



SUPPLEMENTAL INFORMATION MEMORANDUM

ARVOCAP EUROFIX FIXED INCOME SPECIAL FUND (USD)

DATED _____

“PERMISSION HAS BEEN GRANTED BY THE CAPITAL MARKETS AUTHORITY (CMA) TO OFFER TO THE PUBLIC THE SECURITIES WHICH ARE THE SUBJECT OF THIS ISSUE. AS A MATTER OF POLICY, CMA ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS OR OPINIONS MADE OR REPORTS CONTAINED IN THIS INFORMATION MEMORANDUM

1. GENERAL

- 1.1. This First Supplemental Information Memorandum “IM” is issued to provide additional information in relation to the Arvocap Eurofix Fixed Income Special Fund (USD) “The Fund” as per schedule 1 of the Information Memorandum for Arvocap Asset Managers Fund Umbrella Scheme.
- 1.2. Arvocap Eurofix Fixed Income Special Fund (USD) “Fund” is a CIS product established under the Capital Markets regulations as a unit trust under the provisions of the Capital Markets (Collective Investment Schemes) Regulations 2023 (“the CIS Regulations”).
- 1.3. The Fund shall operate as an open-ended fund and its units shall therefore be continuously offered through its authorised agents.
- 1.4. The unit holders’ interest in the Fund will be represented by the units held in the Fund determined by the Net Asset Value of the Fund.
- 1.5. All terms used in this main Information Memorandum shall have the same meanings assigned to them in the Information Memorandum unless where the context otherwise requires.
- 1.6. All information provided herein is practicable as at 1st February 2024 and shall remain current and relevant as at such date.
- 1.7. As per the CMA guidelines on the Special Collective Investment Schemes seeking to exceed investments limits provided by Regulation 102 (e) of the Capital Markets (Collective Investment Schemes) Regulations, 2023 the minimum investment in the Fund is KES 100,000.00 or its equivalent when quoted in a different currency.
 - 1.7.1. The approximate equivalence when quoted in a different currency other than the Kenya Shilling for the minimum limit will be advised by the Fund Manager and may change based on the Kenya Shillings volatility. The investors will be given a notice of 90 days when such a change is to be implemented after the authorization of the Trustee and the Capital Markets Authority.

FUND INFORMATION

2. FUND MANAGER

- 2.1. The Fund Manager is Arvocap Asset Managers Limited “Arvocap”. Arvocap is regulated by the Capital Markets Authority (Kenya) under license number 190 issued on 30th October 2023.
- 2.2. The registered office for Arvocap is
Reliable Towers, 8th Floor – Wing B,
Mogotio Road, Westlands, Nairobi, Kenya.

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- 2.3. Further information on the umbrella fund is found on the Information Memorandum clause 2 on Unit Trust Scheme and clause 8.1 on Fund Manager.

3. TRUSTEE

- 3.1. The Trustee for the Fund is NCBA BANK KENYA PLC

- 3.2. The registered office for NCBA BANK is

NCBA House, Mara & Ragati Road,
Upperhil, Nairobi, Kenya

- 3.3. Further information on the trustee and their obligations is set out on the main IM clause 8.2

4. CUSTODIAN

- 4.1. The custodian for the fund is NCBA BANK KENYA PLC

- 4.2. The registered office for NCBA BANK is

NCBA House, Mara & Ragati Road,
Upperhill, Nairobi, Kenya

- 4.3. Further information on the custodian and their obligations is set out on the main IM clause 8.3.

5. AUDITOR

- 5.1. The auditor for the Fund is KING'ORI KAMAU & COMPANY (CPAK)

- 5.2. The registered office for KK & CO is

Worldwide Printing Centre, 4th Floor
Next to Stima Sacco, Parklands, Nairobi, Kenya.

- 5.3. Further information on the auditor and their obligations is set out on the main IM clause 8.4.

6. ASSET CLASS

- 6.1. As guided on the main Information Memorandum clause 4.4.2 on asset classes where the fund will have exposure in;
- 6.2. The fund will invest primarily in Fixed Income products in the global Market.
- 6.3. The fund will use cash and cash equivalents as a control tool in between trades.

7. FUND COMPOSITION AND ASSET ALLOCATION

- 7.1. As guided on the main Information Memorandum clause 6 on asset allocation the funds Asset allocation will be as per the limits below: -

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Asset Class	Target Allocation	Asset Allocation Range	CIS Upper Limits	Fund Benchmark
Sovereign Debt (local and foreign)	60%	60% - 100%	100%	S&P African Sovereign Bond Index
Corporate Bonds (local and foreign)	15%	0% - 80%	80%	
Structured products and unlisted Securities (local and foreign)	15%	0% - 25%	25%	
Cash and Cash equivalents	10%	0% - 50%	100%	

7.2. The above investments can be made provided that: -

7.2.1.No limits shall apply to investments of the Arvocap Eurofix Fixed Income Special Fund (USD) in government bonds and treasury bills issued by various governments across the world.

7.2.2. Investments in sovereign securities, corporate bonds, commercial papers and structured products will be subject to the investable security meeting the minimum investment thesis protocols as defined in the respective funds IPS or as guided by the fund's investment committee investable mandates from time to time

7.2.3. A credit risk analysis of the investable securities will be done based on global rating agencies metrics i.e. Fitch Ratings, Moody's and S&P Ratings. A classification of each instrument as per their risk rating will be done under the categorization of investment grade and high yield bonds. For investment grade bonds, securities rated Baa3 (and their Fitch and S&P equivalent ratings) will be considered. For high yield bonds, only bonds rated B3 (and their Fitch and S&P equivalent ratings) and above will be considered.

7.2.4. The Fund Manager will employ a risk diversification strategy aimed at reducing the overall portfolio risk and striking the correct risk-weighted balance in the portfolio. To avoid risk concentration, the measures below shall also be undertaken.

7.2.5.The book value of an investment in a single bond or security shall not in aggregate exceed twenty-five per cent (25%) of the Arvocap Eurofix Fixed Income Special Fund (USD) net asset value; and

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7.2.6. The book value of Arvocap Eurofix Fixed Income Special Fund (USD) holding of a corporate bond or commercial paper relating to any single issuer shall not exceed twenty-five per cent (25%) of the respective Fund's net asset value.

7.2.7. The limits and restrictions, in this part shall be complied with at all times based on the most up-to-date value of Arvocap Eurofix Fixed Income Special Fund (USD), but a five percent (5%) allowance in excess of any limit or restriction shall be permitted where the limit or restriction is breached through the appreciation in value of the portfolio.

7.2.8. Information on the investments will be given in monthly reports in form of a fact sheet to the Unit Holders on the investments in the Portfolio undertaken by the Fund Manager. These reports will review the investment activity and performance of the Portfolio and any changes comprising the Arvocap Eurofix Fixed Income Special Fund (USD)

7.3. Liquidity Management Tools

7.3.1. The Fund manager will maintain a classification of underlying assets as "highly liquid", "moderately liquid", "less liquid", and "illiquid".

7.3.2. Continuous stress testing of the asset side, considering volatility in valuations, and the liability side, considering the risk of redemptions will be implemented to guide classification in 7.3.1 above.

7.3.3. The fund manager has an obligation to treat all investors equally and thus best effort will be put to ensure actions of some investors do not jeopardize other investors. As such, the fund manager will apply clause 11.3 on restrictions on redemptions at 10% per dealing as guided and with the same information shared with the Capital Markets Authority.

7.3.4. The fund manager will also apply swing pricing (supported by European Asset Market Association ESMA and as practiced in 25 EU jurisdictions), a globally accepted standard, where transacting investors pay the cost of accessing the liquidity and thus incentivizing the investors to spread out redemption requests.

8. INCOME DISTRIBUTION

8.1. As guided on the Information Memorandum, under clause 15, units in this fund will be accumulating income i.e., any income generated from underlying invested products will be accruing to the unit holder in form of new units.

9. RISK PROFILE

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- 9.1. As guided on the Information Memorandum, under clause 4.3, on various risk profiles of an investor, Arvocat Eurofix Fixed Income Special Fund (USD) will have a low aggressive risk profile.

10. INVESTMENT OBJECTIVE AND INVESTMENT STRATEGY

- 10.1. To achieve high dollar income through investments in sovereign, high quality corporate bonds and high-grade structured products.
- 10.2. To achieve absolute capital growth in the long-term.

11. LOCK-IN PERIOD

- 11.1. As per the Information Memorandum under clause 2.8, the fund will have a lock-in period of 6 months of all new funds invested.

12. BENCHMARK

- 12.1. As per the Information Memorandum under clause 2.9, the funds benchmark will be the S&P African Sovereign Bond Index.

13. FUND CURRENCY

- 13.1. As per the Information Memorandum under clause 2.5, Arvocat Eurofix Fixed Income Special Fund (USD) base currency will be United States Dollar (USD).

14. INVESTMENT AMOUNTS

- 14.1. As per the Information Memorandum under clause 9.4, the minimum investment amount in the fund is USD 1,000.00
- 14.2. The minimum top-up is USD 1,000.00

15. FUND MANAGEMENT FEES

As per the Information Memorandum under clause 16 on charges and expenses, the below fees will be charged by the fund;

- 15.1. **Initial fee:** An initial fee calculated at 0.5% of all new invested amounts will be charged.
- 15.1.1. The initial fee is charged in advance and is included in the calculation of the NAV price used to make purchases when an investor is subscribing to new units
- 15.2. **Annual Management fees:** A management fee calculated at 2.0% of the average Asset Under Management is chargeable annually.

- 15.2.1. The annual management fee is prorated daily but payable quarterly in arrears for average assets under management held on the charge date.
- 15.2.2. Investors leaving before the next charge date will be charged the accrued fee as per the day of their exit in the fund.
- 15.3. **Performance fees:** A performance fee calculated at 20% of the total annual net return after subtracting all expense ratios of the average assets under management.
 - 15.3.1. Where the funds aggregate performance for the period is negative, no performance fee is chargeable.
 - 15.3.2. The fees are charged at the end of the fund calendar year, after determination of the period's performance return.
 - 15.3.3. Investors leaving before the calendar year ends and before calculation of the total funds net return will have their accrued return since 1st of January or since they made their investment whichever is later calculated and performance fee, if applicable i.e., if return is positive for the period, charged.

16. RISK INFORMATION

In addition to the risks highlighted on the Information Memorandum Clause 7, below risks are inherent to this fund:

- 16.1. **Liquidity Risk:** Relates to the Fund's inability to meet its short-term financial obligations. It stems from investments in valuable assets that cannot easily be traded at market value. The Fund Manager shall periodically undertake liquidity gap analysis and other liquidity stress tests to ensure availability of sufficient liquidity as anticipated.
- 16.2. **Market Risk:** Pertains to the possibility of facing financial losses due to fluctuations in financial markets. To address this risk, the fund can minimize exposure by spreading its investments across different types of assets, utilizing hedging techniques, and performing comprehensive market analysis to predict and respond to evolving market dynamics.
- 16.3. **Financial Risk:** Financial risk encompasses a broad range of risks related to financial instruments, market conditions, or operational factors that may affect the fund's financial stability. Mitigation strategies include robust risk management practices, stress testing, and maintaining adequate capital buffers to withstand adverse financial event
- 16.4. **Interest Risk:** Interest rate risk signifies the effect of fluctuations in interest rates on the value of fixed-income securities. To alleviate this risk, strategies include diversifying the duration of fixed-income holdings, employing interest rate derivatives, and consistently evaluating and adjusting the portfolio's sensitivity to interest rate changes

- 16.5. **Credit Risk:** Credit rating risk pertains to the potential for investment losses stemming from alterations in the credit ratings of securities within the portfolio. To address this risk, diversifying across various credit qualities, conducting ongoing credit monitoring, and performing thorough credit analysis can mitigate the effects of changes in credit ratings
- 16.6. **Inflation Risk:** Inflation risk arises from the erosion of purchasing power due to rising inflation, which can potentially diminish investment returns. Strategies to mitigate inflation risk include investing in asset classes that have historically outpaced inflation, such as real estate or commodities, and employing inflation-hedging instruments like Treasury Inflation-Protected Securities (TIPS).
- 16.7. **Seniority Risk:** In the context of structured debt instruments, seniority risk arises from the potential for lower priority in receiving repayments if a default or liquidation occurs. To mitigate this risk, comprehensive due diligence on the seniority structure of debt instruments, diversification across different debt securities, and careful evaluation of the credit quality and ranking of different debt tranches are essential strategies to minimize potential losses in case of default or restructuring.
- 16.8. **Currency Risk:** Currency risk represent the potential negative influence on investments caused by fluctuations in foreign exchange rates. These risks materialize when an investment is in a currency different from the investor's base currency, leading to shifts in the investment's worth as exchange rates change. To counter currency and exchange rate risks, employing hedging strategies such as currency forward contracts or options serves as a safeguard against unfavorable currency movements. Furthermore, spreading investments across various currencies or regions helps diminish exposure to the volatility of a single currency. Continuous monitoring of global economic and geopolitical factors, coupled with in-depth analysis of currency trends, facilitates well-informed decisions to mitigate the impact of exchange rate fluctuations on the investment portfolio. Additionally, maintaining a balanced and diversified portfolio across different currencies further minimizes the overall risk associated with currency fluctuations.