CAPITAL MARKETS AUTHORITY

Promoting the Integrity and Growth of the Capital Markets

The Capital Markets Soundness Report (CMSR)

Volume XXX Quarter 1 2024 (1 January – 31 March) 2024

"Unlocking Investment Opportunities in the Capital Markets through Alternative Investment Funds"

Quarterly Publication of the Capital Markets Authority (Kenya)

ABBREVIATIONS

AIF	Alternative Investment Fund
AUM	Assets Under Management
AML/CFT	Anti-Money Laundering/ Countering Financing of Terrorism
B.O.	Beneficial Ownership
CAGR	Compound Annual Growth Rate
CETNs	Crypto asset-backed Exchange Traded Notes
CDD	Customer Due Diligence
DNFBPs	Designated Non-Financial Businesses and Persons
ECML	Egyptian Capital Market Law
EGX	Egyptian Exchange
EDD	Enhanced Due Diligence
EMEIA	Europe, the Middle East, India, and Africa
FCA	Financial Conduct Authority
FRA	Financial Regulatory Authority
FATF	Finance Action Task Force
IPO	Initial Public Offerings
ICPAK	Institute of Certified Public Accountants of Kenya
ISSB	International Sustainability Standards Board
IFRS	International Financial Reporting Standards
LLP	Limited Liability Partnership
MSMEs	Micro, Small, and Medium Enterprises
NSE	Nairobi Securities Exchange
OECD	Organization for Economic Cooperation and Development
P.F.	Proliferation Financing
PSASB	Public Sector Accounting Standards Board: Kenya
REIT	Real Estate Investment Trust
RIEs	Recognized Investment Exchanges

SC Securities Commission Malaysia

SEC Securities and Exchange Commission

TSFE Sovereign Fund of Egypt

VASPs Virtual Assets Service Providers

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SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Valued Reader,

Welcome to the 30th edition of the Capital Markets Soundness Report, which covers events in the first quarter of 2024. The Authority continues to be at the forefront in disseminating critical stakeholder and investor interest information relating to capital market developments at the international, regional, and local levels. The also provides you, our esteemed stakeholder, with key information on the performance, soundness and health of the domestic capital markets, specifically touching on equity and fixed-income markets in the quarter.

Despite the continued geo-political tensions occasioned by the Ukraine-Russian war and the Middle East's continuous conflict, the global economy showed high resilience, with the Organization for Economic Corporation and Development (OECD) projecting a global GDP growth at 2.9% in 2024. Sub-Saharan Africa's GDP is expected to accelerate to 3.8%, with the sluggish economic recovery in Nigeria, South Africa, and Angola expected to weigh down on the growth prospects into 2024.The escalating Middle East crisis coupled with effects of tighter financial conditions still visible in the global housing and credit markets remain key economic risks as we head halfway into 2024.

CMA Kenya remains committed to providing support the Government in undertaking the necessary initiatives to fast-track the removal of Kenya from the grey list by the Finance Action Task Force (FATF). We note that the enactment of the Anti-Money Laundering (AML) and Combating Terrorism Financing (CTF) Laws (Amendment) Bill will enable CMA to enhance its AML oversight function and in supporting Kenya's standing as a reputable jurisdiction regarding adoption the FATF recommendations.

CMA continues to be on the frontline in promoting sustainability within the capital markets, and graciously co-hosted the recently held ISSB Workshop, which sought to address the adoption and implementation of IFRS (International Financial Reporting Standards) S1 and S2 within Kenya's Financial sector.

We look forward to continued collaboration with you to deepen the market. As you peruse this report, we look forward to your thoughts on its key findings, lessons learnt, opportunities, risks and potential mitigations so we can improve our capital markets policy and regulatory framework to make Kenya an investment destination of choice.

Enjoy the read!

FCPA, Wyckliffe Shamiah

CHIEF EXECUTIVE OFFICER

EDITORIAL

Greetings!

The 30th Edition of the Capital Markets Soundness Report (CMSR), themed **"Unlocking Investment Opportunities in the Capital Markets through Alternative Investment Funds,"** highlights the key provisions in the regulatory framework for Alternative Investment Funds (AIFs) in Kenya.

Global capital markets have continued to show resilience, with the MSCI World Index recording a positive return of 8.88%, in comparison with the MSCI Emerging Market Index which recorded a return of 2.37% in USD terms on a year-to-date basis. The easing of the inflationary pressures is largely anticipated to prompt central banks to ease Monetary policy tightening, which will likely lead to improved performance in the capital markets. However, there is still some uncertainty as to the ultimate monetary policy stance central banks will take, given the unpredictable global socio-economic and geo-political conditions, which will continue to have a bearing on inflationary levels.

On the key international regulatory developments, the U.K. Financial Conduct Authority committed to improve pace and transparency around enforcement cases, even as it updated its policy position on Crypto Asset Exchange Traded Notes (ETNs) for Professional Investors during the quarter. Further, the Securities Commission of Malaysia published the Draft Governance Code for Micro, Small and Medium Enterprises (MSMEs) for public comments, whereas the US Securities Commission (USSEC) adopted rules to enhance investor protection relating to Special Purpose Acquisition Schemes (SPACs), Shell Companies, and Projections. We remain keen on benchmarking on international best practices.

Regionally, the Egyptian Exchange (EGX) launched a new market for Voluntarily Delisted Companies, even as it reported its intention to raise USD 6.5 Billion from an Initial Public Offering program by the end of 2024.

The Authority licensed NCBA Bank Kenya being to operate as a Real Estate Investment Trust (REIT) Trustee and VCG Asset Management as a Fund Manager during the period under reviewicensed to operate as a fund manager. Frictionless enterprise limited was also admitted to the regulatory sandbox to launch the Power I.O. App as a pilot project to streamline investments by employees from their earnings.

The domestic market registered impressive recovery during the quarter driven by improved investor sentiments and positive macro-economic developments. Foreign investors' market share in the equity turnover increased to 60.23% on the back of the return of foreign investors into the equity market.

The MSCI Kenya Index posted an impressive 57.14 % increase on a year-to-date basis in USD terms. The volatility of the three market indices, namely the NSE 20, NSE 25, and NASI, remained low at 0.48%, 0.56%, and 0.65%, respectively. Market liquidity increased from 0.78% to 1.14% on the back of investors taking positions in profitable counters during the dividend declaration season at the Nairobi bourse.

We conclude this edition with a detailed capital markets stability analysis of trends in market volatility, liquidity, concentration, foreign portfolio flow, derivatives statistics, and net asset base of licensees on a quarter-by-quarter analysis.

Enjoy your read!

Mr. Luke E. Ombara

DIRECTOR, POLICY AND MARKET DEVELOPMENT

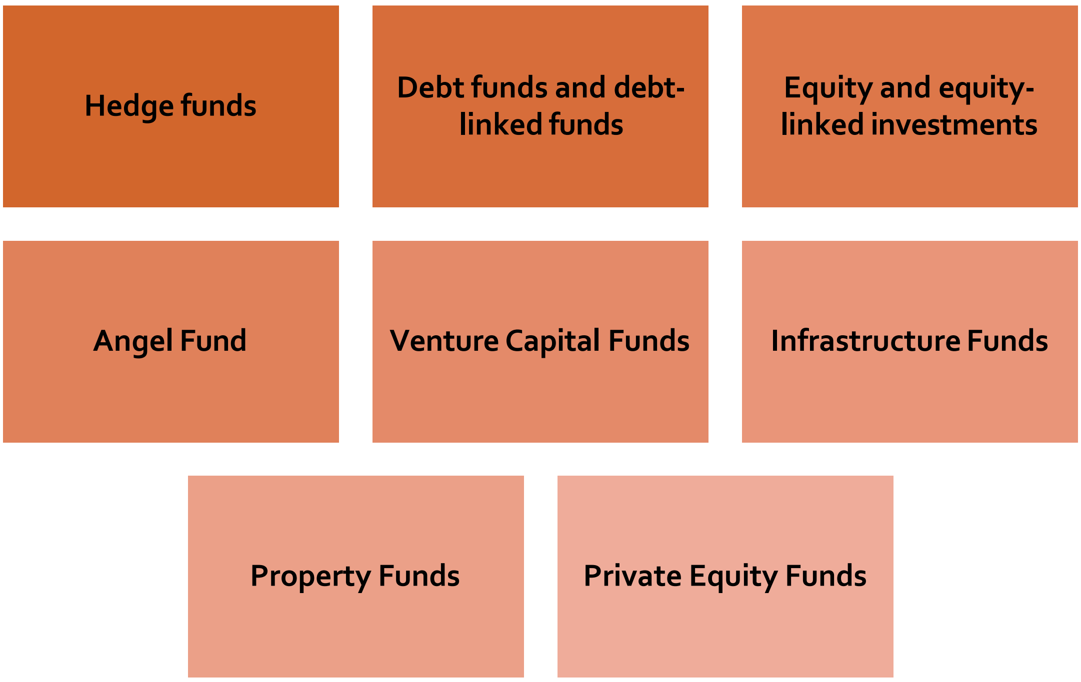
1.0 SPECIAL FEATURE: ALTERNATIVE INVESTMENT FUNDS (AIFS)

An alternative investment fund (AIF) is a type of collective investment where funds are raised from investors with a view to investing them according to a defined investment policy. This type of investment requires a substantial investment, and therefore, the most common investors are institutions and high-net-worth.

The Capital Markets (Alternative Investment Funds) Regulations, 2023 defines an alternative Investment Fund as a Collective Investment Scheme (CIS) that privately pools funds from at least two but not more than one hundred investors in Kenya or outside Kenya to invest on, in accordance with the defined investment policy statement.

Different types of investment funds include debt and debt-linked funds, equity and equity-linked investments, hedge funds, property funds, infrastructure funds, venture capital, angel funds, and others.

Figure 1 Examples of Alternative Investment Funds



Benefits and Risks of Investing in AIFs

Like any other form of investment, investing in Alternative Investment Funds attracts benefits and risks. The first benefit is that such financial instruments have the potential to give the investor high returns in comparison to other investment options. The high amounts of pooled funds allow fund managers to devise strategies to maximize returns. Secondly, AIFs have exceptionally low volatility compared to the traditional equity market. This product is, therefore, attractive to risk-averse investors who are usually looking for stability.

Further, this product also allows investors to diversify their investment portfolios thereby acting as a cushion during a financial crisis or when the market is highly volatile. Finally, some alternative investments, such as commodities and real estate, act as a hedge against inflation. This is because their values tend to rise in periods of inflation, thus providing a potential safeguard for investors' purchasing power.

On the other hand, there are risks associated with investing in an Alternative Investment Fund. First, the liquidity level of the AIFs is extremely low. This means that it is not easy for investors to either buy or sell. For instance, some products such as private equity, venture capital, and certain hedge funds have lock-in periods, thus making it challenging for investors to access invested funds before a specific timeframe.

Second, some AIFs, particularly those tied to commodities and hedge funds, experience higher volatility compared to traditional assets. Market fluctuations, geo-political events, and other factors can significantly impact their value, thus potentially resulting in significant gains or losses. Finally, Alternative investments often involve complex structures and strategies, which makes it challenging for individual investors to understand their nuances fully. Moreover, reliable information about alternative investments may be limited compared to publicly traded assets, thus making due diligence and decision-making more challenging.

Structure of the Capital Markets (Alternative Investment Funds) Regulation 2023

The Capital Markets (Alternative Investment Funds) Regulation 2023 provides for and regulates the private pooling of funds from Kenyan investors for funds established in Kenya. The Regulations are arranged into eight parts that broadly cover areas including requirements for approval of the Alternative Investment Funds, investment conditions and restrictions, general obligations and responsibilities and transparency, inspections, and regulations procedures for action in case of default. Below is a summary of key areas covered by the regulations.

i. Approval of Alternative Investment Funds

The regulations stipulate that any entity intending to operate an Alternative Investment Fund (AIF) must obtain approval from the Capital Markets Authority (CMA). Fund Managers can apply for approval to operate various types of AIFs, including debt funds, hedge funds, property funds, and infrastructure funds, among others, with associated application and regulatory fees of Ksh 10,000 and Ksh 250,000, respectively. AIFs are barred from public solicitation for securities subscriptions, and eligibility criteria mandate fit and proper directors, trustees, or partners, as well as an experienced investment team and adequate infrastructure. Upon approval, an AIF must provide clear details on investment objectives, targeted investors, scheme assets, and tenure. Certain entities, such as family trusts and employee participation schemes, are exempt from AIF classification. Furthermore, pooling by members of clubs or associations, under certain conditions, does not constitute an AIF. Fund managers are restricted from engaging in activities beyond those permitted under the regulations.

ii. Investment Conditions

The fund manager is responsible for ensuring that each fund it manages provides detailed information on investment strategy, purpose, and methodology to investors through a placement memorandum. Any significant changes to the fund's strategy require approval from at least two-thirds of participating interest holders. Investors must commit a minimum of Ksh 1,000,000, maintained throughout the investment's duration, with a maximum of one hundred investors per fund, solicited solely through private placement. General obligations include policy development and review, custodian appointment, complaint resolution, and compliance with duties, with full disclosure of conflicts of interest to participants. Transparency is crucial, with disclosure of all managed funds' information to investors, and valuation processes must adhere to specified policies, procedures, and methodologies, including quarterly net asset value calculations, annual independent valuations, and reporting to the regulatory authority and participants.

iii. Inspection

The Capital Markets Authority has the power to inspect the fund's business either on an ad-hoc basis or on notice. In a case where the Authority finds a material breach of the Act or regulation after inspection, CMA can give the fund manager, its trustees, board of directors or partners, and custodians an opportunity to be heard and can issue a direction as it deems fit in the interest of the market.

iv. Temporary Exemption from Operation of the Regulations

The Authority can exempt any person or class of person from the operation of all or any of the provisions of the AIF regulations for a period as may be specified but not exceeding twenty-four (24) months, for furthering innovation in the capital markets in a live environment of the regulatory sandbox in the securities markets. Any exemption granted by the Authority is subject to the applicant satisfying such conditions as may be specified by the Authority, including conditions to be complied with on a continuous basis.

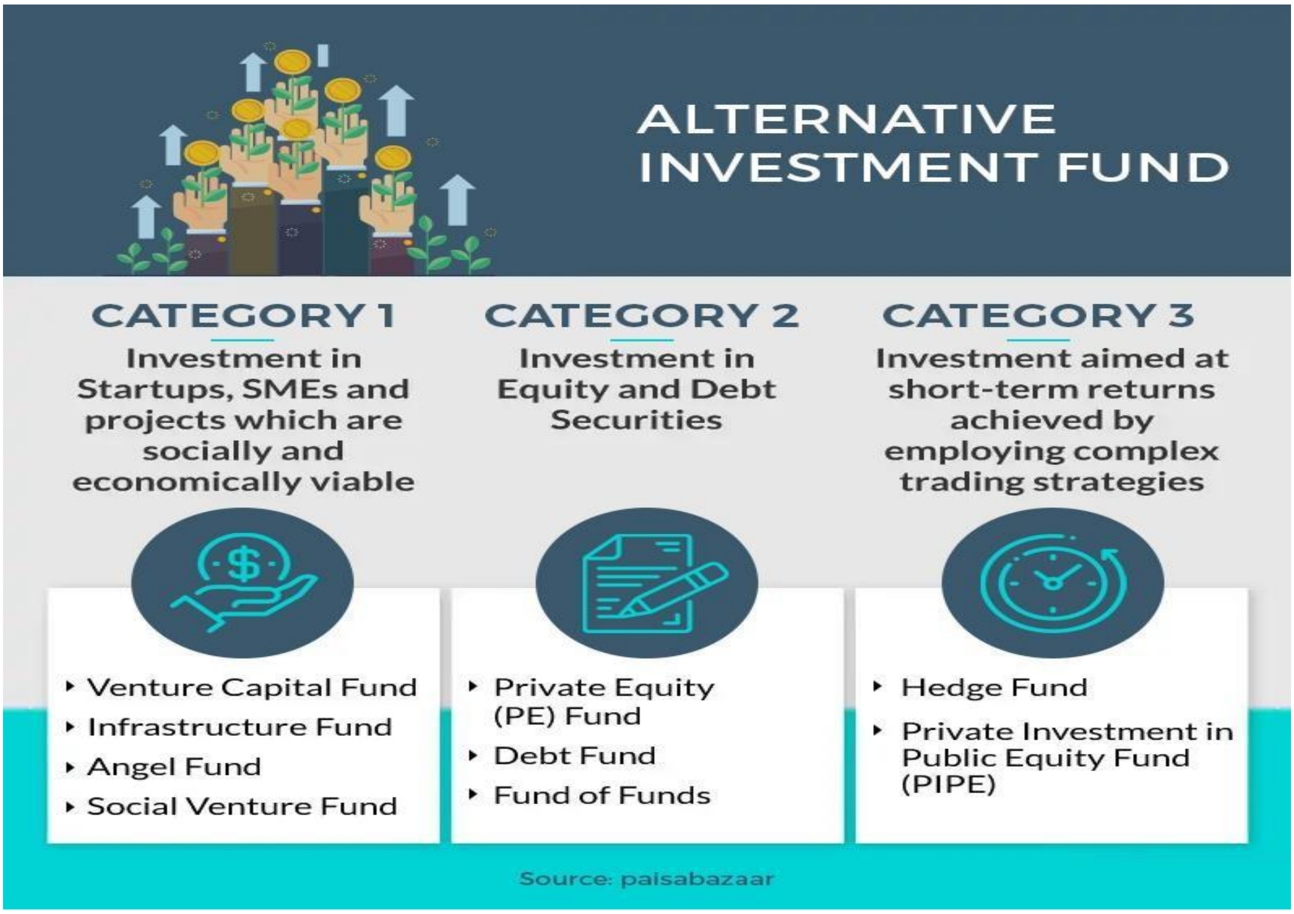
AIFs in other Jurisdictions

India, Nigeria, and Egypt are some of the markets that have well-established AIF markets.

a. India

In India, alternative investment funds refer to any privately pooled investment fund (whether from Indian or foreign sources) in the form of a trust, a company, a corporate body, or a limited liability partnership (LLP). AIFs are divided into three categories:

Figure 2AIFs in India



Source: palsabazaar

Category I: This category invests in Small and Medium Enterprises and start-ups. They also invest in other sectors the Government considers economically and socially feasible.

Category II includes private equity or debt funds for which the Government or any other Regulator gives no specific incentives or concessions.

Category III : Examples comprise hedge funds or funds engaging in short-term trading for immediate returns, along with other open-ended funds that receive no specific incentives or concessions from governmental or regulatory bodies.

Alternative Investment Funds (AIFs) have established a unique presence within India, drawing the interest of investors seeking portfolio diversification and unconventional avenues for growth. In F.Y. 2022-23, the AIF industry showcased a remarkable annual growth rate of 30%. Assets Under Management (AUM) surged from Rs. 6.41 lakh crore in March 2022 to Rs. 8.34 lakh crore[1] by March 2023. Category I funds, which focus on investing in start-ups and early-stage ventures, experienced a 10% growth, reaching Rs. 58,929 crores. Category II funds, focusing on real estate, private equity, and distressed assets, claimed the lion's share, experiencing a remarkable growth of 34% and reaching Rs. 6.94 lakh crore. Category III funds, which encompass hedge funds and intricate trading strategies, documented an annual surge of 18%, reaching a cumulative amount of Rs. 80,900 crores.

The AIF industry is expected to maintain a Compound Annual Growth Rate (CAGR) of 26%, establishing it as a pivotal player in India's investment domain. Projections indicate that the industry will increase to Rs. 43.64 lakh crore over the next five years, surpassing the growth of the mutual fund sector. Sustained regulatory backing, inventive fund approaches, and a vibrant economic milieu remain key remedies that contribute to India's positive outlook for AIFs.

b. Nigeria

AIFs remain an attractive form of investment for individuals and corporate investors who intend to increase their investment returns and diversify their portfolio. There are four major types of AIFs in Nigeria: private equity, private credit, hedge funds and real estate.

Private equity mainly involves institutional investors and wealthy individuals. These individuals engage in share buying or ownership of stakes in private companies which are not listed in a bourse. The subcategory of private equity includes venture capital growth equity and buyouts. Venture capital focuses on start-ups in their early stages. Growth equity invests in stable companies to restructure or help them expand, and Buyouts invests in purchasing public companies to make them private.

For private credit, non-bank institutions extend loans to businesses. These loans typically involve interest payments throughout the loan term, with the principal amount to be repaid at the end. In contrast to private equity, private credit investors do not acquire ownership stakes in the company. However, they may enforce specific obligations on the borrower as outlined in the loan agreement.

[1] I lakh crore is approximately Kshs 1.5 trillion as at March 2024

Hedge funds represent a specialised fund pool for trading short-term, relatively liquid assets, employing diverse investment strategies to optimise returns. Typical participants in hedge funds encompass entities like endowments, pension funds, mutual funds, and individuals with high net worth.

Finally, real estate investments encompass activities such as acquiring, managing, selling, or leasing properties such as land, buildings, and residential apartments. Although real estate differs from newer alternative assets, it stands out as a relatively low-risk investment option. It has the potential to yield recurring cash flow through rental income, often offering higher returns due to the appreciating value of real estate properties.

c. Egypt

The Executive Regulations of the Egyptian Capital Market Law (ECML) outline several types or categories of alternative funds that can be established in Egypt. These include open-end funds, closed-end funds, index funds, real estate investment funds, income funds, money market funds, charitable funds, and Sharia-compliant funds. All of these alternative funds are common and actively functioning within Egypt. These alternative funds exhibit unique characteristics, such as their prospectus or disclosure memorandum, target investor profiles, investment policies, and exit strategies.

Figure 3Sovereign Fund of Egypt (TSFE)

Source: https://tsfe.com/

Since 2008, AIFs have been one of the Egyptian economy's cornerstones. AIFs operating in Egypt employ a wide array of investment policies, patterns, models and sizes to encourage growth of both corporate and individual investors. Recently, the Egyptian State established its first sovereign fund, the Sovereign Fund of Egypt (TSFE), which is currently the largest alternative investment fund in Egypt. TSFE primary aim focus on sustainably developing the enormous state-owned assets and natural resources to maximise the growth of the value of such assets. The TSFE's primary strategy is to use the Egyptian state's utilised and unutilised assets to co-develop them with private investors to achieve high growth returns.

CMA Action Plan

The gazettement of the Alternative Investment Funds Regulations in Kenya serve as the first step towards growing the AIF industry in Kenya. The regulations allow for different structural innovations in the alternative investments space to finance property development and infrastructure projects. Importantly it brings fund that were previously deemed to be outside the regulatory purview of CMA into some form of oversight, while mitigating the risk of retail investors participating in complex fund structures.

CMA will commence, within the year, targeted awareness and capacity building sessions with potential players in the alternative investment space to support the structuring of such funds to meet Kenya's sovereign and corporate infrastructure needs.

2.0 INTERNATIONAL DEVELOPMENTS

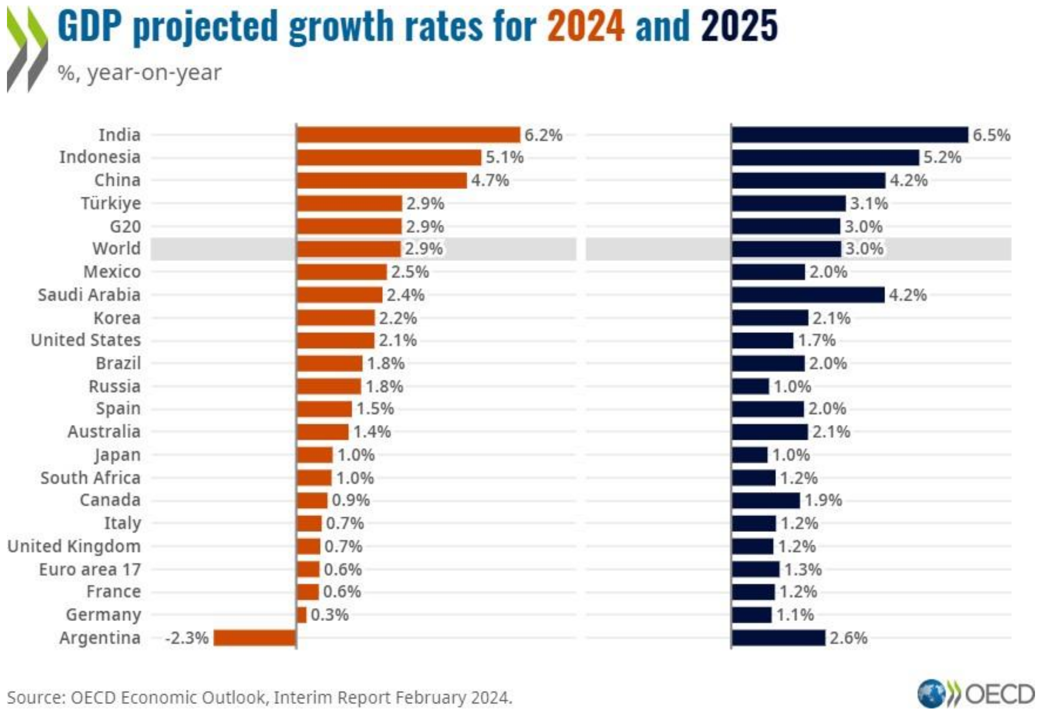
2.1 The Global Economic and Capital Market Performance Outlook

The global economy continued to show resilience especially following the disruptions occasioned by the ongoing and widening geo-political tensions. This is against the background of elevated inflation witnessed over the past two years coupled with tightening in global financing conditions.

In the quarter under review, the Organization for Economic Cooperation and Development (OECD) projected global GDP growth at 2.9 %, a decrease from 3.1% in 2023 with a recovery forecast in 2025 to 3.0%. Like 2023, Asia is expected to remain the main contributor to global growth in 2024 and 2025.

There are indications that Global economic growth may be slowing down a little bit, with global trade remaining subdued and the effects of tighter financial conditions still visible in the global housing and credit markets. Geo-political threats remain a major risk in light of the Middle East's continuous conflict and the worsening Russia-Ukraine crisis.

Figure 4GDP Growth Projections for 2024 and 2025



Source: OECD

The World Bank[2] projects Sub-Saharan Africa's GDP growth to accelerate to 3.8 percent in 2024 and increase further to 4.1 percent in 2025 on the back of easing of global financing conditions and declining inflationary pressures. The regions overall growth was however held back by declining economic growth in Nigeria, South Africa, and Angola.

Global Capital Markets Outlook

The fading of the post pandemic challenges and easing of global financing conditions seemed to have infused recovery in select capital markets across the globe. Notably, with the signaling that the United States Fed may pivot away from further rate cuts, investors remain wary of the impact of worsening geo-political tensions and the slow pace of easing interest rate cuts across the globe.

Countries that have continuously undertaken IPO reforms such as Japan and those with favorable IPO conditions will continue to foster significant activity into 2024. In the first quarter of 2024, 287 IPOs raised proceeds of 23.7 billion U.S. Dollars. This was a 7% drop from

[2] https://thedocs.worldbank.org/en/doc/661f109500bf58fa36a4a46eeace6786-0050012024/related/GEP- Jan-2024-Regional-Highlights-SSA.pdf

the first quarter of 2023, which registered 307 IPOs and a 7% increase in proceeds. Americas and EMEIA posted a rise in both the IPO number and proceeds, while Asia pacific posted a decline due to low liquidity, increased capital outflow and a 65% drop-in IPO activity in China.

Figure 52024 IPO Activity

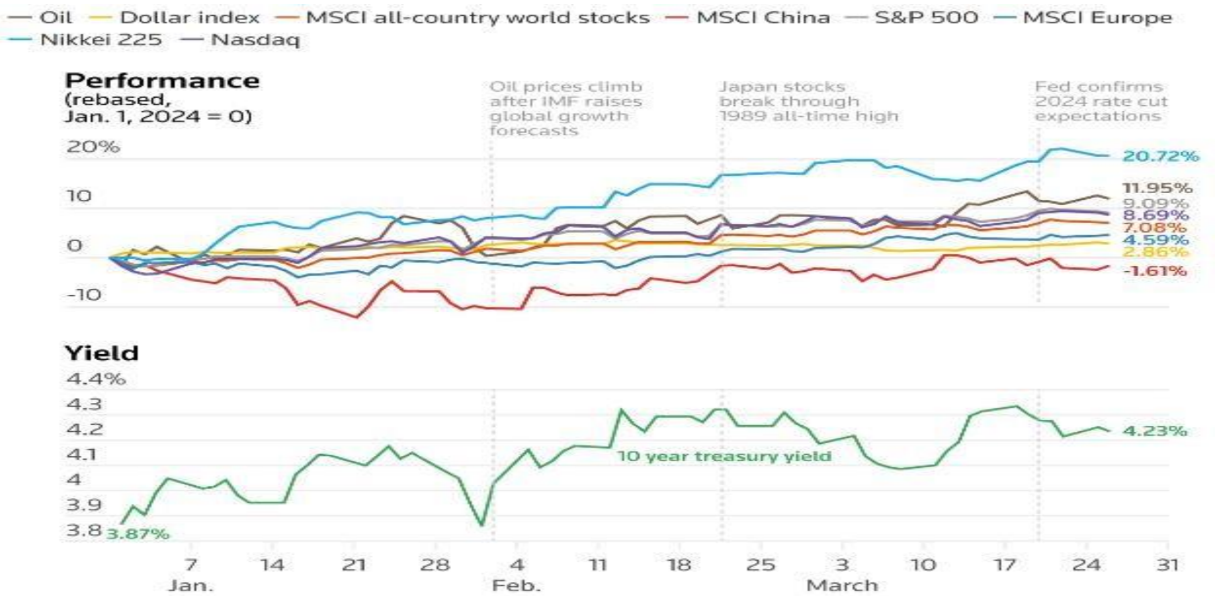
	Q1 2023		Q1 2024		% change	
	Number	Proceeds (US$b)	Number	Proceeds (US$b)	Number	Proceeds (US$b)
Global	307	22.1	287	23.7	-7%	7%
Americas	43	3.0	52	8.4	21%	178%
% of global	14%	14%	18%	36%		
Asia-Pacific	181	13.1	119	5.8	-34%	-56%
% of global	59%	59%	42%	24%		
EMEIA	83	6.0	116	9.5	40%	58%
% of global	27%	27%	40%	40%		

Source: Ernst and Young

Global Bond Markets

Uncertainty on the future timing and extent of rate cuts still looms large in the bond markets and will shape the resilience trajectory of global bond markets. The global bond markets nevertheless concluded the quarter on a positive note, with the 10-year Treasury yield increasing by 4.23%.

Figure 6Global Markets Performance in Q1 2024



Source: LSEG DataStream

The easing of inflationary pressure across the U.S. and global economies is expected to result in a pause in central bank monetary policy tightening, which in return is expected to improve the performance of both the equity and bond market over time.

The era of negative yielding bonds seems to have come to a halt in 2024, with sustained monetary tightening in the wake of inflation continuing to be sticky.

Figure 7Negative Yielding Bonds

Source: BlackRock Investment Institute, with data from Bloomberg, March 2024.

Global Equity Markets

Global equity markets registered a decline in returns, with the MSCI World Index recording a positive return of 8.88 % and the Emerging Market Index recording a return of 2.37 %, in United States Dollar terms, on a year-to-date basis. The global equity market expects further fluctuations following a period of alternating between optimism and pessimism regarding potential interest rate adjustments by major central banks.

Figure 8MSCI World Index

ANNUAL PERFORMANCE (%)

Year	MSCI Emerging Markets	MSCI ACWI	MSCI World
2023	9.83	22.20	23.79
2022	-20.09	-18.36	-18.14
2021	-2.54	18.54	21.82
2020	18.31	16.25	15.90
2019	18.42	26.60	27.67
2018	-14.57	-9.41	-8.71
2017	37.28	23.97	22.40
2016	11.19	7.86	7.51
2015	-14.92	-2.36	-0.87
2014	-2.19	4.16	4.94
2013	-2.60	22.80	26.68
2012	18.22	16.13	15.83
2011	-18.42	-7.35	-5.54
2010	18.88	12.67	11.76

INDEX PERFORMANCE — NET RETURNS (%) (MAR 29, 2024)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 29, 2000
MSCI Emerging Markets	2.48	2.37	8.15	2.37	-5.05	2.22	2.95	7.57
MSCI ACWI	3.14	8.20	23.22	8.20	6.96	10.92	8.66	6.36
MSCI World	3.21	8.88	25.11	8.88	8.60	12.07	9.39	6.50

FUNDAMENTALS (MAR 29, 2024)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Emerging Markets	2.83	15.61	12.13	1.71
MSCI ACWI	1.92	21.11	17.77	3.07
MSCI World	1.82	21.97	18.72	3.36

INDEX RISK AND RETURN CHARACTERISTICS (MAR 29, 2024)

		ANNUALIZED STD DEV (%) [2]			SHARPE RATIO [2,3]				MAXIMUM DRAWDOWN	
	Turnover (%) [1]	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since Dec 29, 2000	(%)	Period YYYY-MM-DD
MSCI Emerging Markets	6.15	17.76	19.05	17.18	-0.35	0.10	0.17	0.37	65.25	2007-10-29—2008-10-27
MSCI ACWI	2.57	16.62	17.74	14.74	0.33	0.56	0.54	0.36	58.38	2007-10-31—2009-03-09
MSCI World	2.29	17.04	18.07	14.91	0.42	0.61	0.58	0.37	57.82	2007-10-31—2009-03-09

[1] Last 12 months [2] Based on monthly net returns data [3] Based on NY FED Overnight SOFR from Sep 1 2021 & on ICE LIBOR 1M prior that date

Source: MSCI

2.2 Performance of Select African Markets

A number of sub-Saharan African countries are likely to remain at high risk of debt distress into 2024. Chad, Zambia, Ghana, and Ethiopia have already sought debt restructuring under the G-20 common framework. With the easing of global financing conditions, a number of African countries are looking to return to international capital markets. Côte D'Ivoire successfully raised USD 2.6 billion through two bonds with in its first return to the international Eurobonds. Lower inflation and eventually softer interest rates will support overall economic activity in sub-Saharan Africa in 2024.

Select equity markets in Africa registered positive returns during the quarter under review, with only Nigeria and Zimbabwe registering negative returns.

Table 1Performance Across Select African Markets- MSCI (Market Standard (Price) as of April 01, 2024)

MSCI Index	Last	Day	MTD	3MTD	YTD
Kenya	854.155	0.00%	0.00%	55.09%	54.45%
Morocco	274.249	0.06%	0.06%	3.24%	4.21%
Nigeria	44.195	0.23%	0.23%	65.93%	63.53%
Senegal	755.430	0.51%	0.51%	4.15%	3.17%
Tunisia	767.632	0.08%	0.08%	8.03%	3.14%
Zimbabwe	1089.965	1.69%	1.69%	25.97%	41.96%

Source: MSCI

2.3 Top Global Risks and Opportunities During the Quarter

Key Risks Identified

1. ***Uncertainty on the future outlook of rate cuts could lead to investors taking a cautious investment approach, dampening the sustained recovery of global capital markets;***
2. ***The escalating geo-political tensions especially in the Middle East and the worsening Russia-Ukraine crisis continue to undermine global economy recovery prospects and could potentially lead to sustained tightening of global financing conditions in 2024 to curb inflation;***
3. ***Climate change remains a key risk, with the frequency and intensity of floods and drought posing effects on Kenya's economic recovery post-COVID-19;***
4. ***The cost-of-living crisis remains an issue of concern arising from a persistent inflationary environment across the globe, squeezing low- and middle-income households' budgets, which would affect retail investors' investment into the capital markets.***

Key Opportunities

1. ***Kenya's successful issuance of a USD1.5billion Eurobond (supported by a high-quality order book exceeding USD 6 billion) has infused confidence in Kenya's capital***

markets given the macro-stability outlook leading to the return of foreign investors to the Nairobi Bourse. This will support the capital markets market deepening efforts and performance.

2. ***The National Government's proactive stance in undertaking initiatives to tackle climate change and support the raising of climate finance has served to encourage corporates to evaluate their climate commitments and express interest in raising green finance via the capital markets. It further plans to issue a Sovereign Sustainability-Linked Bond in the near future.***

3.0 INTERNATIONAL DEVELOPMENTS

3.1 FCA to Improve Pace and Transparency Around Enforcement Cases

During the quarter, the U.K. Financial Conduct Authority committed to carry out enforcement cases more quickly. The commitment is intended to increase the deterrent impact of its enforcement actions. In the future, FCA will focus on a streamlined portfolio of cases aligned to its strategic priorities where it can deliver the most significant impact. Additionally, the FCA will close cases where no outcome is achievable more quickly.

The new approach has commenced through consultations on plans to enhance transparency once an enforcement investigation is opened. FCA will publish updates on investigations as appropriate and be open about when cases have been closed with no enforcement outcome. The increased transparency is expected to enhance public confidence and drive greater accountability for FCA as an enforcement agency.

Figure 9Financial Conduct Authority

Source: Shutterstock

Any decision to announce an investigation will be made on a case-by-case basis and will depend on a variety of factors that will indicate whether to do so is in the public interest. These include whether the announcement will protect and enhance the integrity of the U.K. financial system, reassure the public the FCA is taking appropriate action, or assist in any investigations.

In this regard, the FCA has requested comments through a consultation paper CP24/2 from firms that fall within FCA's regulatory oversight and who may be subject to an enforcement investigation, whether authorised or registered with FCA, or who will be carrying out designated activities, as well as individuals working in these firms' consumer and investor groups and individual consumers and investors industry groups, trade bodies, experts and commentators, and other regulatory bodies.

CMA Take Away

Enhancing transparency in enforcement investigations and outcomes can enhance public confidence in the regulatory process. Regular updates on investigations and disclosure of closed cases without enforcement outcomes can promote accountability and trust in regulatory agencies. CMA-Kenya will undertake an internal review on its turnaround

statistics with a view to prioritise enhancing the handling of enforcement cases by publishing its commitment on timelines in taking enforcement actions.

3.2 SC Malaysia Seeks Feedback on Draft of Governance Code for MSMEs

The Securities Commission Malaysia (S.C.) issued a draft of the Governance Code for Malaysian MSMEs for public consultations. MSMEs form the backbone of the Malaysian economy and contribute significantly towards sustaining the livelihoods of millions throughout Malaysia.

Malaysia has a low market concentration index where the market is not dominated by a small number of firms, with the nation dispersing its trade activities across multiple markets, including large global economies, positioning the nation well in the worldwide supply chain. Considering the significance of MSMEs to the nation's socio and economic well-being and its exposure to countries with progressive sustainability agendas, it is imperative to ensure that they are resilient and that businesses are conducted in a responsible and sustainable manner.

Figure 10Governance Code for Malaysian MSMEs

Source: https://www.micg.org.my/advocacy/msmecode/

The Governance Code for Malaysian MSMEs (Code) has been developed to guide MSMEs in enhancing governance within the business ecosystem. This Code plays a pivotal role in sustaining the operation of companies, facilitating effective management of MSMEs, and amplifying the roles and contributions of MSMEs in nation-building. The Code is aimed at improving the business continuity and resilience of MSMEs.

The Code also provides recommendations regarding best practices that MSMEs are strongly encouraged to adopt. Companies may adjust the implementation of these recommended best practices according to their specific circumstances and needs. The Code was developed considering global and local practices, principles, and recommendations. It is a precursor to the Malaysian Code on Corporate Governance (MCCG) and would also be a crucial stepping stone, particularly for enterprise companies to progress towards adopting the MCCG. This Code aligns with the ESG Quick Guide by SME Corporation Malaysia. It provides a practical approach for companies to disclose their practices, aligning with the guidelines outlined in the Simplified ESG Disclosure Guide by Capital Market Malaysia.

Key Takeaways

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Kenya's economy, contributing significantly to economic growth, employment generation, poverty reduction, and innovation. The capital markets industry can benefit from implementing a Governance Code tailored for MSMEs given that the Public Offers regulations now allow SMEs to raise financing from the capital markets.

CMA Kenya will review the Governance Code for Malaysian MSMEs (Code)with a view to borrow some insides as it develops MSMEs focused Code for the Kenya market.

3.3 United Kingdom's FCA updates position on crypto asset Exchange Traded Notes for professional investors.

Figure 11FCA Image

Source: fca.org

The Financial Conduct Authority (FCA) affirmed that it does not oppose the establishment of a market segment for crypto asset-backed Exchange Traded Notes (cETNs) on the U.K. stock exchange. These ETNs are designed solely for use by accredited investment firms and credit institutions involved in the financial markets. Exchanges must, however, continue to implement sufficient restrictions to guarantee orderly trade and give professional investors the right kind of protection. All UK Listing Regime rules, including those pertaining to prospectuses and continuing disclosure, must be followed by cETNs.

Exchanges and professional investors can now better determine if cETNs match their risk appetite because of the accumulation of more trading history and data. Still, the FCA refuses to shunt from its position that cETNs and cryptocurrency derivatives are inappropriate for retail customers, upholding the prohibition on selling to them. Investors are warned to be ready for the prospect of losing all of their invested capital, emphasising the high-risk character of crypto assets. The FCA also emphasises its cooperative efforts with the Government, foreign partners, and industry players to create the U.K.'s regulatory framework for crypto assets and to establish worldwide standards in this developing field.

Application forms for listing cryptocurrency Exchange Traded Notes (cETNs) on professional-only market segments from U.K. Recognized Investment Exchanges (RIEs) will be evaluated by the FCA individually using the listing rules. RIEs require professional investors to have restricted access to safeguard investors and maintain orderly trade. They also recognise and address the dangers of trading instruments linked to cryptocurrencies. Professional investors such as licensed investment businesses or credit institutions are the market sectors' primary target.

Lesson

CMA remains cognizant of the notable shift in regulatory stance towards crypto assets, particularly in institutional investment products, and acknowledges the growing interest and demand for exposure to crypto assets within the capital markets.

By closely monitoring and learning from the FCA's regulatory approach to cETNs, CMA Kenya is keen to enhance its regulatory capabilities to support the development of a robust and innovative market for crypto assets in Kenya.

3.4 US Securities and Exchange Commission (SEC) Adopts Rules to Enhance Investor Protections Relating to SPACs, Shell Companies, and Projections

The Securities and Exchange Commission (SEC) enacted new rules and modifications to strengthen disclosures and protect investors taking part in special purpose acquisition companies (SPACs), initial public offerings (IPOs), and subsequent business combination transactions (also referred to as de-SPAC transactions) between SPACs and target companies. Given the complex nature of these transactions, the Commission seeks to improve investor protection by requiring proper disclosure and appropriate use of projections. These rules also address more general worries about blank checks and shell corporations related to investor protection.

Figure 12SPACS Listing

Source: Citizen Digital

SPAC, IPO, and de-SPAC transaction investors require additional disclosures on dilution, compensation for SPAC sponsors, and other important information that has been legislated. Registrants must also provide additional information about the target firm to help investors make informed voting and investment decisions in conjunction with de-SPAC transactions. The target company must sign registration statements filed by a shell company or SPAC, accepting responsibility for the disclosures made in those statements and bringing the required disclosures and legal obligations more in line with those in traditional initial public offerings (IPOs) to comply with these regulations.

The regulations also bar some blank check companies, including SPACs, from making use of the 1995 Private Securities Litigation Reform Act's safe harbor for forward-looking statements. Additionally, the regulations impose projection-related disclosure requirements, including disclosing all relevant assumptions and the basis for the forecasts. Furthermore, the guidelines for applying forecasts in all SEC filings have been expanded and updated.

Highlights of the Rules

A number of significant steps have been taken to improve transparency and protect investors in SPAC IPOs and de-SPAC transactions by the enacted guidelines. In IPOs and de-SPAC transactions, SPACs need to improve disclosures by giving thorough information about sponsors, affiliations, compensation arrangements, and potential conflicts of interest to provide investors with a better knowledge of SPAC structures, risks, and potential advantages through increased transparency.

The target company in a de-SPAC transaction must also become a co-registrant with the SPAC to be liable for disclosures made in the de-SPAC registration statement. As a result, the directors and officers of the target company may be held liable for substantial misstatements or omissions under Section 11 of the Securities Act.

Every business combination involving a reporting shell company, including SPACs and a non-shell organisation, is treated as a securities sale under the Securities Act and requires Securities Act registration unless otherwise exempt due to the implementation of Rule 145a. There are also new financial statement standards for deals using shell companies and private operating businesses that align with those of typical initial public offerings (IPOs) to improve transparency and safeguard investors.

With regard to Enhanced Projections Disclosure, modifications to the definition of blank check company restrict the Private Securities Litigation Reform Act liability for projections and other forward-looking statements made in filings made by SPACs and specific other blank check companies. Projected disclosure must include information regarding the material basis and underlying assumptions of the forecasts in order to give investors the transparency they need to make educated investment decisions.

Recommendation

In line with global trend in public issuance, the recently gazetted Capital Markets (Public, Offers, Listings and Disclosures Regulations 2023, already provides detailed eligibility requirements and disclosures for SPACS. Given the complexity of SPAC IPOs and de-SPAC transactions processes and structures, CMA will continue to build capacity through its peer regulators that are already oversighting this product including Malaysia and Egypt as it focuses on sensitizing industry players on opportunities that are there for fundraising using SPACs.

4.0 REGIONAL DEVELOPMENTS

4.1 The Egyptian Exchange (EGX) Launches New Market for Voluntarily Delisted Companies

As part of EGX's development strategy, the bourse has plans underway to launch a new market, 'Tanmeya'. Some of the characteristics of the new market include(i) trading rules based on the issuer company's request; (ii) companies can list on this market directly, especially those that were delisted involuntarily. This will make it easier for the interested parties to exit; and (iii) the market will have special regulations such as auction method weekly trading days, maximum quantities and values of operations based on a percentage of the issued shares and a fixed value of transactions.

Figure 13EGX

MARKETS

EGX launches new market 'Tanmeya' for voluntarily delisted companies

This initiative is part of the EGX's development strategy

Staff Writer, Daily News Egypt

Source: Dailynews Egypt

EGX plans to engage with major companies' major shareholders to urge them to offer more shares. This is expected to boost liquidity and trading in these companies' shares and help them raise funds through EGX for future expansion. Additionally, EGX will engage with the Financial Regulatory Authority to revise the regulations for offering previously listed companies.

EGX will collaborate with the Financial Regulatory Authority (FRA) to review regulations concerning offerings, particularly focusing on private placements and additional offerings by catering to eligible clients, fostering competition and expanding customer outreach through broader brokerage participation through an increased number of brokers.

EGX, in conjunction with FRA and the Ministry of Finance, is exploring the feasibility of providing tax advantages and incentives for a defined duration following companies' offerings. These companies are anticipated to allocate at least 20% of their capital for public trading on the EGX. Additionally, tax benefits will extend to companies that finalise their offerings, engage in export activities, or develop import substitutes. By listing and trading these companies' shares on the EGX, they stand to enhance their access to affordable financing, facilitating their growth and expansion in production capabilities.

Key Takeaways

'Tanmeya' encourages major shareholders to offer additional shares, enabling portfolio diversification and potential gains from future expansions funded through the EGX, aligning with EGX's strategy for development and creating a more appealing investment arena. The introduction of a Recovery Board under the Public Offers Regulations 2023 will

be crucial to support entities which cannot meet the continuous listing rules of the Nairobi bourse to continue traded with restricted conditions. While expectations are that companies placed under the Recovery Board will recover and transfer to the Main and SME Boards of Exchanges, Management will explore the innovation of the EGX as an option for investors should the companies they have invested in, be ultimately be delisted.

4.2 Egypt targets raising USD6.5B from IPO program by end-2024

Egypt intends to raise USD 6.5 billion through its IPO program in 2024. It has resolved to create long-term financial structures that will provide social security to those who are not as fortunate. Started in March of last year, the IPO program provides shares of state ownership in about forty banks and firms that cover 18 different sectors. The program has been extended until December 2024 from its original conclusion date of March 2024. It fits with Egypt's plan to depart seven industries, such as building, chemicals, and pharmaceuticals, to increase private sector participation in the economy and forward structural changes that will promote economic expansion and recovery. In the near future, Egypt wants to increase private sector involvement in governmental investments by 65%.

The IPO program offers a big potential to draw in foreign investors and capital, especially in light of the country's scarcity of foreign currency in the face of a difficult economic environment. Egypt has concentrated on enacting financial policies designed to increase exports and production. These policies include monetary and investment incentives for strategically important and globally competitive sectors.

Lesson

Management continues to strongly advocate for privatization of a few large, viable State-Owned Enterprises (SOEs) through the capital markets, to catalyse capital mobilization, attracting capital raising by the private sector and promoting corporate governance, among other benefits. Reforms already undertaken through gazettement of the POLD and Collective Investment Schemes (CIS) regulations, will make such privatizations more attractive to both issuers and investors.

5.0 LOCAL DEVELOPMENTS

CMA Licensing Updates

5.1 CMA Licenses Real Estate Investment Trust (REIT) Trustee

During the quarter, the Capital Markets Authority licensed NCBA Bank Kenya to operate as a Real Estate Investment Trust (REIT) Trustee. NCBA Bank Kenya PLC is expected to support investments in the real estate sector, contributing to the growth of the economy and the Affordable Housing Initiative. A trustee, licensed by the CMA, is a corporation or company designated under a trust deed to manage Real Estate assets on behalf of REIT investors. The trustee performs a crucial function by evaluating the viability of investment proposals from the REIT Manager and ensuring that scheme assets are allocated in accordance with the Trust Deed. Currently, the REIT trustees in Kenya include Kenya Commercial Bank (KCB), Cooperative Bank (Coop), and Housing Finance Bank. The issuance of the license is in line with the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013; the Capital Markets (Corporate Governance) (Market Intermediaries) Regulations, 2011; and any other applicable Regulations.

5.2 Admission of Frictionless Enterprises Limited to the Regulatory Sandbox

Frictionless Enterprises Limited was accepted into the Capital Markets Authority's (CMA) regulatory sandbox as part of the CMA's commitment to supporting the development of the financial technology (fintech) sector by facilitating its solutions. Frictionless Enterprises is getting ready to launch the Power I.O. App as a pilot project with the aim of streamlining labour investments. Employees can effortlessly communicate with their employers or gig platforms via this app, scheduling investments straight out of their paychecks. Users choose whatever portion of their pay to put into a money market fund, and employers or gig platforms automatically withdraw the appropriate amount from the user's paycheck and deposit it into the investment fund of their choice. **E**mployees can choose how often to contribute, allowing them to increase their savings and reduce their tendency toward careless buying. The trial, carried out in cooperation with Sanlam East Africa Investment Limited, which served as the fund manager, highlights a dedication to regulatory compliance by following the Capital Markets Authority's (CMA) Sandbox Policy Guidance Notes.

5.3 CMA licenses VCG Asset Management Limited as a Fund Manager

Under the terms of Kenyan law's Capital Markets Act Cap 485 A and its implementing rules, the Capital Markets Authority (CMA) awarded VCG Asset Management Limited a fund manager's license. With this, VCG Asset Management Limited reaches a major milestone in the financial industry and increases the total number of fund managers licensed by CMA to 41. As more players enter the market, it becomes more noticeable that Kenyan investors are hiring experts to manage their portfolios to get the most out of all the different asset classes.

CMA conducted a thorough assessment of VCG Asset Management Limited's compliance with regulatory standards through an evaluation of the company's organisational structure, governance practices, risk management framework, financial resource requirements and adherence to regulatory requirements. By granting the license, CMA is signalling its confidence in VCG's ability to operate in accordance with applicable laws and regulations.

The VCG Asset Management Limited licensing provides investors with additional choices when selecting a fund manager. This increased competition may lead to a broader range of investment options, catering to diverse investor preferences and risk profiles. Moreover, it may improve access to specialised investment strategies or niche markets that were previously underserved.

As a licensed fund manager, VCG Asset Management Limited will be subject to ongoing regulatory supervision and oversight by CMA to ensure that the company maintains compliance with regulatory requirements, fulfils its fiduciary duties to investors, and upholds the highest standards of conduct. The regulatory framework serves as a mechanism for accountability, where non-compliance or misconduct can result in disciplinary action or license revocation.

Stability Implication

This development signifies CMA's commitment to support the national development agenda in line with its market deepening objectives. It underscores the Board's commitment to fast-track intermediation services of market players in the interest of market development. The challenge to licensees is to be more aggressive in marketing products and services so that the current trend of improvement of market performance is maintained.

5.4 Measures that Kenya and the Capital Markets is Undertaking to be removed from the 'Grey list' by the Finance Action Task Force (FATF)

During the fifth plenary meeting in Paris, the Finance Action Task Force (FATF) included Kenya in its grey list. FATF identified key inefficiencies, which included ineffective measures and strategies to identify and address risks related to terrorism, such as financing cryptocurrency and other virtual assets and trust and non-profit organisations. FATF highlighted Kenya's ineffectiveness in prosecuting money laundering and economic crime cases.

The grey listing is expected to have negative impacts in Kenya, including tainting of the country's reputation, a decrease in investor confidence resulting in the capital outflow, an increase in scrutiny for financial institutions by foreign banks and an increase in the cost of doing business. However, the National Government is adopting some initiatives that are expected to take to ensure removal from the grey list, including;

i. Completing a Terrorism Financing (T.F.) risk assessment covering the broad range of T.F. residual and emerging risks.
ii. Producing guidance, compiling, and presenting the results of the National Risk Assessment (NRA) and other risk assessments in a consistent manner and, using this guidance, conduct sensitisation activities for competent authorities and the private sector.
iii. Updating the national Anti-Money Laundering/ Countering Financing of Terrorism (AML/CFT) strategies in line with the identified ML/TF risks, including emerging risk areas, and commence initial implementation through detailed action plans.
iv. Improving risk-based supervision by:
    1. Strengthening the human, technical and financial resource capacities of the AML/CFT supervisory authorities including training of staff.
    2. Implementing risk-based supervision of non-banking Financial Institutions (F.I.s) and Designated Non-Financial Businesses and Persons (DNFBPs) by conducting risk-based offsite and onsite inspections.

3. Applying effective, proportionate, and dissuasive sanctions for breaches of AML/CFT obligations by F.I.s and DNFBPs and following-up to ensure remedial actions are taken by the sanctioned entities.
4. Adopting a legal framework for the licensing and supervision of Virtual Assets Service Providers (VASPs).

v. Enhancing the understanding of preventive measures of F.I.s and DNFBPs through outreach and provision of guidance by following a risk-based approach, with a focus on:
1. Obligations related to Customer Due Diligence (CDD), Enhanced Due Diligence (EDD), Beneficial Ownership (B.O.) and Politically Exposed Persons (PEPs);
2. Increasing the number and quality of Suspicious Transaction Reports filed by F.I.s and DNFBPs consistent with their institutional risk profiles;
3. Increasing effective implementation of targeted financial sanctions related to T.F. and Proliferation Financing (P.F.) without delay.

vi. Designating an authority and provide it with appropriate capacity, skills and resources (human, financial and technical) to regulate legal arrangements including collecting and making available to Law Enforcement Agencies (LEAs) adequate, accurate and up-to-date B.O. information in a timely manner. This should include the establishment of an appropriate sanction's regime.

vii. Applying remedial actions and/or dissuasive, proportionate, and effective sanctions against breaches of compliance with the basic and B.O. transparency requirements for legal persons and arrangements consistent with Kenya's risk profile.

viii. Providing adequate resources and demonstrate, through case studies and statistics, a sustained increase in investigations, including identification and tracing of proceeds and instrumentalities of crime, and prosecutions, of different types of Money Laundering (ML) cases consistent with Kenya's ML risk profile.

ix. Demonstrating, through case studies and statistics, a sustained increase in effective investigations and prosecutions of different types of T.F. activities consistent with Kenya's T.F. risk profile.

x. Enhancing interagency cooperation on T.F. investigations at the border including through the use of joint investigation teams.

xi. Demonstrating effective implementation of P.F. and T.F. Targeted Financial Sanctions (TFS) regime without delay and prior notice.

xii. Revising the framework for Non-Profit Organizations (NPOs) regulation and oversight, informed by the results of the NPO TF risk assessment, to ensure that applicable measures are focused and proportionate, and do not disrupt or discourage legitimate NPO activity. Ensure that the NGO Board is adequately resourced to conduct its mission.

CMAs Action Plan

The recent enactment of the Anti-Money Laundering and Combating of Terrorism Financing Laws (amendment) Bill 2023 will help CMA Kenya to enhance its AML oversight functions to support Kenya's standing as a reputable jurisdiction in regard to adopting the Financial Action Task Force recommendations on enhancing its AML compliance regime.

5.6 The Capital Markets Authority holds the ISSB workshop in conjunction with NSE, ICPAK, and IFRS

During the quarter, CMA in conjunction with the Institute of Certified Public Accountants of Kenya (ICPAK), Nairobi Securities Exchange (NSE) and International Financial Reporting Standards (IFRS) held an International Sustainability Standards Board (ISSB) workshop. The workshop aimed to address the adoption and implementation of the ISSB Guidelines within Kenya Financial sector.

The engagement emphasised on the importance of strategic alignment in sustainability reporting, highlighting innovation, resilience, and adaptation to evolving stakeholder needs. Other key areas of discussion included; global harmonisation in sustainability practices enabling international capital flows and the role of integrated reporting in informed decision-making; Identification of climate risks and opportunities, emphasising the need for proactive measures to address environmental challenges.

The Institute of Certified Public Accountants of Kenya together with its stakeholders Nairobi Securities Exchange PLC, Capital Markets Authority, Public Sector Accounting Standards Board: Kenya (PSASB), and International Sustainability Standards Board paid a courtesy call to the President of the Republic of Kenya H.E Dr. William Ruto to discuss sustainable development goals, how to attract investments, and ensure the prosperity of future generations.

Figure 14Meeting with President of the Republic of Kenya H.E Dr. William Ruto

Source: ICPAK

Speaking during the meeting, H.E Dr. Ruto hailed ICPAK for its underpinning role in sustainable finance and reporting for the effects of climate change through the reinforced collaborative efforts with CMA & NSE on joint adoption of the new standards - IFRS S1 & S2 that were issued by International Sustainability Standards Board (ISSB).

Action Plan

The ISSB workshop provided a unique opportunity to deepen understanding of key Kenyan considerations and reinforce existing relationships with policymakers, regulators, and industry stakeholders.

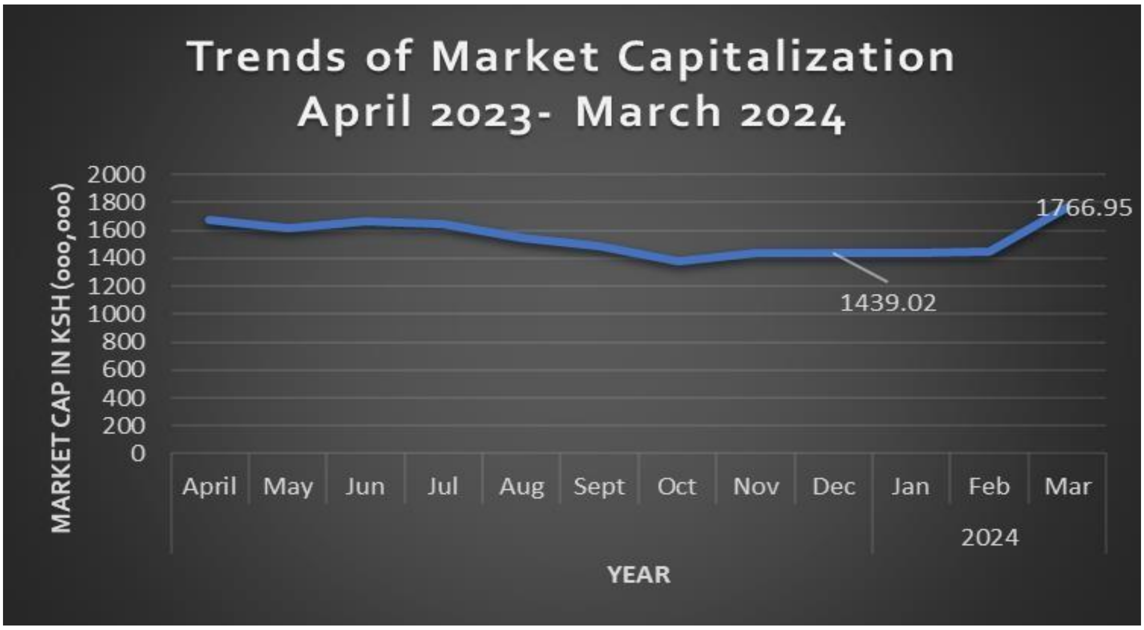
CMA Kenya and ICPAK are keen to collaborate to encourage the adoption of the ISSB guidelines, which include establishing a multi-stakeholder task force to facilitate ongoing dialogue and collaboration in implementing ISSB guidelines, developing capacity-building programs to support organizations in understanding and implementing ISSB standards.

6.0 PERFORMANCE OF THE DOMESTIC CAPITAL MARKETS

During the quarter in question, investor confidence improved notably due to the stabilisation of the domestic currency, consequently exerting a positive influence on the equity markets. In the first quarter of 2024, the equity markets performance improved in comparison to the quarter ended December 2023. The four market indices, NSE20, NSE25, NASI, and NSE10, closed at 1752.43, 2975.42, 113.09, and 1155.41 points respectively an increase from 1,501.16, 2,380.23, 92.11, and 907.51 points, recorded as at the end of the last quarter of 2023.

The volume of shares traded during the quarter increased to 1,069,443,500 from 780,219,000 a 27.04 percent increase. The market capitalization recorded on the last day of the first quarter increased from Ksh 1,439.02 million to Ksh 1,766.95 million.

Figure 15Trends of the Market Capitalization in April 2023 to March 2024



Source: CMA

The MSCI Kenya Index, designed to measure the performance of the large and mid-cap segments of the Kenya market, registered positive returns to close at 57.14 %. This has been supported by positive investor sentiments and macro-economic developments.

Figure 16MSCI Kenya Index

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (MAR 2009 – MAR 2024)

ANNUAL PERFORMANCE (%)

Year	MSCI Kenya	MSCI Frontier Markets	MSCI ACWI
2023	-46.61	11.63	22.20
2022	-30.97	-26.34	-18.36
2021	13.84	19.73	18.54
2020	-9.50	1.43	16.25
2019	48.73	17.99	26.60
2018	-12.51	-16.41	-9.41
2017	35.97	31.86	23.97
2016	1.11	2.66	7.86
2015	-18.34	-14.46	-2.36
2014	23.39	6.84	4.16
2013	47.74	25.89	22.80
2012	61.90	8.85	16.13
2011	-27.22	-18.73	-7.35
2010	30.29	23.75	12.67

INDEX PERFORMANCE — NET RETURNS (%) (MAR 29, 2024) / **FUNDAMENTALS (MAR 29, 2024)**

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED 3 Yr	5 Yr	10 Yr	Since May 31, 2002	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Kenya	43.12	57.14	3.23	57.14	-14.67	-6.29	0.45	14.19	6.64	6.93	na	1.83
MSCI Frontier Markets	4.15	5.25	13.97	5.25	0.92	3.02	1.79	6.49	3.72	11.43	na	1.60
MSCI ACWI	3.14	8.20	23.22	8.20	6.96	10.92	8.66	7.77	1.92	21.11	17.77	3.07

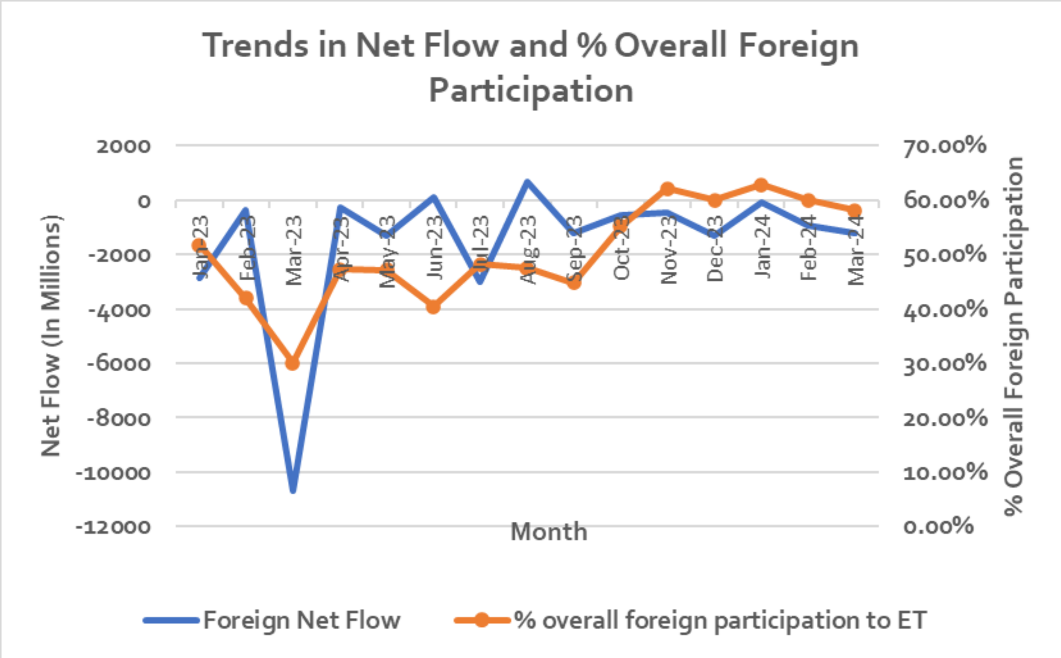
INDEX RISK AND RETURN CHARACTERISTICS (MAR 29, 2024)

	Turnover (%) [1]	ANNUALIZED STD DEV (%) [2] 3 Yr	5 Yr	10 Yr	SHARPE RATIO [2, 3] 3 Yr	5 Yr	10 Yr	Since May 31, 2002	MAXIMUM DRAWDOWN (%)	Period YYYY-MM-DD
MSCI Kenya	0.00	34.39	29.79	25.28	-0.39	-0.15	0.08	0.56	69.99	2021-08-17—2024-01-26
MSCI Frontier Markets	34.71	14.00	16.43	14.36	-0.05	0.14	0.10	0.36	67.47	2008-01-15—2009-03-03
MSCI ACWI	2.57	16.62	17.74	14.74	0.33	0.56	0.54	0.45	58.38	2007-10-31—2009-03-09

[1] Last 12 months [2] Based on monthly net returns data [3] Based on NY FED Overnight SOFR from Sep 1 2021 & on ICE LIBOR 1M prior that date

Source: MSCI

Figure 17Trends in Net Equity Portfolio Flo and Overall Foreign Participation (January 2022- March 2024

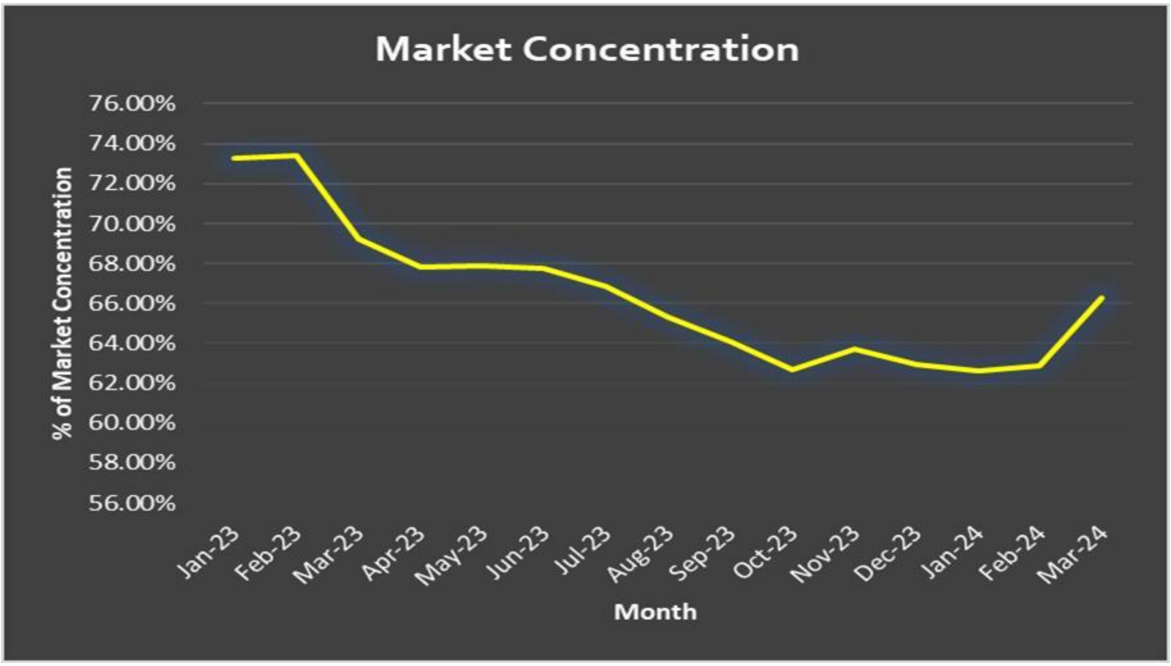


Source: CMA

The net equity portfolio outflow for the quarter under review, stood at Ksh 2.23 billion a further decrease from Ksh2.34 billion recorded in the fourth quarter of 2023. The average foreign market share in equities turnover recorded a slight increase from 59.97 percent in Q4 2023 to 60.31% in the quarter under review. Foreign participation in the equity market has recently attracted global institutional investors such as Blackrock, following recent market recovery and positive developments in the Kenya's foreign exchange market.

Market concentration of the five blue chip companies averaged 63.93% percent, compared to 63.11 percent recorded in the last quarter of 2023. This reduction demonstrates investors' increasing willingness to diversify their investment portfolios away from the five top blue-chip companies, by market capitalization.

Figure 18Market Concentration (Top 5 Companies by Market Cap)



Source: CMA

Table 2Equity Performance (January 2024-March 2024)

Year	Month	Share Volume	Total Equity Turnover (Ksh)	NSE 20 Share Index (Average)	NASI Index (Average)	NSE 25 Share (Average)	NSE10	Market Cap[3] (Kshs Mn)
Q1. 2024	Jan	151,390,600	2,682,997,820.35	1,508.05	92.36	2,409.57	919.82	1,440.14
	Feb	276,012,900	4,600,785,036.59	1,526.07	92.12	2,436.58	930.04	1,445.06
	Mar	615,770,500	11,224,846,140.29	1,624.03	101.61	2,691.49	1,035.73	1,766.95
	Total	1,069,443,500	18,508,628,997.23					
Q4. 2023	Oct	298,983,600	4,224,655,242.71	1,485.73	92.57	2,444.45	939.26	1,383.61
	Nov	272,876,100	3,677,778,231.20	1,467.36	89.58	2,353.08	902.74	1,436.27
	Dec	208,359,300	3,282,553,114.63	1,498.07	92.36	2,386.59	911.75	1,439.02

[3] Market Capitalization for the last trading day of the month.

	Total	780,219,000	11,184,986,588.54					

a. **Treasury Bond Market**

Table 3Treasury Bond Performance (January 2024- March 2024)

Date	Bond	Amount Issued (Kshs Bn)	Amount Received (Kshs Bn)	Amount Accepted (Kshs Bn)	% AA/AI	% AR/AI
Jan 2024	FXD1/2024/03	35.00	29.09	22.07	63.06	83.11
	FXD1/2023/05		8.06	2.95	8.42	23.04
	Tap sale (FXD1/2024/003)	15.00	9.31	9.34	62.27	62.06
	Tap sale (FXD1/2023/005)		2.55	2.42	16.10	17.02
Feb 2024	IFB1/2024/8.5	70.00	288.66	240.96	344.23	412.37
Mar 2024	FXD1/2024/03	40.00	43.07	34.27	85.68	107.69
	FXD1/2023/05		35.85	17.77	44.42	89.62
	FXD1/2024/10		23.89	4.84	12.10	59.71
SUM		160.00	440.48	334.62		
Oct 2023	Tap Sale (FXD1/2023/002)	15.00	2.63	2.61	17.40	17.54
	Tap Sale (FXD1/2016/010)		0.81	0.76	5.09	5.43
	FXD1/2023/002	35.00	6.51	4.83	13.79	18.59
	FXD1/2023/005		5.79	1.48	4.23	16.55
Nov 2023	IFB1/2023/6.5	50.00	88.90	67.06	134.11	177.80
Dec 2023	Tap Sale (IFB1/2023/6.5	25.00	47.24	47.87	191.47	188.96
SUM		125.00	151.88	124.56		

AA-Amount Accepted; AI-Amount Issued; AR-Amount Received; (AA/A) % - Acceptance Rate; (AR/AI) % - Performance Rate; Source: CBK

The Government intended to collect Ksh. 160 billion from the market. Bids valued at Ksh. 440.48 billion were received, with the Government only accepting bids worth Ksh. 334.62 billion. Out of the eight (8) bonds issued during the quarter, two (2) were tap sales. Infrastructure bonds remain the most attractive amongst investors, with the February issuance attracting a 334.23 percent performance rate.

Corporate Bonds Market

The double-digit returns offered on government paper continue to depress corporate bond issues as corporates struggle to offer competing returns in the current difficult global and local macroeconomic context. During the quarter under review ,the value of corporate bonds traded during amounted to Kshs 350,000.00 a substantial decrease from Ksh 35.7 million reported in Q4 2023.

Collective Investment Schemes

Total Assets Under Management (AUM) by the Collective Investment Schemes (CISes) amounted to KShs.215.05 billion in the quarter ended December 2023 compared to KShs.205.05 recorded in the previous quarter, indicating a 4.06 per cent increase in the total Asset Under Management in Q4.2023. The largest part of the total AUM was invested in Securities issued by the GoK at 47.00 per cent, and 34.50 per cent was invested in Fixed deposits. The rest 18.50 per cent was invested in the remaining asset classes as shown in the table below.

Table 4Comparison for Distribution of Funds by Asset Class as at December 2023

Asset	September 2023	December 2023	Proportion	% Change
Securities Issued by GoK	100,545,171,075	101,155,120,946	47.00%	0.61%
Fixed Deposits	79,746,810,262	74,163,801,903	34.50%	7.00%
Cash and demand deposits	8,919,449,200	22,930,935,025	10.70%	157.09%
Unlisted Securities	9,768,650,975	10,130,450,682	4.70%	3.70%
Listed Securities	5,415,008,578	4,550,724,124	2.10%	15.96%
Off-shore investments	867,284,956	821,183,851	0.40%	5.32%
Other CIS	730,417,706	751,382,941	0.30%	2.87%
Immovable property	667,400,748	550,632,304	0.30%	17.50%

TOTAL	206,660,193,500	215,054,231,777	100.00%	**4.06%**

Red-Negative; Green-Positive; Source: CMA

7.0 Capital Markets Stability Soundness Indicators for the Period 1 January – 31 March

Table 5Capital Markets Stability Indicators Jan 01- Mar 31 2024

1.0	**Equity Market Depth**							
NSE 20 Index Volatility Base Year = 2010	**Q1. 2024**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**Low** (Indicative – Low < 1%; Medium; 1%; High >10%)	The volatility for the three market indices, NSE 20, NSE 25, and NASI was 0.48%, 0.56%, and 0.65%, respectively.	The market volatility for the three market indices, NSE20, NSE25, and NASI remained low below 1% but increased compared to Q4. 2023. The increased volatility is attributed to improved market activity during the dividend declaration season at the NSE.
		0.38%	**0.33%**	**0.73%**	**0.48%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.30%	**0.34%**	**0.19%**	**0.28%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.30%	**0.34%**	**0.19%**	**0.28%**			
	Q2.2023	**Apr**	**May**	**Jun**	**Q. Avg**			
		0.43%	**0.41%**	**0.44%**	**0.43%**			
NSE 25 Index Volatility Base Year = 2015	**Q1. 2024**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**Low** (Indicative – Low < 1% Medium: >1%		
		0.47%	**0.38%**	**0.85%**	**0.56%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.48%	**0.59%**	**0.26%**	**0.45%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			

		0.48%	0.59%	0.26%	0.45%	high; >10%)		
	Q2.2023	Apr	May	Jun	Q. Avg			
		0.42%	0.87%	0.49%	0.59%			
NASI Volatility Base Year = 2010	Q1.2024	Jan	Feb	Mar	Q. Avg	Low (Indicative – Low < 1% Medium: >1% high; >10%)		
		0.47%	0.45%	1.04%	0.65%			
	Q4. 2023	Oct	Nov	Dec	Q. Avg			
		0.44%	0.68%	0.43%	0.52%			
	Q3.2023	July	Aug	Sep	Q. Avg			
		0.86%	0.80%	0.33%	0.66%			
	Q2.2023	Apr	May	Jun	Q. Avg			
		0.63%	1.17%	0.59%	0.80%			
Equities Turnover Ratio	Q1. 2024	Jan	Feb	Mar	Q. Avg (monthly)	Low (Indicative – annual: <8%- Low; >15% High)	The recorded turnover for Q1 2024 was 0.38% an increase from 0.26% recorded in Q4.2023	Equities turnover on the Nairobi Securities Exchange (NSE) increased from 0.26% to 0.36% during the quarter. The increased turnover ratio is attributed to increased market activity supported by foreign investor participation increasing during the quarter. Initiatives such as day trading,
		0.19%	0.32%	0.64%	0.38%			
	Q4. 2023	Oct	Nov	Dec	Q. Avg			
		0.31%	0.26%	0.23%	0.26%			
	Q3.2023	July	Aug	Sep	Q. Avg			
		0.46%	0.27%	0.35%	0.36%			
	Q2.2023	Apr	May	Jun	Q. Avg			
		0.25%	0.38%	0.25%	0.29%			

								and margin trading together with necessary trading incentives/concessions will remain critical in enhancing domestic investor activity at the Nairobi bourse hence boosting equities turnover.
2.0 Foreign Exposure Risk								
Percentage (%) overall Foreign participation to Total Equity Turnover	**Q1. 2024**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**Low (Indicative – annual: <40%- Low; >90% High)**	Foreign investor participation at end of the Q1, 2024, averaged at 60.31% an increase from Q4 2023 at 59.09%	In Q1 2024, foreign investor turnover averaged 60.31% an increase from 59.09% registered in Q4.2023. Foreign investors slightly dominate trading at the Nairobi Bourse. The net foreign equity portfolio outflow decreased from Ksh 2,337 million in Q4.2023 to Ksh 2,228 Millions in Q1 2024. At above Ksh 50 Million, outflows are
		62.84%	**59.97%**	**58.12%**	**60.31%**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		55.13%	**62.15%**	**59.98%**	**59.09%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			
		48.23%	**47.52%**	**44.79%**	**46.85%**			
	Q2.2023	**Apr**	**May**	**Jun**	**Q. Avg**			
		47.30%	**47.11%**	**40.45%**	**44.95%**			
Net Foreign Portfolio Flow (Ksh Million)	**Q1. 2024**	**Jan**	**Feb**	**Mar**	**Q. Sum**	**High** (indicative – annual: <Kshs (50million)	In the quarter under review, the market recorded a net outflow of	
		(107)	**(918)**	**(1,203)**	**(2,228)**			
	Q4. 2023	**Oct**	**Nov**	**Dec**	**Q. Sum**			
		(571)	**(480)**	**(1,286)**	**(2,337)**			

	Q3.2023	**July**	**Aug**	**Sep**	**Q. Sum**	- High (outflow. >Kshs. 50 million High	2,228 million compared to an outflow of 2337 million between October and December 2023.	considered high. Such Outflows poses an ongoing risk to our market, highlighting the necessity for targeted initiatives aimed at bolstering trading activities at the Nairobi Securities Exchange. Such initiatives include the implementation of day trading strategies and the reduction of investment barriers for foreign investors. These measures are intended to stimulate market liquidity and attract foreign investment, thereby fostering a more vibrant and resilient marketplace.
		(3019)	**672**	**(1,193)**	**(3540)**			
	Q2. 2023	**Apr**	**May**	**Jun**	**Q. Sum**			
		(283)	**(1,312)**	**113**	**(1,482)**			
3.0 Market Concentration Risk								
Market Concentration (Top 5 companies by market cap)	**Q1. 2024**	**Jan**	**Feb**	**Mar**	**Q. Avg**	**High (Indicative – annual: >50% High Concentration)**	Market concentration for the top 5 companies for the	Over the past year, there has been a continuous reduction in market concentration by five specific companies,
		62.62%	**62.86%**	**66.30%**	**63.93%**			
	Q4, 2023	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		62.67%	**63.73%**	**62.92%**	**63.11%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			

		66.88%	**65.28%**	**64.06%**	**65.41%**		quarter March 2024 averaged at 63.93%.	indicating a growing openness among investors to explore opportunities beyond these select entities. Despite this positive trend, market concentration remains a significant risk. To mitigate this risk, the Authority reviewed Public Offers Listing and Disclosure Regulation to establish more favorable listing requirements that attract a broader range of companies to list on the market, thereby providing investors with a wider variety of investment choices. Furthermore, the Authority is actively engaged in investor education efforts, emphasizing the importance of diversification and promoting long-term
	Q2.2023	**Apr**	**May**	**Jun**	**Q. Avg**			
		67.83%	**67.87%**	**67.72%**	**67.80%**			

								investing strategies. By empowering investors with knowledge and information to make informed investment decisions, the aim is to reduce the inclination to concentrate investments in a limited number of dominant companies. Through these measures, the Authority seeks to foster a more diverse and dynamic market environment, ensuring investors have access to a broader range of investment opportunities and reducing the risks associated with excessive market concentration.

4.0 Derivatives Trading Statistics

<table>
<tr>
<td>Total Volume (No. of contracts)</td>
<td>No of Contracts*
<table>
<tr><th></th><th>Q4.Sum</th><th>Jan-24</th><th>Feb-24</th><th>Mar-24</th><th>Q1. Sum</th><th>%Change Q1. 24Vs Q4.23</th></tr>
<tr><td>ABSA</td><td>2</td><td>1</td><td>12</td><td>11</td><td>24</td><td>1100%</td></tr>
<tr><td>BATK</td><td>4</td><td>-</td><td>14</td><td>9</td><td>23</td><td>475%</td></tr>
<tr><td>EABL</td><td>2</td><td>22</td><td>-</td><td>-</td><td>22</td><td>1000%</td></tr>
<tr><td>EQTY</td><td>38</td><td>71</td><td>204</td><td>91</td><td>366</td><td>863%</td></tr>
<tr><td>KCBG</td><td>161</td><td>35</td><td>34</td><td>150</td><td>219</td><td>36%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
<tr><td>SCOM</td><td>394</td><td>80</td><td>50</td><td>265</td><td>395</td><td>0%</td></tr>
<tr><td>COOP</td><td>65</td><td>2</td><td>10</td><td>228</td><td>240</td><td>269%</td></tr>
<tr><td>NCBA</td><td>20</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
<tr><td>IHMP</td><td></td><td>12</td><td>3</td><td>111</td><td>126</td><td></td></tr>
<tr><td>SCBK</td><td>37</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
<tr><td>25MN</td><td>2</td><td>-</td><td>-</td><td>401</td><td>401</td><td>19950%</td></tr>
<tr><td>Total</td><td>725</td><td>223</td><td>327</td><td>1266</td><td>1816</td><td>150%</td></tr>
</table>
</td>
<td>Low</td>
<td></td>
<td>The volume of contracts traded in Q1.2024 was 1,816 translating to a 150% increase from 725 contracts recorded in Q4. 2023.</td>
</tr>
<tr>
<td>Gross Notional Exposure (GNE)</td>
<td>Amount in Kshs*
<table>
<tr><th></th><th>Q4. Sum</th><th>Jan-24</th><th>Feb-24</th><th>Mar-24</th><th>Q1. Sum</th><th>%Change (Q4/23 Vs Q1/24)</th></tr>
<tr><td>ABSA</td><td>22,550</td><td>12,050</td><td>144,700</td><td>145,600</td><td>302,350</td><td>1240.8%</td></tr>
<tr><td>BATK</td><td>169,200</td><td>-</td><td>595,500</td><td>371,925</td><td>967,425</td><td>471.8%</td></tr>
<tr><td>EABL</td><td>21650</td><td>233,200</td><td>-</td><td>-</td><td>233,200</td><td>977.1%</td></tr>
<tr><td>EQTY</td><td>1,312,800</td><td>2,608,760</td><td>8,123,810</td><td>4,201,380</td><td>14,933,950</td><td>1037.6%</td></tr>
<tr><td>KCBG</td><td>3,019,840</td><td>749,850</td><td>682,260</td><td>3,673,200</td><td>5,105,310</td><td>69.1%</td></tr>
<tr><td>N25I</td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
<tr><td>SCOM</td><td>5,305,520</td><td>1,084,520</td><td>267,000</td><td>4,324,790</td><td>5,676,310</td><td>7.0%</td></tr>
<tr><td>COOP</td><td>696,570</td><td>23,660</td><td>125,000</td><td>3,100,380</td><td>3,249,040</td><td>366.4%</td></tr>
<tr><td>NCBA</td><td>766,000</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></tr>
</table>
</td>
<td>High (indicative – annual: >50% High concentration)</td>
<td></td>
<td>The total value (Gross Exposure) of contracts traded during the quarter summed up to Ksh 44.128 million; a 296.6% increase from Q4.2023.</td>
</tr>
</table>

IHMP		225,300	57,000	2,335,900	2,618,200	
SCBK	579,975	-	-	-	-	
25MN	46,880	-	-	11,042,910	11,042,910	23455.7%
Total	11,940,985	4,937,340	9,995,270	29,196,085	44,128,695	269.6%

Total Open Interest (No. of Contracts)

No of Contracts*

	Q4. Average	Jan-24	Feb-24	Mar-24	Q1. Average	%Change Q1.24 Vs Q4 23
ABSA	2	1	11	-	6	200.0%
BATK	6	4	9	-	7	16.7%
EABL	3	-	-	-	-	-
EQTY	13	7	97	36	47	261.5%
KCBG	10	8	21		15	50.0%
N25I	-	-	-	-	-	-
SCOM	93	14	40	30	28	69.9%
COOP	4	-	10	1	6	50.0%
SCBK	13	-	-	-	-	-
IMHP	-	6	6	100	37	-
NCBA	5	-	-	-	-	-
25MN	3	2	2		2	33.3%
Total	140	42	196	167	135	3.6%

Medium (Indicative – annual: >50% High concentration)

Overall, the total average number of open interest contracts recorded in Q1 2024 were135 ; a 3.6% decrease from Q4.2023 value of 140

As for hedging instruments, the place of derivatives markets in the face of economic uncertainty remains important in risk management.

With the increasing profile of risks in the macro- economy, the profile of derivative instruments may grow as investors target diversification as a key investment strategy. Currency derivatives are needed by market participants and the Authority is working with the CBK to roll-out the same.

Settlement Guarantee Fund (SGF)

	Jan-24	Feb-24	March-24
SGF	125,273,910	127,512,961	128,624,173
Average Market Value	159,269	344,664	941,809

*High (Indicative – annua l: >50%

The SGF coverage ratio for the derivatives

To maximize value from the SGF fund balances, there is deliberate effort by NSE to encourage

<table>
<tr>
<td>Coverage for Derivatives</td>
<td><table><tr><td></td><td></td><td></td><td></td></tr><tr><td>SGF Coverage</td><td>787 times</td><td>370 times</td><td>137 times</td></tr></table></td>
<td>High concentrate ion</td>
<td>market in Q1.2024 Progressively decreased from 787 in Jan to 137 times in March.</td>
<td>increased activity by market intermediaries in this market for increased volumes of trade.</td>
</tr>
<tr>
<td colspan="5">5.0 Government Bond Market Exposure</td>
</tr>
<tr>
<td>Treasury Bond market turnover Concentration</td>
<td><table>
<tr><td>Q1. 2024</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q4. 2023</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q3.2023</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>99.89%</td><td>99.96%</td></tr>
<tr><td>Q2.2023</td><td>Apr</td><td>May</td><td>Jun</td><td>Q.Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
</table></td>
<td>High
(Indicative – annual: >50%High)</td>
<td>In Q1.2024, Treasury Bond market turnover was 100.00 %</td>
<td>Government activity in the bonds markets continues to dominate as the Government targets domestic market savings to fund various Government activities.</td>
</tr>
<tr>
<td>Corporate Bond Market ownership</td>
<td>Note: For every EAC, LI, and F.I., the total
<table>
<tr><th>Account Type</th><th>Number of Investors</th><th>Share Quantity</th><th>% By Share Quantity</th></tr>
<tr><td>EI</td><td>2</td><td>125000000</td><td>0.47%</td></tr>
<tr><td>FI</td><td>28</td><td>788994223</td><td>2.97%</td></tr>
<tr><td>LI</td><td>1389</td><td>25625486627</td><td>96.56%</td></tr>
<tr><td>SUM</td><td>1419</td><td>26539480850</td><td>100.00%</td></tr>
</table></td>
<td>High (Indicative – annual: >50%
High concentration</td>
<td>In the quarter under review Local investors constituted the greatest share in investment</td>
<td>Kenya has been facing a period of reduced corporate bond activity in the last one year. The Authority, through its investor education and market deepening functions</td>
</tr>
</table>

<table>
<tr><td></td><td>calculated is a sum of both corporate and individual investors.</td><td></td><td>followed by foreign investors with East Africa Investors constituting the least number.</td><td>has profiled retail investors to increase activity within the domestic corporate bond market.</td></tr>
<tr><td colspan="5">6.0 Investor Profiles - Equity Market</td></tr>
<tr><td>Equity Market</td><td>
<table>
<tr><th>Account Type</th><th>Number of Investors</th><th>Share Quantity</th><th>% by share quantity</th></tr>
<tr><td>BR</td><td>6</td><td>12,711,498</td><td>0.0129%</td></tr>
<tr><td>EI</td><td>7403</td><td>1351037618</td><td>1.3715%</td></tr>
<tr><td>FI</td><td>8587</td><td>16609055781</td><td>16.8604%</td></tr>
<tr><td>LI</td><td>1287418</td><td>8,053,5175,021</td><td>81.7540%</td></tr>
<tr><td>JR</td><td>180</td><td>1,141,511</td><td>0.0012%</td></tr>
<tr><td></td><td></td><td>98,509,121,429</td><td>100.00%</td></tr>
</table>
</td><td>High (Indicative – annual:
>50%
High concentration</td><td>In Q1 share quantity for local investors was 8.053 billion which was 81.75 of the total share quantity.</td><td>While the proportion of local investors is higher than foreign investors, the share quantity held by each investor on a per capita basis remains low.

The industry investor awareness and education strategy will be targeted at increasing retail investor participation through more roadshows, caravans and county engagements</td></tr>
<tr><td colspan="5">7.0 Settlement Compensation Coverage</td></tr>
<tr><td></td><td>
<table>
<tr><th>Q1. 2024</th><th>Jan</th><th>Feb</th><th>Mar</th><th>Q. Avg</th></tr>
<tr><td></td><td>11.03</td><td>6.20</td><td>2.45</td><td>6.56</td></tr>
</table>
</td><td>(Indicative–</td><td>The settlement Guarantee</td><td>Through Risk-based supervision, the Authority has been</td></tr>
</table>

<table>
<tr><td rowspan="6">Settlement Guarantee Fund</td><td rowspan="2">Q4, 2023</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td><td rowspan="6">annual: > 1 times, implies full coverage</td><td rowspan="6">Fund (SGF) ratio for January to March was 6.56</td><td rowspan="6">monitoring the SGF figures. The fund remains adequate to guarantee settlement failure</td></tr>
<tr><td>6.24</td><td>7.59</td><td>7.35</td><td>7.06</td></tr>
<tr><td rowspan="2">Q3.2023</td><td>July</td><td>Aug</td><td>Sep</td><td>Q. Avg</td></tr>
<tr><td>3.58</td><td>7.13</td><td>5.37</td><td>5.36</td></tr>
<tr><td rowspan="2">Q2.2023</td><td>Apr</td><td>May</td><td>Jun</td><td>Q. Avg</td></tr>
<tr><td>5.15</td><td>4.65</td><td>6.35</td><td>5.38</td></tr>
<tr><td colspan="9">8.0 Asset Base of Fund Managers, Stockbrokers, Investment Banks</td></tr>
<tr><td>Working Capital (Amount in Kshs Millions)*</td><td colspan="5"><table>
<tr><td></td><td colspan="5">Amount in Kshs Millions</td></tr>
<tr><td></td><td>Total Assets</td><td>Total Liabilities</td><td>Net Assets March 2024</td><td>Net Assets December 2023</td><td>% Change</td></tr>
<tr><td>Fund Managers</td><td>8992</td><td>2418</td><td>6573</td><td>11584</td><td>43.26%</td></tr>
<tr><td>Investment Adviser</td><td>276</td><td>105</td><td>170</td><td>511</td><td>66.73%</td></tr>
<tr><td>Investment Banks</td><td>12690</td><td>4210</td><td>8931</td><td>13604</td><td>34.35%</td></tr>
<tr><td>Online Forex Brokers</td><td>3691</td><td>2051</td><td>1640</td><td>3334</td><td>50.81%</td></tr>
<tr><td>Stockbrokers</td><td>2388</td><td>1322</td><td>1066</td><td>2064</td><td>48.35%</td></tr>
</table></td><td>Medium (Indicative –the higher the figure, the more stable is the market</td><td>The net assets base of fund Managers, Investment Advisor, Investment Banks, Online Forex, and Stockbrokers, as of March 2024 was Kshs 6,573 M, 170M, 8,931M 1,640M and 1 0 6 6 M respectively.</td><td>Capital markets licensees' net assets decreased between January and March 2024.</td></tr>
</table>