

ARBS BREAKFAST

UAP OLD MUTUAL

FIXED INCOME STRATEGY



OLDMUTUAL

Do great things

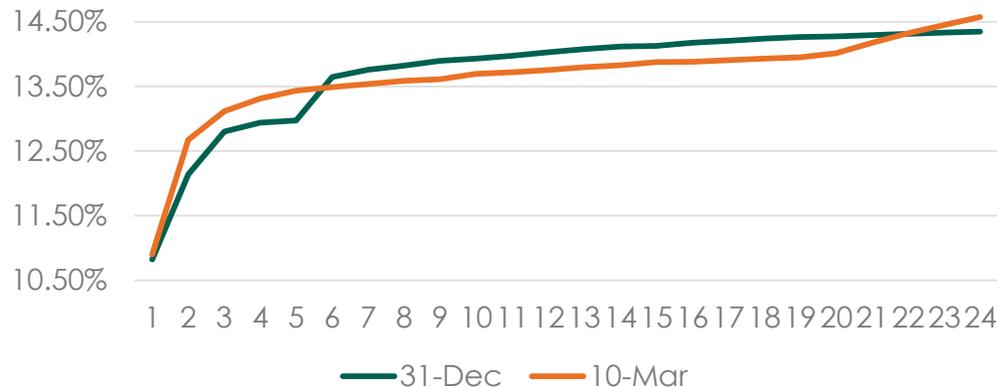
FIXED INCOME MARKETS

- Kenya's fixed income market is one of the significant capital market asset classes currently valued at KES 1.8 Trillion.
- Bonds have traded an average turnover of about 400Bn a year for the last 3 years.
- We can classify this market under the following categories:
 - Primary Market – Offers newly issued securities to the market e.g. government bond auctions
 - Secondary Market - Provides liquidity by offering a medium to buy/sell existing securities
 - Money Market – Offers investment in instruments with a tenor of less 365 days. E.g. T-Bills, Commercial Paper, Bank Deposits.
 - Bond Market – Provides liquidity by offering a medium to buy/sell existing securities. E.g. Government, Corporate Bonds.
 - In our market, these are the most commonly traded fixed income assets:
 - Treasury Bond
 - Treasury Bills
 - Corporate Bonds
 - Commercial Paper
 - Bank Deposits

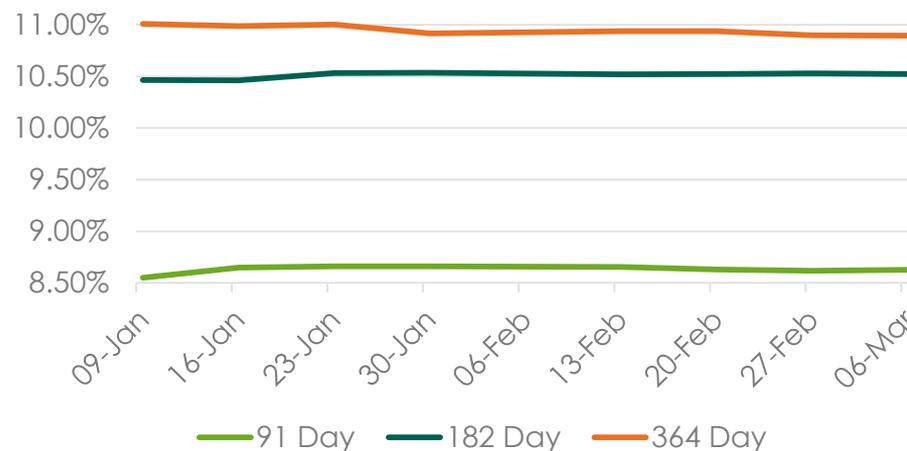
INTEREST RATES

- The monetary policy committee (MPC) has maintained the central bank rate (CBR) at **10.00%** since August 2016.
- This year money market rates have remained relatively flat. The **91, 182 and 364 day** T-bills closed at **8.63% 10.53% and 10.90%** respectively
- The bond yield curve has had minimal movement thus far in 2017:
 - 0-5 Yrs. – Increased (Upward Shift)
 - 5-20 Yrs. – Decreased (Downward Shift)
 - 20-25 Yrs. – Increased (Upward Shift)

Yield Curve

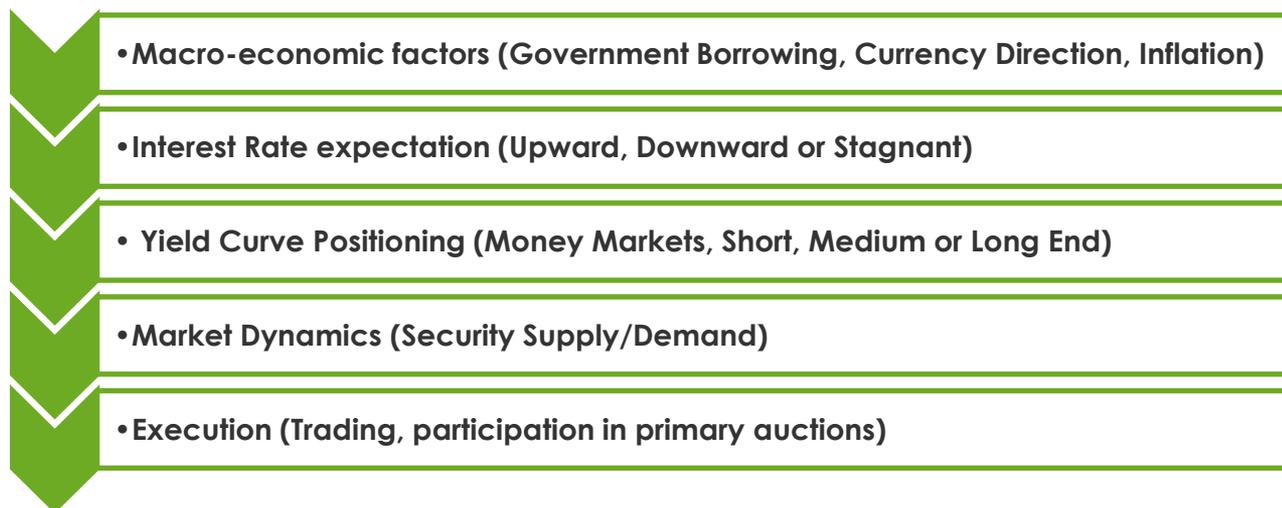


T Bill Rates



FORECASTING INTEREST RATES

- The best way to seek fixed income investment opportunities is by positioning yourself appropriately along the yield curve. This is largely based on views and assumptions of changes in yield levels and shape/steepness of the government security yield curve.
- The key driver for all our investment decisions for fixed-income securities is the future direction of interest rates.
- Our style would be best described as macro and fundamentally driven with a quantitative and technical overlay. The key factors are interest rate expectations, inflation expectations, government borrowing (primary issuance) and the supply of and demand for government paper from financial and non-financial institutions. Below is our investment philosophy



CURRENT STRATEGY

Macroeconomic Outlook

- Our current forecast points towards upward pressure on the inflation rate within a range of 9.00%-12.00% in the near term. This is largely informed by our review of the following factors:
 - Upward pressure on food prices
 - Rising fuel prices
 - Base Effect

Yield Expectations

- Based on the outlook above one would expect short tenor yields to move upwards and longer tenor yields to remain relatively unchanged as short term yields following or move ahead of near inflation and long term yield opinion is driven largely by longer term inflation and overall borrowing expectations.

Potential Investment Actions

The expectations above would provide a broad investment strategy of:

- Existing portfolio – Hold current portfolio and enjoy stability provided by coupon return.
- Reinvestment of maturities, coupons and new contributions - Invest in the money market and short tenor paper where additional yield compensates appropriately for interest rate risk.

THANK YOU



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