

NCBA Fixed Income Fund is a KES-denominated collective investment scheme that invests in a diversified portfolio of interest income earning assets, while ensuring low risk on the principal investment and access to funds on demand.

The fund invests in a diversified pool of interest income-earning securities and money market instruments such as bank deposits, treasury bills and bonds, commercial papers and corporate bonds.

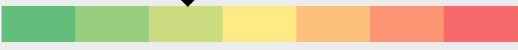
FUND PHILOSOPHY

1. Investment Focus: The fund focuses on generating stable interest income with minimal credit risk over capital gains.

2. Subscriptions and redemptions: The fund offers daily subscriptions and top-ups, while maintaining high liquidity to ensure investors can redeem their units on a T+1 day basis.

RISK RATING: Moderately Conservative

Lower Risk Higher Risk


FUND INFORMATION

Inception Date: **September 2006**

Base Currency: **KES**

Fund Size: **KES 40.75 billion**

Benchmark: **Average 91-day T-bill**

Fund Manager: **NCBA Investment Bank**

Custodian: **ABSA Bank Kenya Limited**

Trustees: **KCB Bank Kenya Limited**

Auditor: **Deloitte**

FEES (calculated as a % of fund value)

Initial & Redemption Fee: **0%**

YTD Total Expense Ratio: **2.64%**

DEALING INFORMATION

Minimum Investment: **KES 1,000**

Minimum Top-Up: **KES 1,000**

Interest Distribution Frequency: **Daily**

Pricing: **Daily Net Asset Value (NAV)**

PORTFOLIO CHARACTERISTICS

Average Daily Yield: **6.50%**

Monthly Valuation Distribution: **-0.08%**

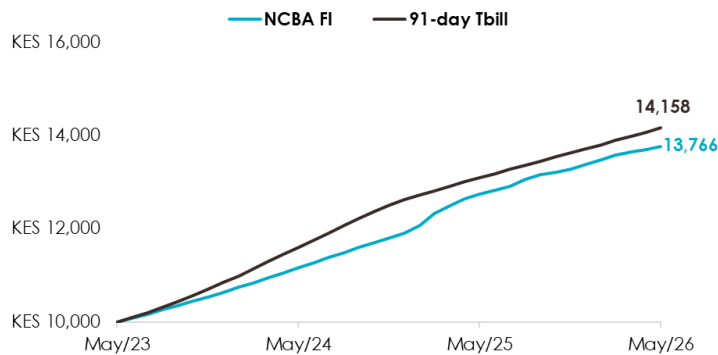
Sharpe Ratio (3 year period): **-0.26**

Maximum Drawdown (1 year period): **-0.72%**

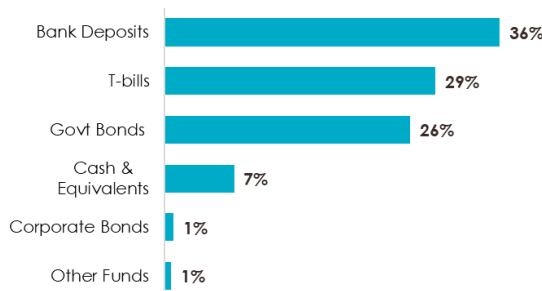
Maximum Drawdown (3 year period): **-4.13%**

FUND PERFORMANCE

	1 Month	3 Months	6 Months	1YR	3YR (annualized)	5YR (annualized)
Fund (Total Return)	0.47%	1.42%	3.66%	8.06%	11.24%	10.26%
91-day T-bill	0.69%	1.95%	3.93%	8.16%	12.29%	10.74%

Cumulative Growth of KES 10,000


The chart illustrates a hypothetical investment of KES 10,000, assuming reinvestment of interest.

ASSET ALLOCATION

PORTFOLIO MANAGER'S COMMENTARY

The Fund's return proved resilient in May, supported by its income-generating holdings, particularly Treasury bills and bank deposits. Rising Treasury bill yields enhanced portfolio income, while bank deposits continued to provide stable returns despite a slower pace of repricing.

Performance was moderated by modest valuation losses within the bond portfolio as yields moved higher across most tenors. However, the Fund's allocation to short-duration income-generating assets helped cushion the impact of these market movements.

Looking ahead, rising inflation expectations and sustained government borrowing requirements are expected to keep short-term yields attractive. The Fund remains focused on capturing these opportunities while maintaining a balanced approach to income generation, liquidity, and capital preservation.

Joseph Thiga
Portfolio Manager

Glossary of Terms

Maximum Drawdown measures the largest percentage decline in value that an investment experiences from its highest point to its lowest point.

Sharpe Ratio measures the return of an investment per unit of risk. The higher the ratio the higher the risk-adjusted return.

Conservative - Appropriate for investors with a low-risk tolerance and a time horizon less than or equal to 3 years

Moderate - Appropriate for investors with medium risk tolerance and a time horizon not longer than 5 years

Aggressive - Appropriate for investors with a high-risk tolerance and a longer time horizon (at least 5 years)

Disclaimer

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NCBA Investment Bank is licensed as a Fund Manager by the Capital Markets Authority.

Inflation

May's inflation data indicated a sharp increase for the second consecutive month, primarily driven by heightened food and transport costs. As a result, annual headline inflation rose to 6.7% in May, up 110 basis points from April's rate of 5.6%, while the month-on-month figure increased to 1.6% from 1.4% the previous month.

Transport prices registered a significant 16.5% year-on-year rise, following the second upward adjustment in fuel prices during the month; petrol and diesel prices increased by 8.4% and 18.4% month-on-month, respectively. Elevated oil prices are expected to maintain upward pressure on transport costs in the short term.

Core inflation edged up to 3.3% from 2.8%, attributable mainly to higher costs of food, alcoholic beverages, and transport, rather than any substantial improvement in aggregate demand.

Looking ahead, global oil prices are anticipated to remain high due to declining inventories in Europe and Asia, as well as ongoing uncertainties in the Middle East. In this context, domestic headline inflation could approach 7.5% in June, reflecting potential second-round effects.

Interest Rates

The yield curve advanced by 22 basis points during the month, with yields generally increasing across all maturities, except for the 3-, 4-, and 5-year instruments which saw marginal declines. The short-term papers experienced the most pronounced gains, notably the 2-year paper, alongside certain mid-curve tenors and the 91-day treasury bill.

Yields for both the 91-day and 182-day papers converged at approximately 8%, indicative of heightened near-term inflation expectations and sustained government borrowing pressures during a month marked by a net negative borrowing position due to significant redemptions. This environment limited the government's flexibility in rate management, as indicated by the bid-to-cover ratio, which averaged 1 across the treasury bill tenors.

During the month, bond auctions attracted substantial investor participation, particularly the three-paper issue, with a clear preference for shorter-dated notes and higher-coupon, long-term bonds. Conversely, the subsequent switch bond and dual issuance were less attractive given the prevailing rate outlook, as investors anticipated continued increases in yields. Additionally, the close of corporate medium-term notes (I&M and KMRC) mid-month may have influenced investor preferences, as evidenced by their sizeable bids, underscoring the robust appetite for returns.

Currency

The Kenya Shilling saw a minor depreciation of 0.28% against the Dollar, ending the month at USDKES 129.55. This shift reflects the global strength of the Dollar and the impact of high fuel import costs, as energy prices stayed elevated. The U.S. dollar has kept gaining ground as a safe haven, especially during ongoing uncertainties surrounding the Middle East conflict.

Meanwhile, the Shilling appreciated against the Euro by 0.15% and against the Pound by 0.03%, closing at EURKES 150.76 and GBPKES 174.07, respectively. In regional comparisons, the Shilling strengthened in value against both the Tanzanian and Ugandan Shilling.

Foreign exchange reserves remain a safeguard against potential currency volatility.

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