at 31 December 2020 was 12.51% (2019: 12.51%)

In the opinion of the trustee, the carrying amount of the Treasury bonds approximate to their fair value.

The carrying amounts of the Treasury bonds are denominated in Kenya Shillings.

10. Cash and cash equivalents

Cash at bank and in hand	48,364	18,476,110
Less: expected credit loss provisions	(718)	(23,095)
	47,646	18,453,015

For the purpose of the statement of cash flows, the year/period cash and cash equivalents comprise of the following:

Cash at bank and in hand	47,646	18,453,015
Call deposits (Note 6)	4,245,507	8,082,402
	4,293,153	26,535,417

The carrying amount of the Fund's cash at bank and in hand are dominated in Kenya Shillings.

11. Trade payables

	2020 Shs	2019 Shs
Accrued audit fees	400,000	400,000
Management fees due to related party (Note 12)	1,742,816	521,107
Other payables to related party (Note 12)	869,885	390,050
	3,012,701	1,311,157

In the opinion of the trustee, the carrying amounts of trade and other payables approximate to their fair value.

The carrying amounts of the company's trade and other payables are denominated Kenya Shillings.

The payables are due within three months after the reporting period.

12. Related party balances and transactions

Alphafrica Hifadhi Fixed Income Fund is managed by Aphafrica Assets Managers Limited as their Fund manager. The Fund transacts with this company.

Transactions with related parties

	2020 Shs	2019 Shs
Alpha Africa Assets Managers Limited		
Management fees (Note 3.1)	3,379,683	2,814,333
Outstanding balance		
Alpha Africa Assets Managers Limited (Note 11)	2,612,701	911,157

13. Risk management objectives and policies

Financial risk management

The Fund generates revenues for the members by investing in various income generating activities which involve trading in the Securities Exchange. These activities expose the Fund to a variety of financial risks, including credit risk and the effects of changes in market dynamics. The trust deed sets out the investment policy and management of the Fund's assets to minimise potential adverse effects on its financial performance.

Risk management is carried out by the management.

(a) **Market risk**

- *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest bearing assets include term deposits and treasury bonds which have fixed interest rates hence exposure to interest rate risk is not considered to be material.

(b) **Credit risk**

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Fund. The credit risk on term deposits and bank balances is limited as the counterparties are all recognised banks with good reputations. The Fund's equity investments are done through reputable intermediaries to protect the Fund against any misappropriations.

In assessing whether the credit risk on a financial asset has increased significantly, the Fund compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Fund considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

If the Fund does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis.

13. **Risk management objectives and policies (continued)**

(b) **Credit risk (continued)**

For such purposes, the Fund's financial assets on the basis of shared credit risk characteristics, such as:
- type of instrument;
- industry in which the debtor operates; and
- nature of collateral.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

The gross carrying amount of financial assets with exposure to credit risk at the reporting date was as follows:

Basis for measurement of loss allowance	12 months expected credit losses 2020 Shs	12 months expected credit losses 2020 Shs
Financial assets		
Call deposits	4,308,843	8,092,489
Commercial papers	34,935,883	17,109,356
Treasury bonds	80,789,138	63,196,640
Corporate bonds	1,128,046	1,251,250
Bank balances	48,364	18,476,110
Gross carrying amount	121,210,274	108,125,845
Loss allowance (note 4)	(1,165,542)	(134,356)
Exposure to credit risk	120,044,732	107,991,488

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired; and
b) financial assets that are credit impaired at the reporting date.

14. **Events after the reporting period**

The Trustee approved the financial statements on 31 March 2021 and authorised that the financial statements be issued. On this date, the Trustees were not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the Fund and results of its operations as laid out in these financial statements.

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6. **Call d**

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