

Unit Trust Investments in Kenya: Money Market Fund(KES) Analysis

Can Investment in Money Market Funds in Kenya gurantee capital preservation?

Charles Kabui

2024-03-03


It seems like good investment. blah blah blah blah blah blah blah...

Table of Contents

 Open in Colab

 launch binder

 View On GitHub

 Launch in Deepnote

 Download as PDF

```
import sys
import os

# Add parent directory to sys.path
root_dir = os.path.abspath(os.path.join(os.getcwd(), '../..'))
sys.path.append(root_dir)

%reload_ext autoreload
%autoreload 2
```

```
import pandas as pd
from pyppeteer.page import Page
import asyncio
import json
```

```

import io
from bs4 import BeautifulSoup, Tag
from urllib.request import urlopen
from pyppeteer.page import Request
from matplotlib import pyplot as plt
from tqdm import tqdm
import re
import webbrowser
from typing import Callable
from copy import copy
from datetime import datetime, timedelta
import plotly.io as pio
import plotly.express as px
from python_utils.web_screenshot import web_screenshot_async
from python_utils.get_browser import get_browser_page_async

pio.renderers.default = "plotly_mimetype+notebook_connected"

```

Introduction

According to Central Bank of Kenya records, Kenya had over 77.92 million registered mobile money accounts, as of June 2024 ¹. Compared to the Kenyan population of slightly above 54 million ², nearly every Kenyan has a means to transact money, technically banked. Research by J. Degenhard ³ estimates that the banking penetration in Kenya is approximately 96.43% and will increase to 99.9% by year 2026.

Several research conclude that financial access often follows financial literacy. However, to know unit trusts investments requires understanding financial instruments and assets beyond the general financial education. One of the most attractive entry level high-yield financial asset is the unit trust, specifically the Money Market Funds (MMF). With some fund managers allowing mobile money accounts as an alternative to a bank account number, it becomes very easy to start, deposit, withdraw from a Money Market Fund account. Unlike bank deposits that usually offer simple interest, Money Market Fund accounts offer a **DAILY** compounding interest.

¹CBK Mobile Payments, see PDF

²Kenya Population from year 1974 to year 2022

³J. Degenhard, Jan 30, 2024. <https://www.statista.com/forecasts/1149636/bank-account-penetration-forecast-in-kenya>

Who pays Fund Managers for managing money market fund investments?

You don't manage money market funds accounts. Fund managers invest the money on your behave. They invest the funds mostly in shortterm government papers (T-bill), company papers, bank deposits and a small portion is invested in long term asserts like real estate or long term bonds. Fund managers take a 2% fee from the profit made from each of their investors. This provides an incentive to maximize the profit their investors get. Typically, this leaves with an net interest of between 1% - 5% below the government of Kenya T-bills. For example, the current Treasury Bills on Offer at <https://www.centralbank.go.ke/bills-bonds/treasury-bills/> are:

Table 1: Treasury Bills on offer as at 29/07/2024

Term	Issue Number	Auction Date	Value Dated	Previous Average Interest Rate
91-DAY	2589/091	1st August 2024	5th August 2024	16.000%
182-DAY	2562/182	1st August 2024	5th August 2024	16.8506%
364-DAY	2516/364	1st August 2024	5th August 2024	16.9212%

Going by the previous assumption, our money market fund account should currently return between 15% - 11% approximately. Its important to recognize that how the fund managers invest determine the yield. for example, a fund manager who priritizes security over interest invest most of their money in safer assets that may have less return. The size of the investment portfolio also matters. fund managers with big assets have a harder time adjusting to higher interests, but also lower chances of downward fluctuations. Also, reputable fund managers who have a small porfolo have more incentive to lure more customers, so they take a less fee. Also, with a less assets to manage, a fund manager can invest all in a government paper, significantly offering a higher return, but theoretically exposing the investors to risk. Although it may be safe to say that the government paper is safe in that the government of kenya has never defaulted on any of its debt obligations, the investment is not diversified, which is risky. Some fund managers certainly offer a higher interest that that this, sometimes matching or surpusing government papers. This might be okay, but you owe to yourself an even greater burden of due dilligence.

Are Money market funds regulated in Kenya?

Unit trust Investments such as Money Market Funds are regulated by Capital Markets Authority (CMA)⁴. The Capital Markets Authority (CMA) is an independent public agency established in 1989 by an Act of Parliament, Capital Markets Act, Cap 485A⁵. CMA is charged with the responsibility to oversee, license, and monitor the activities of market intermediaries, including the Stock Exchange, the Central Depository and Settlement Corporation(CDSC), Online Forex, Commodities and Regulated Exchanges⁶. The CMA's primary mandate is to promote and maintain an orderly, fair, and efficient capital market in Kenya. Over the years, the CMA has regulated and supervised several market milestones such as the automation of trading at the Nairobi Securities Exchange^{7 8}, the introduction of derivative markets, and the development of a robust regulatory framework⁹. However, it has also faced challenges, such as insider trading scandals^{10 11 12} and the collapse of some investment firms^{13 14 15}, which have tested its regulatory effectiveness.

Below is a non exhaustive summary of some key areas that are regulated by CMA regarding Money Market Funds.

1. **Licensing requirements:** *Fund managers must obtain a license from the CMA and meet minimum capital requirements.* According to the Capital Markets (Collective Investment Schemes) Regulations, 2001 (last amended in 2021), fund managers in Kenya must obtain a license from the Capital Markets Authority (CMA) and meet specific capital requirements. For money market funds, the minimum paid-up capital requirement is 10 million Kenyan Shillings, while for other types of funds, it's 50 million Kenyan Shillings. Additionally, all fund managers must maintain a minimum net capital of 10 million Kenyan Shillings throughout their operations. These funds must be kept in a bank account or invested as specified by the CMA¹⁶.
2. **Investment restrictions:** Money market funds are required to invest in low-risk, short-term debt instruments with a maximum maturity of 18 months¹⁷.

⁴Capital Markets Authority (CMA) <https://www.cma.or.ke/about-us/>

⁵THE CAPITAL MARKETS ACT - CHAPTER 485A - Revised Edition 2023 [1989] - Published by the National Council for Law Reporting

⁶CMA Regulatory Framework - Acts and Regulations - <https://www.cma.or.ke/regulatory-framework/>

⁷The Effect of Automation on Stock Market Trade

⁸NSE HISTORY - PDF, NSE HISTORY - Website

⁹<https://web.archive.org/web/20240718122736/https://www.cma.or.ke/regulatory-framework/>

¹⁰Legal battle deny CMA insider trading fines

¹¹Insider Trading in Kenya and the Effectiveness of Its Sentencing in Light of Its Definition and Punishment in the United States of America and the United Kingdom

¹²Tightening Loose Ends: Capital Markets Authority's Power and Role in Combating Insider Trading

¹³CMA to drop troubled firms from Kenyan stock market

¹⁴Hard lessons in the collapse of stocks firms

¹⁵CMA to tighten unit trusts oversight after investor losses

¹⁶Capital Markets (Collective Investment Schemes) Regulations, 2001 (last amended in 2021)

¹⁷Capital Markets (Collective Investment Schemes) Regulations, 2001 (last amended in 2021), Part VIII, section

3. **Diversification rules:** *Funds must maintain a diversified portfolio, with limits on exposure to single issuers or sectors.* Regulation 78(1) states that a scheme shall not invest more than 25% of its net asset value in any one issuer, with an exception for government securities where the limit is 30%¹⁸.
4. **Valuation and pricing:** *Daily valuation of fund assets and use of amortized cost*¹⁹ *method for certain short-term securities.* Fund managers must provide accurate and up-to-date valuations of their funds' assets, which is crucial for determining the price at which units in the fund can be bought or sold²⁰.
5. **Disclosure requirements:** *Regular reporting of fund performance, fees, and portfolio composition to investors and the CMA.* The Capital Markets (Collective Investment Schemes) Regulations, 2001, outline key disclosure requirements for Kenyan fund managers. These include weekly publication of unit prices (Regulation 40), quarterly reports to the CMA and trustees on portfolio, activities, and performance (Regulation 42), and annual audited financial statements. Regulation 45 requires distribution of detailed annual and semi-annual reports to all investors, covering financial information, portfolio composition, and performance metrics. These rules ensure transparency in fund operations and regular communication with both regulators and investors.
6. **Risk management:** *Implementation of robust risk management systems and stress testing procedures.* Part IV, Section 9 of the Capital Markets (Risk Based Supervision of Licensees of the Capital Markets Authority) Guidelines, 2020, guidelines requires licensees, including fund managers, to develop and implement a risk management framework that includes stress testing and covers the identification, assessment, monitoring, controlling, and reporting of all material risks.
7. **Liquidity requirements:** *Maintaining a minimum percentage of assets in highly liquid instruments to meet redemption requests.* A person is eligible for a licence to act as a trustee of a collective investment fund if that person has a minimum liquid capital of five million shillings or eight per cent of its liabilities which must be maintained throughout the duration of the license²¹.
8. **Corporate governance:** *Appointment of independent trustees and compliance with the Code of Corporate Governance Practices for Issuers of Securities to the Public.* A person is eligible for a licence to act as a trustee of a collective investment fund if has as its directors and shareholders, persons who are fit and proper as provided under

102.1.a

¹⁸Regulation 78(1) and Regulation 78(2)(b) of the Capital Markets (Collective Investment Schemes) Regulations, 2001.

¹⁹Amortized cost refers to the purchase price of an asset, adjusted for factors like interest rates and payments over the lifetime of the asset. It allows assets to be valued on financial statements in a way that accounts for changes in value over time as the asset is used or paid off.

²⁰Regulation 48(1) and Regulation 49(5) of the Capital Markets (Collective Investment Schemes) Regulations, 2001

²¹PART V 32 (c), Capital Markets (Collective Investment Schemes)

section 24A of the Act ²². Additionally, the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, provides comprehensive guidelines for corporate governance, which fund managers issuing securities to the public must comply with.

9. **Marketing and advertising:** *Adherence to strict guidelines on marketing materials and performance representations.* The Capital Markets (Collective Investment Schemes) Regulations, 2001, provide guidelines on marketing and advertising for collective investment schemes. These regulations require CMA approval for all advertisements, mandate disclosure of potential value fluctuations, set standards for performance representations, and require warnings about past performance.
10. **Investor protection:** *Establishment of clear procedures for handling investor complaints and maintaining segregated client accounts.* Regulation 22 requires the establishment of procedures for handling investor complaints, while Regulation 31 mandates the maintenance of segregated client accounts ²³. Some fund managers don't have a way to tell that you have a unique and segregated account. In this era where automation is incredibly affordable, always prefer fund managers who have an online platform, an app or any other means where you can clearly see your money, initiate withdrawals and raise support tickets in real time. Some fund managers prefer you literally call them or explicitly write them an email to request a status of your account.

If you see a fund manager breaking any of these regulations, take it as a red flag and preferably follow up the matter with CMA at their complaint page, <https://portal.cma.or.ke/complaints/>. Unless your risk appetite is pretty high, in which case you should be not considering investing Money Market Funds, always prefer safely over interest... better safe than sorry!

Comparison: Money Market Investments vs. Bank Deposits in Kenya

Feature	Money Market Funds (KES)	Bank Deposits (KES)
Withdraw time	Same day to 3 business days depending on account type and fund manager. Joint accounts may take longer than personal accounts. Withdrawal via bank account may take longer than MPESA withdrawals.	Same day to 7 business days, depending on account type. Same day for Saving account.
Adding new Money	Can be done easily, often with minimum amounts	Can be done easily, sometimes with minimum amounts depending on account type
Interest type	Generally Compound Interest	Usually Simple interest

²²PART V 32 (c), Capital Markets (Collective Investment Schemes)

²³The Capital Markets Act, Cap 485A, and the Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, 2011

Feature	Money Market Funds (KES)	Bank Deposits (KES)
Risk level	Low to moderate. There is about 25% chance you can lose your principal investment, or part of it.	Low. There is about 15% you can lose your principal investment, or part of it.
Secured	Not secured by government	Secured up to Ksh 500,000 by KDIC ²⁴
Penalties	May have penalties for more than two withdrawals per month. No penalty for Cancellation.	Savings accounts - no penalty for withdrawal, may have penalty on cancellation; Fixed deposits - may have penalties for withdrawing and cancellation.
Creating an account	Simpler process and usually require lower initial deposit, approximately Ksh 5,000; your KRA PIN and one or more KYC documents	Simple process, higher initial deposit, averagely Ksh 20,000.
Interest rate	Generally higher than inflation (approximately 10-17% p.a.)*The interest rates determined by daily market yield, with factors such as Treasury bills greatly determining the yield.	Generally lower than inflation with exception of bank campaign offers to attract new customers.
Minimum balance	Often No minimum balance. You can withdraw all your money.	Savings accounts may have minimum balance. Fixed deposits can be withdrawn fully without a minimum balance.
Account management	Fund managers manage the account, taking a percentage of the profit, usually 2%.	No necessary management.
Accessibility	Less accessible, may require sending an email to initiate withdrawals. Some fund managers have mobile or web applications but transactions need to be approved.	Highly accessible through bank branches and digital platforms
Investment options	Mostly T-bills, commercial papers, and bank deposits.	No disclosure of where the money is invested.
Term length	Flexible, short-term to long-term. You can invest today and withdraw after one week, without a penalty, and having earned interest for that one week.	Fixed on either minimum period before withdrawal (approximately 6 months), or fixed intervals of withdrawal.

²⁴[Kenya Deposit Insurance Corporation](#)

Feature	Money Market Funds (KES)	Bank Deposits (KES)
Yield fluctuations	More sensitive to market conditions	More stable, fixed interest.

Data

Approved Fund Managers

To get a comprehensive list of approved fund managers, we crawled Capital Markets Authority (CMA). They have published a list of approved licencies in various capital markets. We will crawl from <https://www.cma.or.ke/licensees-market-players/>.

Screenshot of the page

Lets start with a screenshot of the page:

```

async def fund_manager_click_fn(page: Page):
    """
    Clicks on the 'FUND MANAGERS' accordion element in the page, so we can see it.

    Args:
        page (Page): The page object representing the web page.

    Returns:
        None
    """
    await page.waitForSelector('ul.module-accordion')
    elements = await page.querySelectorAll('li .accordion-title')
    # Iterate through the elements to find the one containing 'FUND MANAGERS'
    for element in elements:
        text_content = await page.evaluate('(element) => element.textContent', element)
        if 'FUND MANAGERS' in text_content:
            # Click on the target element
            await element.click()
            break
    else:
        print('Element not found')
    await page.waitForSelector('li.current.builder-accordion-active')
    await asyncio.sleep(1)

```



```
# Fund manager URL
FUND_MANAGER_URL = "https://www.cma.or.ke/licensees-market-players/"
# Take a screenshot
await web_screenshot_async(
    FUND_MANAGER_URL,
    action = fund_manager_click_fn,
    width=1500)
```

Crawling

Next, let's try grab the fund managers table into a dataframe that we can work with. Below is the list of all the certified fund managers in Kenya by CMA.²⁵

```
# Fetch the HTML content of the FUND_MANAGER_URL
url_response = urlopen(FUND_MANAGER_URL).read()

# Find the HTML table containing the fund managers information
fund_managers_html_table = BeautifulSoup(url_response, "html.parser")\
    .find('span', string="FUND MANAGERS")\
    .parent\
    .parent\
    .parent\
    .find('table')

# Convert the HTML table to a pandas DataFrame
fund_managers_df = pd.read_html(io.StringIO(str(fund_managers_html_table)))[0].dropna()

# Display the fund managers DataFrame
fund_managers_df
```

We have 34 approved fund managers as at 2024-05-05. Its important to note that this is **MAY NOT*** be an exhaustive list of all licenced Fund managers. For example, *Mali Money Market Fund* ²⁶ ²⁷ which seems to be wholly or partly owned by the Kenyan Telecommunications company, Safaricom PLC ²⁸, is not listed among licenced fund managers. According to Business Daily ²⁹, Mali MMF is administered by Genghis Capital Limited, which is listed by CMA as an Investment Bank. Genghis Capital Limited also has its own unit trust fund called Gencap

²⁵Approved Fund Managers by CMA. <https://www.cma.or.ke/licensees-market-players/>

²⁶Frequently Asked Questions / Mali

²⁷Safaricom to launch unit trust, new savings service

²⁸M-PESA / M-PESA Services / Wealth / Mali

²⁹Safaricom's Mali unit trust asset base hits Sh1.4bn