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OVERVIEW:

June saw the release of the national budgets of the EAC member states of Kenya, Uganda, Rwanda and Tanzania. With a significant portion of spending earmarked for infrastructure development, companies with a regional presence and reginal consumers alike look set to benefit. Additionally, kenya's long awaited Eurobond issue came to a record setting conclusion.

MACROECONOMIC VIEW:

Indicators of the general outlook on the Kenyan economy returned varied results over the Course of June. While worries regarding insecurity remained the primary concern of citixzens and international investors alike, the Kenyan economy has continued to maintain a steadily positive perfomance this year.

The highly succesful issuance of kenya's debut Eurobond in international markets signals a vote of confidence in the country's economy by international investors as well as its prospects for repaying long term debt. the bond was issued in two parts, a 5 year bond offering a yield of 5.875% amounting to US$ 500 million and US$1.5 million worth of 10year bonds with a yield of 6.875. The bond issue attracted bids amounting to over four times the US$ 2 billion the goverment was seeking to raise.

The funds raised in the bond issue are to be utilised by goverment to repay a US$ 600 million will go to repaying a syndicated loan while the majority is earmarked for financing infrastructure development in the 2014/2015 national budget.

This month also saw the world bank downgrade its growth expectations for the kenyan economy. The WB projects that GDP growth will remain at 4.7% in 2014 and 2015, down from a previous estimate of 5.3% for 2015 that it made at the start of the year. The kenyan goverment forecasts growth for the economy to come in at 5.8% this year and 6.4% in 2015.

Recently released Central bank figures estimate that the kenyan economy expanded by 4.1% between January and March 2014 compared to a rate of 5.2% during the first quarter of 2013. Strong perfomance was seen in the financial intermediation, transport and communication, manufacturing, and wholesale and retail trade sectors which grew by 8.3%, 6.0%, 5.0% respectively.Reduced rainfall and a reduction in the demand for agricultural exports resulted in a notable fall rate of growth of the agricultural sector.

As we enter the 2014/15financial year, the perfomance of the kenyan economy will be hinged on curbinginsecurity, rebuilding and improving the country's attractiveness as an investment destination and spending on key infrastructure development. taking this into consideration, growth within the 4.7%-5.2% range can be resonably

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FISCAL POLICY

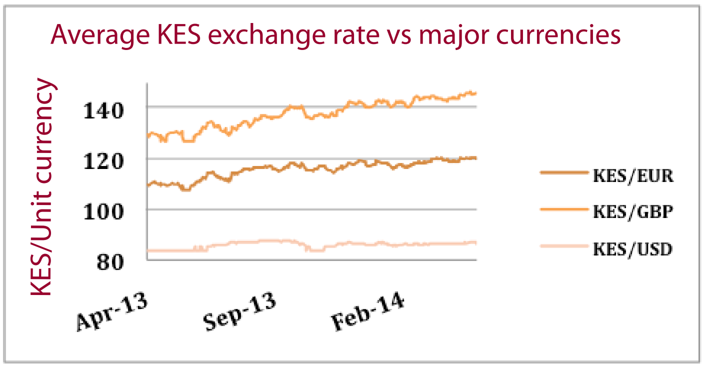
Members of the East African Community (EAC) unveiled their national budgets for the 2014/2015 fiscal year. In line with plans for greater economic integration, the national budgets featured a strong focus on infrastructure spending. In Kenya, 22.6% of the KES 1.77 trillion total government budget for the next fiscal year is to be spent on Energy, infrastructure, and ICT developments. High levels of infrastructure spending in both Tanzania and Uganda paint a positive picture of trade facilitation and falling products costs if successfully implemented.

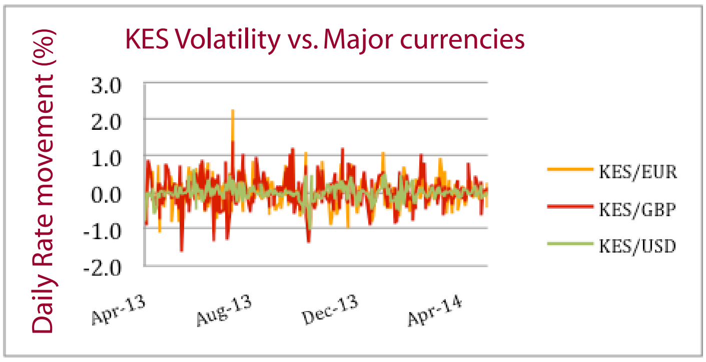
Within these spending objectives Kenya's budget deficit stands at approximately 7.4% of GDP. The country has come under increased scrutiny by the World Bank and International Monetary Fund to control an increasing debt to GDP ratio that has steadily crept up past 50%.

Insecurity, erratic foreign exchange inflows from low coffee and tea prices and an ailing tourism industry are all major concerns for the Kenyan economy and the government's ability to increase revenue collection. However, an additional concern is the fact that government ministries across the board are still putting forward desperately low development budget absorption rates. According to some estimates, over half of the 2013/14 KES447.9 billion development budget allocated to government ministries may have been lying idle in government coffers as the fiscal year drew to a close. Unfortunately, sectors that are critical to achieving development objectives such as education as well as transport and infrastructure have been among the poorest performers in his regard.

MONETARY POLICY- INFLATION, INTEREST RATES AND THE SHILLING

The Kenya Shilling showed few signs of volatility over the course of June as compared to May, ending the month marginally weaker against the US dollar, British Pound and Euro. This however is a sign that the shilling may continue the downward trend it has experienced since the start of 2014 which has seen it lose approximately 1% of its value of the period. The overall inflation rate in Kenya stood at 7.39% in June, an increase from the 7.30% recorded in May. June saw a rise in the cost of transport due to rising fuel costs and higher prices in public transport.





While the index tracking the price of food and non-alcoholic beverages fell during the month of June by 0.29%, food prices over a one year period have risen by 8.41%. The general trend of rising costs of living was also evident in the rise in the electricity and rent

Bank lending rates have been on a very gradual decline over the course of the past year, falling from an average of 17.45% In June 2013 to 16.97% in June this year. Despite expectations of the private sector seeing lower interest rates as a result of the successful Eurobond issue, lenders and commercial banks continue to enjoy large interest rate spreads. This is despite central bank efforts to encourage the provision of more affordable loan terms by persistently maintaining the central bank rate, the key rate at which commercial banks borrow from the CBK, in single digits at 8.5%. Worryingly, this suggests a major disconnect in this particular monetary policy mechanism, which will surely hinder efforts to increase private sector borrowing and investment.

In contrast to general expectations of a fall in borrowing costs facing the government, the rate of interest on Treasury bills issued over the course of June rose by a notable margin across the board. In a telling sign of investor uncertainty and high government financing needs during the final auction of the month, shorter term instruments were in high demand with the 91 and 182 day T-bills both oversubscribed while the 364 day T-bill appeared significantly less sought after receiving bids for mere 23% of the offered amount.
The Outlook on interest rates is therefore that lenders have already factored any expected impact of the Eurobond on government loan demands, and a significant fall in rates is unlikely over the short term.

EXTERNAL ENVIROMENT: GLOBAL MARKETS IN BRIEF

June saw a continuation of a slow and disparate growth and recovery story for the global economy. The US has maintained a steady path of job creation and has experienced a pickup in economic activity while Europe's recovery story does not inspire as much buoyancy or assurance.

Latest figures show that the US economy added 280,000 jobs over the course of June and the unemployment rate dropped to 6.1% from 6.3% a month earlier, the lowest since reading since September 2008. While the rate of hourly wage growth in the US remains low, positive employment figures do indicate that the US is on a more stable and sustainable growth path. In line with this, the Federal Reserve maintained its process of reducing monetary stimulus measures by a further US$ 10 billion to US$ 35 billion a month.

On the other side of the Atlantic, the economic recovery of the euro zone economies remains stubbornly slow and worryingly uneven. The German economy is predicted to grow by 0.7% in the second quarter, versus the wider euro area at 0.4%. The French economy, the euro zone's second largest, showed signs of reduced business activity as the private sector activity contracted at the fastest pace in four months. This marks it the second consecutive month of reduced output for this economy. The European Central Bank introduced a range of more aggressive measures to spur economic growth in Europe this month. These included a cut in the deposit rate for banks to -0.1%, essentially penalising banks for holding too much money instead of lending it within the economy, and a cut in the benchmark interest rate from 0.25% to 0.15%.

Within emerging markets, expectations for the future performance of economies that have experienced political change or upheaval in the past months was a recurring theme in June. New regimes in India and Egypt and early signs of economic stability after military coup that ousted the former prime minister of Thailand should support an increase investment activity within these markets. The improving economies of the US and Europe will additionally lend support to improved performance in emerging markets in the coming months. A key risk factor to an improving economic environment in developing markets that was highlighted in June is the continued aggressive actions by extremist group ISIS/L in Iraq and Syria.

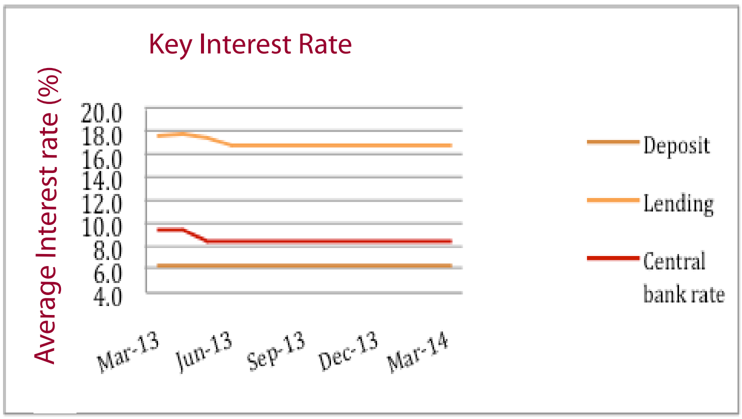
The price of oil jumped to US$ 115 from $109 a barrel over the course of the month, amid concerns that ISIS forces could disrupt output of the commodity from Iraq which is OPEC's second largest oil producer.

NAIROBI SECURITIES EXCHANGE: EQUITIES FIXED INCOME AND GENERAL OUTLOOK

By the end of the month the NSE 20 Index was up by 0.25%, after experiencing a noticeable drop of 2.4% over the course of the month. The All Share Index in contrast was ranging around 150 and ended the month up by 0.32%.

This month's top performing stock list was dominated by banking, investment and insurance firms. Although, strong gains by Coffee company Eaagads and British American Tobacco which recorded gains of 8.17% and 50% respectively gained them a position among the top of the month's rankings. Equity Bank, Britam, Jubilee Insurance and recorded gains in excess of 10% over the course of June, with Jubilee posting a gain of 15.63%.

Bond trading activity over the course of the month remained steady aside from a significant fall during the week in which the Eurobond issue was finalised. Investors returned to the bond market in during the last week of the month which saw a rise in the number of deals executed and the value of bonds traded.



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REGIONAL MARKET WATCH

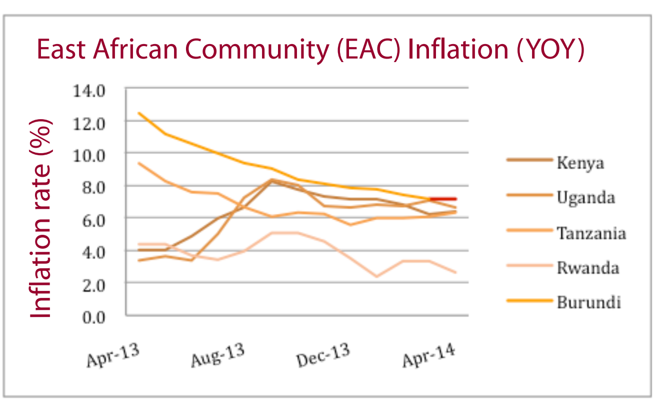
RWANDA:

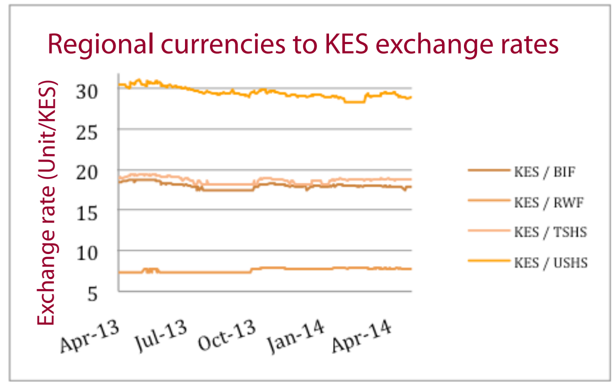
The government of Rwanda has planned to increase pending this fiscal year by 9.4% to 1.75 trillion RWF (US$ 2.58 billion). This high growth EAC member is poised to achieve a growth rate of 6.0% in 2014, 6.7% in 2015 and 7.0% in 2016. It will additionally be receiving between US$200-250 million per year over the next four years for development spending from the World Bank.

TANZANIA:

Tanzania's economic potential lies in the ability to harness high rates of urban population growth to Create large-scale job creation, according to a recently released Tanzania economic update. The majority of the Tanzanian population is expected to be living in cities by 2030. The country's labour force is predicted to grow to 45 million people by 2030 from the current 23 million people today.

In June the Norwegian oil firm Statoil announced the discovery of an additional 2-3 trillion cubic feet of natural gas off the country's coast. With plans in place to construct a Liquefied Natural Gas (LNG), and Tanzania firmly placed to become a major natural gas exporter, the question now remains the extent to which the benefits from such discoveries will translate into tangible returns for the wider Tanzanian population.





UGANDA:

In June further targeted visa restrictions and sanctions were imposed on the Ugandan government in response to the signing into law of the anti-homosexuality act earlier this year. This new wave of penalties were imposed by the United States, which in doing so joins Norway, Sweden and Denmark in doing so.

The penalties include the partial cancelation of aid funding amounting to US$ 2.4 million as well as the cancellation of military exercises planned to be carried out later this year.

MONTHLY FOCUS: UNIT TRUSTS & COLLECTIVE INVESTMENT SCHEMES IN AFRICA

Optional introduction[[A Collective Investment Scheme (CIS) is an investment product that professional investment managers can use to pool money and allow investors to gain access to investments and investment management expertise they may not have been able to access alternatively.]] Collective Investment Schemes, which include Unit Trusts, Mutual Funds and Employee Share Ownership Plans (ESOPs), are increasingly gaining approval and appreciation as an effective and accessible means to save and invest income on the African continent.

As of February 2014 there were 24 fund managers registered in Kenya with 17 Collective Investment Schemes on offer to investors. Within these 17 CIS, there are 62 different Unit Trust Schemes offering access to a full range of investments in equity, fixed income and money market instruments. In addition to this, investors have access to a Shariah and ethical investment compliant fund through the country's first such Collective Investment Scheme launched in 2012.

The growth of the industry has been significant in recent years with the number of schemes available growing from one in 2001, 11 in 2008 to the current 17. The Unit Trust industry in Kenya currently has approximately KES 35 billion (US$ 398 million) in funds under management.

Regarding the development of Collective Investment Schemes in the region and on the continent, South Africa understandably features the largest and most developed CIS industry. At the end of the first quarter of 2014, the local CIS industry in SA managed R.1.54 trillion (US$ 144.5 billion) in funds. Of these, approximately 13.81% were foreign currency denominated unit trust funds in currencies including the dollar, euro, pound and yen. The industry manages these funds through a total of 1053 portfolios available to investors. Investment in unit trusts and mutual funds in Western Africa has also been increasingly taken up by the general public. Ghana has total of 91 fund managers and advisory service providers managing 30 collective investment schemes. A higher market concentration when compared to a total of 40 fund managers and investment advisors in Kenya, servicing a population approximately a third larger than Ghana's.

The continent's largest economy, Nigeria has 21 fund managers and boasts a wider range of investment products available beyond equities and fixed income products. In addition to 5 ethical funds, investors can also diversify their holdings into funds tracking the performance of gold prices, oil as well as real estate. Between January and May 2014, the value of assets being managed in CIS in Nigeria grew by around 17%. Even with the current funds under management in excess of US$ 1 billion within collective investment schemes in Nigeria, the industry still trails South Africa by a monumental margin. The takeaway from these figures is clear, the growth potential of the CIS market in Kenya and the region is extremely high. In terms of growth in shareholder funds, introduction of new products and investment classes as well as accessibility to new markets, the opportunities are real and attainable.