



SUPPLEMENTAL INFORMATION MEMORANDUM

ARVOCAP NGAO FIXED INCOME DISTRIBUTION FUND

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 Arvocat Ngao Fixed Income Distribution Fund “The Fund” as per schedule 1 of the Information Memorandum for Arvocat Asset Managers Fund Umbrella Scheme.
- 1.2. Arvocat Ngao Fixed Income Distribution Fund “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.

FUND INFORMATION

2. FUND MANAGER

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

Asset Class	Target Allocation	Asset Allocation Range	CIS Upper Limits	Fund Benchmark
Government Securities	80%	60% - 100%	100%	The fund will not track any benchmark
Listed Corporate Bonds	5%	0% - 80%	80%	
Unlisted Securities	5%	0% - 25%	25%	
Fixed Deposits	5%	0% - 100%	100%	
Cash and Term Deposits	5%	2.5% - 100%	100%	

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

7.2.1. No limits shall apply to investments of the Arvocat Ngao Fixed Income Distribution Fund in government bonds and treasury bills issued by the government of Kenya.

7.2.2. Investments in corporate bonds and commercial papers 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. The book value of an investment in a single bond or security shall not in aggregate exceed twenty-five per cent (25%) of the Arvocat Ngao Fixed Income Distribution Fund net asset value; and

7.2.4. The book value of Arvocat Ngao Fixed Income Distribution Fund 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.

7.2.5. The limits and restrictions, in this part shall be complied with at all times based on the most up-to-date value of Arvocat Ngao Fixed Income Distribution Fund, 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.

7.2.6. 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 Arvocat Ngao Fixed Income Distribution Fund.

8. INCOME DISTRIBUTION

8.1. As guided on the Information Memorandum, under clause 15, units in this fund will have income distribution option i.e., any income generated from underlying invested products will be distributed to the unit holder according to the distribution class they choose when opting in to the fund.

8.2. Below are the distribution classes: -

8.2.1. Class A – Monthly distribution

8.2.2. Class B - Quarterly distribution

8.2.3. Class C – Semi-annual distribution

8.2.4. Class D – Annual distribution

8.3. Beneficiaries

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- 8.3.1. The Arvocat Ngao Fixed Income Distribution Fund allows investors to take care of their loved ones through a beneficiary income distribution scheme.
- 8.3.2. Investors can nominate beneficiaries and allocate to them a percentage or a fixed sum of their distributable income under a given class of the sub-fund.
- 8.3.3. The frequency of income payout to the beneficiaries is based on the sub-fund class the investor has invested in and accordingly nominated the beneficiaries for.
- 8.3.4. The beneficiaries must have a direct family relationship with the investor i.e. Parents, Siblings, Uncles, Aunties, Grandparents, Nieces, Nephews, and Legal Guardians only.
- 8.3.5. A proof of relationship must be provided before the nomination for income distribution is approved.
- 8.3.6. The KYC requirements are: -
 - 8.3.6.1. Investors full KYC as required in opening an Arvocat client account.
 - 8.3.6.2. Beneficiaries Identification document i.e. National ID or Passport
 - 8.3.6.3. Passport size photo
 - 8.3.6.4. Contacts
 - 8.3.6.5. Proof of relationship i.e. Birth certificate(s)
- 8.3.7. The beneficial ownership of the investment does not change, the benefactor (the investor) holds the beneficial ownership of the underlying investment. Only the nomination of the income to be distributed takes place.
- 8.3.8. The investor has the sole mandate to nominate or cancel nomination of a beneficiary for the income distribution at their own discretion.

9. RISK PROFILE

- 9.1. As guided on the Information Memorandum, under clause 4.3, on various risk profiles of an investor, Arvocat Ngao Fixed Income Distribution Fund will have a low risk profile.

10. INVESTMENT OBJECTIVE AND INVESTMENT STRATEGY

- 10.1. To achieve income distribution through investments primarily in Kenya government securities, fixed deposits, qualifying fixed corporate income products and other cash and cash equivalents.
- 10.2. Achieve targeted income distribution through smart allocation on capital to cash flow yielding assets that meet the goal of each distribution class.

11. LOCK-IN PERIOD

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- 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 fund will be benchmark agnostic as a distribution fund.

13. FUND CURRENCY

- 13.1. As per the Information Memorandum under clause 2.5, Arvocat Ngao Fixed Income Distribution Fund base currency will be Kenya Shillings (KES).

14. INVESTMENT AMOUNTS

- 14.1. As per the Information Memorandum under clause 9.4, the minimum investment amount in the fund is KES 100,000.00
- 14.2. The minimum top-up is KES 100,000.00

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 1.0% 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.

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.