



DRY ASSOCIATES

INVESTMENT BANK

Investment Newsletter December 2024



Mzima Springs, Tsavo West, Aug 25, 2024 - Courtesy: J.Dry

Dear Investor,

Highlights

- The Current Investment Landscape
- Effect on Emerging Markets
- Private Banking and Financial Planning
- Template for a Balanced Portfolio
- Estate Planning

- Family Trusts *by Florence Okeyo, General Counsel*
- Nairobi Land Title Conversions *by Sylvia Agagiate, Legal Counsel*

- What does Dry Associates do?
- Financing Roadmap for Companies
- Kenya Fixed Income Securities on Offer
- Current News

- Special High Yield Fund
- Watu Credit Reception

- Holiday Break

The Current Investment Landscape

From a global perspective, the investment landscape continues to be dominated by the impact of presidential elections in the US. The Trump/Vance Republicans prevailed decisively over the Democratic incumbents and the Republican coattails are long. The Republicans will in January 2025 control both houses of Congress meaning the political agenda will be scripted by Republicans.

The reasons for the decisive swing to the right will be debated for a long time, but as investors we need to take a hard look at the changed investment landscape. The new Republican administration will no doubt reflect President Trump's business background. As soon as he can, Trump intends to cut US corporate taxes from 21% to 15% which will boost corporate profits. He also intends to increase US oil and gas production which will reduce not only the cost of energy in the US but other goods and services for which oil is a major component. Less regulation and other pro-business policies has seen the Dow Jones Industrial Average rise 7% since the US elections on November 5th.

From an investment point of view, we think the US economy and its markets offer investors capital appreciation and a well-balanced investment portfolio should include some exposure to that market.

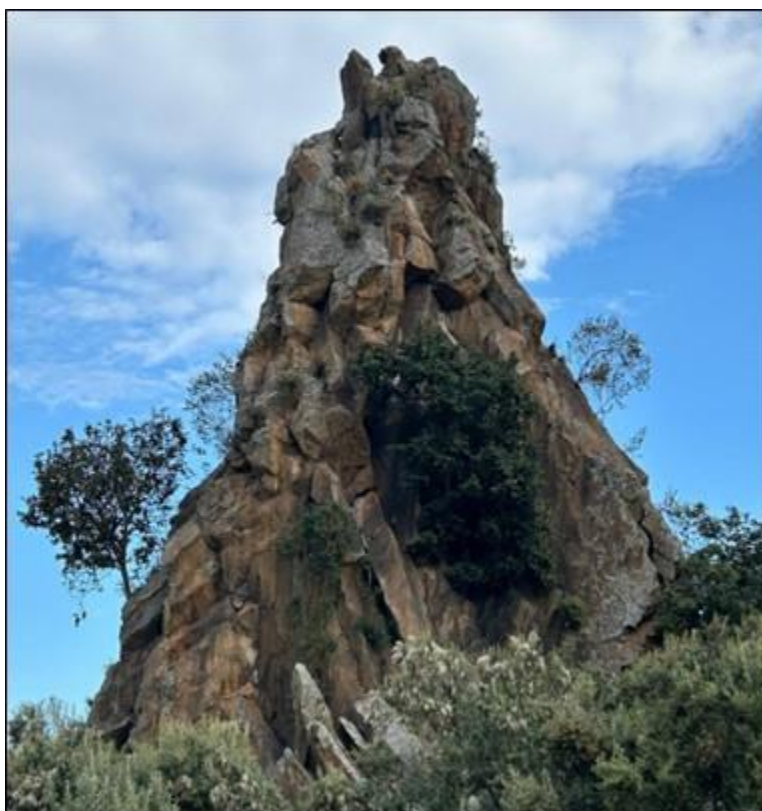
Effect on Emerging Markets

Emerging markets on the other hand, in general, are not expected to benefit from the change in US administrations. The increased animal spirits in the US markets are expected to slow capital flows to emerging markets which have been increasing since the end of Covid. Now, however, with capital flowing into the US market or at least staying there, the dollar is expected to strengthen meaning emerging markets will need to keep their domestic interest rates higher longer to maintain their value against the dollar.

We anticipate there will be clear winners and losers in the aftermath of this election. The new administration is expected to increase tariffs on Chinese and Mexican exports to the US slowing bilateral trade between these countries. JD Vance, the incoming US vice president, has suggested putting a 10% tax on worker remittances to emerging markets from the US which would hit Latin American countries hard, not to mention countries like Kenya.

Nevertheless, all these new policies carry the seeds of counter vailing forces over the long run. As emerging

market (EM) currencies weaken vis-à-vis the US dollar, it makes EM exports cheaper and more attractive to importers boosting trade. The valuations of US equities are already near historic highs (current Price/Earnings Ratio of Fortune 500 stocks is 27x) while the P/E ratios of emerging markets stocks are much lower. The average P/E ratio of equities on the Nairobi Securities Exchange (NSE) stocks, for example, is 11x (excluding three outlier companies) which offers investors deep value. Then again, there are always exceptions to prevailing trends. Certain stocks on the Nairobi Stock Exchange, especially bank stocks, are currently outperforming. KCB stock price is up 36% year-to-date, Equity and Absa up 30%, Standard Chartered up 24% to mention a few. So, even among emerging markets there are attractive investment opportunities.



Fischer's Tower, Hell's Gate National Park, Aug 5, 2024 - Courtesy: J. Dry

Private Banking and Financial Planning

Whatever the investment climate, a well-structured investment portfolio will create wealth over time. These portfolios are a result of financial planning which is a core service of private banking and private banking is what Dry Associates does well. Each of our Investment Executives is trained in financial planning for individual investors meaning we:

1. Identify financial goals. A starting point for all financial planning, especially younger clients, is having a pension plan in place. One good option is the Dry Associates Personal Provident Plan (DAPPP) which has an average 3-year return of 11.83% per annum. Note that "pension" plans can be either a provident plan or a pension plan. DAPPP is a provident plan meaning it pays out a lump sum upon retirement. A pension plan pays out over time. A pension plan in Kenya often means transferring your pension to an insurance company to buy an annuity which will provide periodic payments for life. The problem with an

annuity is that the entire pension is reduced to zero in return for these periodic payments meaning nothing left to convey to your progeny. The other option is leaving your funds in the pension and opting for a drawdown arrangement which means receiving periodic payments at a rate of return equal to the rate of return of the entire pension, which is often lower than other investment options. Much better, in our view, to have a provident plan and at retirement invest the bulk of these funds in an investment portfolio including one or more money market funds which historically pay much more than annuities or drawdown plans. One very appropriate vehicle for this is the Dry Associates KES and/or USD Money Market Unit Trusts which can pay out monthly. So, pension first, then we work out more aggressive financial goals above and beyond a pension.

2. Collect your financial data. It is necessary to collect key personal financial data so that we can determine your current financial status (net worth) and if you have the means to meet your financial goals. If not, we'll suggest ways to meet those goals.
3. Prepare a balanced investment portfolio with proper asset allocation and diversification. Remember here that putting all one's financial assets in a single bank or a single company, is dangerous. Commercial banks deposits in Kenya are only insured up to KES 500,000. Individual companies can go bankrupt. A balanced portfolio will have no more than 10-15% in any one company with investments spread out over debt and equities.
4. Conduct the final stage of financial planning with estate planning (including Succession Planning if there's a family business involved).

Template for a Balanced Portfolio

A balanced portfolio would have a structure something like the following. At Dry Associates we use three (3) templates as a starting point depending on one's age and situation and then customize according to one's specific situation.

AGE:	25 Years — 34 Years	35 Years — 54 Years	55+
Equities	Allocation %	Allocation %	Allocation %
Offshore Stocks (KES)	15%	5%	2.50%
ETFs/Mutual Funds (USD)	50%	50%	20%
NSE Stocks (KES)	5%	5%	2.50%
Fixed Income			
Money Market Fund (KES)	2.50%	2.50%	10%
Commercial Paper (KES)	15%	20%	25%
Fixed Deposit (KES)	2.50%	2.50%	5%
Offshore Corporate Bonds (USD)	5%	5%	10%
Government Bonds (KES)	5%	10%	25%
Total	100%	100%	100%

What to put into each of these categories is what your Investment Executive will discuss with you depending on your current age, risk profile, financial goals, and so on.

Of course, all these assets require monitoring to see if they perform as anticipated, if the interest payments of debt instruments are secure, if company projected earnings are met, if trading prices do not fall below 50- or 100-day moving averages, and so forth. These metrics all require watching by your Investment Executives and necessarily means continuous interaction between you and your IE.

“If you don’t learn how to make money while you sleep, you will work until you die.”

Warren Buffett

Estate Planning

Our legal department is here to help our Private Wealth clients. They are very involved in the estate planning area of financial planning for our clients. A day does not go by without an article in one of the local newspapers about some never-ending legal tussle over a division of an estate. There is no excuse for that to happen. Here’s a word from our legal department on family trusts and the new requirement to convert Nairobi land titles to the new Lands Registry.



The Sands at Chale Island, Diani, Mar 31,2024 - Courtesy: C. Dry

Family Trusts by Florence Okeyo, General Counsel, Dry Associates

Part of the services offered by Dry Associates to its clients is Estate Planning where we offer the preparation and registration of the Family Trust also interchangeably known as the Declaration of Trust.

Trusts are governed by the Trustee Act, (Chapter 167, Laws of Kenya) and the Trustees (Perpetual Succession) Act, (Chapter 164, Laws of Kenya) (the “TPSA”). A Declaration of Trust has been interpreted to mean a trust

deed creating a family trust established under Section 3D of the TPSA.

For the Family Trust, there are potentially three parties, who are;

1. The Trustee(s)/Settlor(s) are the owners of the assets being placed in the Trust.
2. The Beneficiary(ies)
3. The Enforcer (selected at the discretion of the Trustee(s)/Settlor(s))

The main characteristic of this trust is the ability to separate legal ownership (for the Trustee/settlor) and beneficial interest (for the beneficiaries). The trust deed must be signed by both the settlor and the trustee and must be registered and stamped at the Lands Registry under the Registry of Documents.

Property in trust is not subject to the probate process upon the death of the settlor. Probate takes time before the property of the deceased is distributed; therefore, Family trusts are used in estate planning to reduce the uncertainties that manifest upon the death of a person and prefer the privacy they offer to the affairs of a person since they are not a matter of public record.

Taxes and Family Trusts: The law through the Finance Act, 2021 created exemptions in Capital Gains Tax, Income Tax and Stamp Duty for assets being transferred to the registered family trust, in particular, the following exemptions: –

- a. Income or capital gains taxes on income earned by the registered family trust. To the extent that income paid out of a registered family trust to any beneficiary does not exceed KES10 million in a year, or where it is used exclusively for education, medical treatment or early adulthood housing, such income is not subjected to tax on the beneficiary,
- b. Stamp Duty on the transfer of properties into a registered family trust, or
- c. Capital Gains Tax on the transfer of properties into a registered family trust.

For more information, please contact fokeyo@dryassociates.com



Moi South Lake, Naivasha, Oct 20, 2024 - Courtesy: C. Dry

Nairobi Land Title Conversions by Sylvia Agagliate, Legal Counsel, Dry Associates

The Ministry of Lands and Physical Planning launched the National Land Information Management System (NLMIS) which is a government online platform which has digitized properties (currently Nairobi properties) on which owners of properties are required to upload details of their properties and replace their old titles into the new titles and obtain the new titles with Nairobi Block Numbers. The process of obtaining the new Nairobi Block Titles is:

1. Register an Ardhisasa Account; Apply for the title replacement- One must seek the services of an Advocate to apply for a replacement Title using the new converted and gazetted Nairobi Block Numbers given for the respective property.
2. Surrender of Title for verification- During the verification process, there is no time frame for how long this process will take, although it typically has a timeframe of 2 weeks from the date of surrender of the title and subject to the availability of the physical files. It should be noted that once a Title is surrendered you cannot request the Title to be returned. Once verification is completed and the new title issued, a notification will be sent to the registered proprietor once the new Title is ready for collection.

Fees and Disbursements: We can assist with the above process of uploading and application for replacement of your Title through our in-house legal team. This is a service we are now offering our Private Wealth clients at a discounted fee. Kindly note that the process has many steps, numerous follow-ups are required, personal visit(s) to the Registry by an attorney are needed and time spent on accessing the Portal and interactions on a regular basis to check on progress of applications and to move matters ahead.

For more information, please contact sagagliate@dryassociates.com

What Does Dry Associates Do?

We are often asked what an investment bank does. Well, there are typically two sides to a full-service investment bank – the buy side and the sell side. The buy side is asset management, which is pulling together or “buying” assets for an individual or corporate (e.g. school, church, university) investment portfolio.

The other side of an investment bank is the sell side. This is where we “arrange” and “place” debt and/or equity securities into the marketplace. Acting as the Arranger and Placement Agent is often synonymous with the term Transaction Advisor.

This involves working with companies to determine their financial needs – how much money do they need and should it be raised as debt or equity. If debt, how should the issue be structured meaning, will the debt be paid back all at once after say, five years, which is called a bullet payment or should the issue be amortizing meaning the principal and interest are paid back periodically. Equity, of course, offers ownership in a company that is not paid back but participates in the companies' profits.

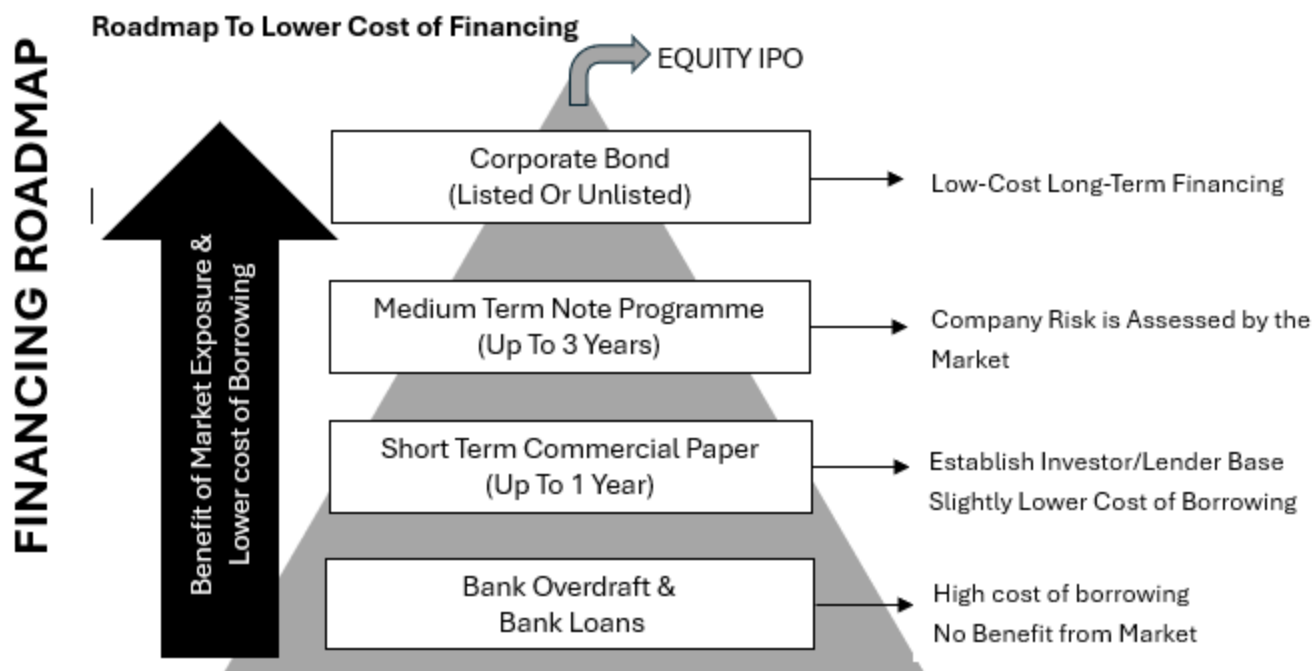
The sell side of investment banking is especially important to corporate entities whether they are a business, school, church, whatever – so the entity has a strong financial foundation. A strong financial foundation allows the entity to focus on building the business and accomplishing its mission.

A strong financial foundation should not rely solely on commercial bank finance. The reason is that commercial banks provide short term finance and make the business susceptible to short term shocks – internal and external – like strikes, interest rate hikes, suspension of bank credit facilities, and so on. A business with a long-term outlook needs long term finance.

The following is a brief road map on how to engage an investment bank to assist in creating a strong financial foundation.

Financing Roadmap for Companies

The Kenyan financial markets offer corporations alternatives to expensive bank financing. By raising funds directly from institutional and retail investors, corporations can avoid expensive bank finance and raise financing at lower costs. The roadmap to lower borrowing costs starts with issuing commercial paper (CP) as an alternative to bank overdraft and leads to issuing bonds as an alternative to bank loans. CP can be issued in any currency although Kenya shillings and US dollars are our most popular.



Stage 1: Currently most companies in Kenya are in the first and lowest stage of market exposure, relying solely on bank borrowing, dependent on one or two sources of financing, and reaping no benefit from the market.

Stage 2: Traditional Commercial Paper (CP) is short term promissory notes – each note with a maturity of one year or less up to an agreed amount. It can be a public or private CP programme. A public programme requires Capital Markets Authority approval – a private programme does not. Dry Associates can arrange either. A short-term programme establishes a base of investors through a track record of timely payments.

Stage 3: Medium Term Note programmes build on CP programmes by increasing the maturity of notes from a year or less up to three years.

Stage 4: Once the market establishes your company's risk premium, this market understanding can be used to issue long-term bonds in the market. Bonds offer long-term savings and allow companies to match liabilities to cash flows on long-term projects.

Final stage: Every company should have an **equity IPO** in their future. In order to maximize use of the equity market, a company should use the fixed income markets to increase the value of the firm prior to issuing equity.

Kenyan Fixed Income Securities on Offer

The following are some of the yields available on Kenyan fixed income securities today:

Security	Interest Rate Yield
1-year corporate note (BBB credit rating)	21.00%
3-year corporate note (adjustable) (A- rating)	20.62%
6-year GOK Infrastructure bond (taxable equivalent)	15.88%
Dry Associates KES Money Market Fund	13.95%
1-year GOK Treasury Note	13.30%
91-day GOK Treasury Bill	12.03%
Average Annual Inflation in Kenya	2.72%

Current News

Special High Yield Fund – Dry Associates has received approval from the Capital Markets Authority to convert its Balanced Fund unit trust into a Special High Yield unit trust. The new fund aims to provide safety and income over the medium to long term by investing in a diversified portfolio of fixed income securities with a weighted average duration of no longer than 60 months.

The securities will include Kenyan and East African treasury bills and bonds, short- and long-term corporate debt, commercial bank fixed deposits and other near cash securities. The fund is structured to maximize yield within prudential guidelines.

In line with the longer maturity of these debt securities, there is a penalty for early withdrawal. In addition, to align the fund manager's interests with the investors, there is a performance bonus for Dry Associates when the average return exceeds a hurdle rate of the 91-day GOK Treasury Bill plus 0.5%. Yields above the hurdle rate will be split 50/50 between the unit holder and the fund manager.

Watu Credit Reception – Dry Associates hosted a reception on November 28, 2024 for the Watu Credit management team. The Watu Credit team explained to some 50 invitees the past and expected performance of the company in Kenya, Uganda and Tanzania.



Investors listen keenly as Watu Credit discusses the company's past and projected growth in Kenya, Uganda, and Tanzania, highlighting strong performance in asset financing and micro-lending.

Holiday Break

Please note that our offices will be closed from December 18, 2024 to January 6, 2025 for the holidays. As such, this would be an excellent opportunity to review with your Investment Executive your investment portfolio to ensure it is positioned to grow your net worth in 2025.

In addition, we would like to take this opportunity to extend our best wishes for a joyful holiday season. We look forward to working with you in the New Year to make it a productive and very prosperous 2025.

Sincerely,

Dry Associates Investment Bank



Dry Associates Investment Bank offers a wide range of products and services:

Private Wealth Management | Unit Trusts | Commercial Paper | Investment Advisory Services | Pension Fund Management | Offshore Funds | Consulting | Corporate Finance | Treasury Management | Portfolio Management

For more information visit our website www.dryassociates.com or speak to us directly on

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