

THE MADISON WEALTH FUND

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE PERIOD
ENDED
31 DECEMBER 2023**

**THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2023**

CONTENTS	PAGE
Fund Information	2
Report of the Trustee	3 - 4
Fund Manager's Report	5
Report of the Custodian	6
Statement of Trustee's Responsibilities	7
Report of the Independent Auditors	8 - 10
Financial Statements:	
Statement of Profit or Loss and Other Comprehensive Income	11
Statement of Financial Position	12
Statement of Changes in Net Assets	13
Statement of Cash Flows	14
Notes to the Financial Statements	15 - 26

THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2023

FUND INFORMATION

CORPORATE TRUSTEE:

KCB Bank Kenya Limited
KCB Towers, 7th Floor
Junction of Hospital Road and Kenya Road,
Upper Hill
P.O. Box 30664- 00100
Nairobi

REGISTERED OFFICE:

Madison House
2nd Floor
Upper Hill Close
P.O. Box 20092-00100
Nairobi

FUND MANAGERS AND
ADMINISTRATORS:

Madison Investment Managers Limited
Madison House, 2nd Floor
Upper Hill Close
P.O. Box 20092- 00100
Nairobi

Telephone +254 20 2864500
Email madisoninvestmentmanagers@madison.co.ke

CUSTODIANS

Equity Bank Kenya Plc
Custodial Services
Equity Centre, Upper Hill
P.O. Box 39807- 0623
Nairobi

INDEPENDENT AUDITOR

Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Deloitte Place Waiyaki way
P.O. Box 40092- 00100
Nairobi

THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2023

REPORT OF THE TRUSTEE

The trustee has the pleasure of submitting the fund's report together with the audited financial statements for the period ended 31 December 2023.

ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The fund was established and is governed by a trust deed as a Wealth Fund. The fund was registered with the Capital Markets Authority on 15 June 2022 and commenced operations on 25 January 2023.

The objective of the fund is to maximize income while securing steady capital growth by investing in a diversified portfolio of high-yielding securities in the local and international markets.

The fund is a unit trust and the interest of the individual members is determined by the value of their units. The Trustee is responsible for its affairs.

The fund is an approved collective investment scheme within the meaning of the Capital Markets Act; and the holders are not liable for the debts of the fund.

CHANGES TO THE INCORPORATION DOCUMENTS

The incorporation documents for the fund were amended during the period under review mainly to increase the minimum investment and top up into the fund.

FINANCIAL REVIEW

The statement of profit or loss on page 1 shows profit for the period of Kshs. 145,700,282. The statement of financial position on page 12 shows total net assets of Kshs. 2,126,045,588.

PERFORMANCE RECORD

The performance record of the fund over the current period is as shown below:

- a) The closing, lowest and highest prices of the units of the fund:

	2023	
	Daily yield Kshs	Annual yield Kshs
Closing unit price	13.49%	14.36%
Lowest unit price	5.63%	5.71%
Highest unit price	14.60%	15.61%

- (b) The total fund value, number of units and net income distributed for all units held at the end of the period:

	2023
Total fund value (Kshs)	2,126,045,588
Net income distributed (Kshs)	145,700,282
Number of units distributed	1,980,345,306

There has been no amalgamation or reconstruction of the current units in the fund that have had a material effect on the size of the fund.

THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2023

REPORT OF THE TRUSTEE (Continued)

PERFORMANCE RECORD (Continued)

INVESTMENT

Under the terms of their appointment, Madison Investment Managers Limited are responsible for the investment of funds. The overall responsibility for investment and performance lies with the trustee.

MEMBERSHIP

As at 31 December 2023, the fund had 143 members.

FUND ADVISORS

The names and addresses of the fund manager, trustee, custodian and independent auditor are as shown on page 2.

PRINCIPAL RISKS AND UNCERTAINTIES

The fund's strategic focus is to seek capital preservation while providing competitive interest income from a portfolio of wide range of interest-bearing securities, the success of which remains dependent on overall interest rate environment in both the local and global markets. The interest rate environment is determined by the country's monetary policy, which is informed by inflation, currency movements and economic growth.

STATEMENT AS TO DISCLOSURE TO THE FUND'S AUDITOR


With respect to the trustee at the time this report was approved:

- (a) there is, so far as the trustee is aware, no relevant audit information of which the fund's auditor is unaware; and
- (b) the trustee has taken all the steps that ought to have been taken as a trustee so as to be aware of any relevant audit information and to establish that the fund's auditor is aware of that information.


TERMS OF APPOINTMENT OF THE AUDITOR

The auditors Deloitte & Touche LLP have indicated their willingness to continue in office. The trustee monitors the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the unit holders.

For: KCB BANK KENYA LTD.


.....
CORPORATE TRUSTEE
By order of the Trustee
KCB Bank Kenya Limited

For: KCB BANK KENYA LTD.


.....
CORPORATE TRUSTEE
By order of the Trustee
KCB Bank Kenya Limited

27 March 2024

THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2023

FUND MANAGER'S REPORT TO THE UNIT HOLDERS

The investment objective of the Madison Wealth Fund is to enhance return while securing steady capital growth. The Fund invested in a diversified portfolio of high yielding securities in the local market. The Fund receives regular and significant amount of income inflows which are distributed to the Unit holder.

The Fund was launched in January 2023, and as of 31st December 2023, the fund value stood at Kenya shillings (Kshs) 2.13 billion. The Fund achieved a daily average return of 13.49% (net of fees, gross of tax) in 2023. The performance of the Fund in 2023 was underpinned by several factors that are discussed below:

The global economy is slowly recovering from the impacts of the Covid-19 pandemic, Russia's invasion of Ukraine, and the cost-of-living crisis. Furthermore, various other factors are hindering a full recovery. These impediments include the increasing geo-economic fragmentation, the war in Ukraine and the effects of monetary policy tightening. The impact of stringent monetary policy around the globe on the African continent are distinctly evident, with most countries in the region grappling with intense exchange rate pressures amid high levels of debt. The International Monetary Fund (IMF), in its outlook, projects growth in sub-Saharan Africa to decline to +3.3% in 2023 compared to +4.0% in 2022.

Kenya's GDP growth rates for the first three quarters of 2023 averaged 5.6% compared to 5.2% recorded over a similar period in 2022. The performance was primarily attributed to a remarkable rebound in the agriculture sector, which played a pivotal role in driving overall growth. The agricultural sector, in particular, demonstrated a striking turnaround by registering a substantial average growth rate of 7.0% in the first three quarters compared to a 1.8% contraction over similar period in 2022. Despite this, the overall business environment faced challenges spawned by the sustained depreciation of the Kenyan shilling, elevated interest rates, higher taxes, and elevated fuel prices. These factors led to significant cost pressures on businesses, causing a decline in new orders and a noticeable weakening of consumer purchasing power. According to IMF, Kenya's economy is expected to grow by 5.0% in 2023, compared to 4.8% in 2022.

Headline inflation averaged 7.6% in 2023 similar to what was recorded in 2022, remaining slightly above the Central Bank of Kenya (CBK) upper limit of 7.50%. The sustained inflationary pressures were mainly as a result of elevated food and fuel prices in the country attributed to high cost of fuel importation, a double increase in VAT on petroleum products to 16.0%, and supply-chain constraints. During the period, inflation peaked at 9.2% in the month of February and March. However, inflation exhibited a deceleration in the month of December 2023 to 6.6% supported by eased food prices.

In 2023, the Kenya Shilling (Kshs) faced significant exchange rate pressures against major international currencies, experiencing depreciations of -26.8% against the USD to Kshs 156.46, -32.4% against the Euro to Kshs 173.78, -34.6% against the British Pound to Kshs 199.80 and -20.3% against the Yen to Kshs 109.46. The Kshs performance was mainly influenced by the dwindling forex reserve coupled with tight monetary stance in advanced economies. The ever-persistent current account deficit driven by increased imports further exacerbated the weakening of the shilling. Regionally, similar trends were observed with the Kenya Shilling depreciating by; -15.0% against the Tanzanian Shilling and -19.7% against the Ugandan Shilling.

In 2023, there was a discernible upward trend in the yields of the treasury bills. The yields on 91-day, 182-day and 364-day T-bills closed the period at 15.88%, 15.97% and 15.90% respectively, compared to period end figures of 9.37%, 9.83% and 10.31% in 2022. In 2023, the overall average subscription rate of the treasury bills came at 121.5% compared to the average rate of 94.9% in 2022. Similarly, yields on the longer-dated government securities rose in the period.

We appreciate your investment in the Fund and thank you for supporting us. We look forward to developing a long-term relationship with you and to working closely with you as you secure your financial future and meet your investment goals.


Signed on behalf of Fund Manager
Madison Investment Managers Limited

27 March 2024


Signed on behalf of Fund Manager
Madison Investment Managers Limited

27 March 2024

THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2023

REPORT OF THE CUSTODIAN

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between Equity Bank Custody Services as the Custodians and Madison Investment Managers Limited as the Fund Manager, we confirm that:


- a) we have discharged the duties prescribed for a Custodian under Regulation 35 of the CMA Regulations, to Madison Wealth Fund
- b) the issue, sale, redemption and cancellation, and calculation of the price of the fund's units and the application of the fund's income have been carried out in accordance with the Regulations; and
- c) the investment and borrowing powers and restrictions applicable to the fund in accordance with the regulations and the documents of incorporation have not been exceeded.

We have held the assets for Madison Wealth Fund, including securities and income that accrue thereof, to the order of the Fund Manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.


For the period ended 31 December 2023, we have held the assets for the fund, including title deeds, securities and income that accrue thereof, to the order of the fund manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.

To the best knowledge of the Custodian, the Fund Manager has in all material respects managed the scheme in accordance with the provisions of the CMA Regulations, incorporation documents, the information memorandum and the rules of Collective Investment Scheme.

Signed on behalf of Custodian
Equity Bank Kenya Limited


2024
27 March 2024

Signed on behalf of Custodian
Equity Bank Kenya Limited


27 March 2024



THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2023

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Capital Markets (Collective Investment Schemes) Regulations, 2001 and trust deed requires the trustee to prepare financial statements for each financial period which show a true and fair view of the state of affairs of the fund at the end of the financial period and of the fund's operating results for the period. It also requires the trustee to ensure that the Madison Wealth Fund keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the fund. The trustee is also responsible for safeguarding the assets of the fund.

The Custodian has confirmed that The Fund Manager has in all material respects managed the scheme in accordance with the provisions of the CMA Regulations, incorporation documents, the information memorandum and the rules of Collective Investment Scheme.

The trustee is responsible for the preparation of the financial statements which give a true and fair view in accordance with International Financial Reporting Standards and the Capital Markets Authority Act, and for such internal controls as the trustee determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud error.

The trustee accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the Capital Markets Authority Act. The trustee is of the opinion that the financial statements give a true and fair view of the financial affairs of the Madison Wealth Fund and of its operating results. The trustee further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.


Nothing has come to the attention of the trustee to indicate that the Madison Wealth Fund will not be able to meet its obligations for at least the next twelve months from the date of this statement.

For: KCB BANK KENYA LTD.


Signed on behalf of Trustee
KCB Bank Kenya Limited

27 March 2024

For: KCB BANK KENYA LTD.


Signed on behalf of Trustee
KCB Bank Kenya Limited

27 March 2024

REPORT OF THE INDEPENDENT AUDITORS' TO THE MEMBERS OF THE MADISON WEALTH FUND

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Madison Wealth Fund set out on pages 11 to 26, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss, the statement of changes in net assets and the statement of cash flows for the period then ended, and the notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023 and of its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Capital Markets Authority (Collective Investment Schemes) Regulations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants* (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

We have determined that there are no key audit matters to communicate in our report.

Other Information

The Trustee of the Fund is responsible for the other information, which comprises of the Report of the Trustee, Fund manager's report and the Report of the Custodian which were obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed and on the other information we obtained prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



REPORT OF THE INDEPENDENT AUDITORS' TO THE MEMBERS OF MADISON WEALTH FUND (Continued)

Responsibilities of the Trustee for the financial statements

The Trustee is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Capital Markets Authority (Collective Investment Schemes) Regulations, and for such internal controls as Trustee determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustee;
- Conclude on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT OF THE INDEPENDENT AUDITORS'
TO THE MEMBERS OF MADISON WEALTH FUND (Continued)

Report on Other Legal and Regulatory Requirements

We confirm that the financial statements have been properly prepared in accordance with the Capital Markets Authority (Collective Investment Schemes) Regulations, 2001.

The Capital Markets Authority (Collective Investment Schemes) Regulations, 2001 also requires that in carrying out our audit we consider and report to you on the following matters:

- If the auditor is of the opinion that proper accounting records for the collective investment scheme have not been kept or that the accounts are not in agreement with those records;
- If the auditor has not been given all the information and explanation which, to the best of his knowledge and belief, are necessary for the purpose of his audit; or
- If the auditor is of the opinion that the information given in the report of the Fund Manager for that period is inconsistent with the accounts.

We confirm that there are no matters to report in respect of the foregoing requirements.

The engagement partner responsible for the audit resulting in this independent auditor's report is **CPA Freda Mitambo**, Practicing certificate No. 2174.

Freda Mitambo

**For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi**

27 March 2024

THE MADISON WEALTH FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2023

	Notes	2023 Kshs
Investment income	2	191,066,959
Operating expenses	3.1	(34,174,104)
IFRS 9 impairment provisions	3.2	(11,192,573)
Profit before taxation	4	145,700,282
Tax expense		-
Profit for the period		145,700,282
Other comprehensive income for the period		-
Total comprehensive income for the period		145,700,282

The notes on pages 15 to 26 form an integral part of these financial statements. Report of the independent auditor - pages 8 to 10.

THE MADISON WEALTH FUND

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Notes	2023 Kshs
ASSETS		
Fixed deposits	5	600,358,555
Commercial papers	6	811,919,776
Treasury bonds	7	720,212,996
Bank balances	8	56
		2,132,491,383
LIABILITIES		
Other payables	9	2,360,457
Due to related party	10	4,085,338
		2,126,045,588
NET ASSETS		
		2,126,045,588
FUND BALANCE		
Unit holders funds		1,980,345,306
Net income for the period		145,700,282
		2,126,045,588
MEMBERS' FUNDS		
		2,126,045,588

The financial statements on pages 11 to 26 were approved and authorized for issue by the trustee on *27 March 2024* and were signed on its behalf by:

For: KCB BANK KENYA LTD.

.....
CORPORATE TRUSTEE
Trustee
KCB Bank Kenya Ltd

For: KCB BANK KENYA LTD.

.....
CORPORATE TRUSTEE
Trustee
KCB Bank Kenya Ltd

THE MADISON WEALTH FUND

STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD ENDED 31 DECEMBER 2023

	2023 Kshs
Fund balance at start of the period	-
Proceeds from units issued in the period	2,426,577,867
Withdrawals made by unit holders	(446,232,561)
Net proceeds made by unit holders in the period	1,980,345,306
Unit holders' funds	1,980,345,306
Total income for the period	145,700,282
At end of period	<u>2,126,045,588</u>

THE MADISON WEALTH FUND

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2023

	Note	2023 Kshs
Cash flows from operating activities		
Profit before taxation		145,700,282
Working capital changes		
Other payables		2,360,457
Due to related parties		4,085,388
		<hr/>
Cash used from operations		163,338,650
		<hr/>
Net cash generated from operating activities		163,338,650
		<hr/>
Cashflows from investing activities		
Net movement in commercial papers		(811,919,776)
Net movement in treasury bonds		(720,212,996)
		<hr/>
Net cash (used in) investing activities		(1,532,132,772)
		<hr/>
Cashflows from financing activities		
Proceeds from units issued		2,426,577,867
Refunds made on withdrawals by unit holders		(446,232,561)
		<hr/>
Net cash generated from financing activities		1,980,345,306
		<hr/>
Increase in cash and cash equivalents		611,551,184
		<hr/>
Movement in cash and cash equivalents		
At start of period		-
Increase		611,551,184
ECL provisions		(11,192,573)
		<hr/>
At end of period	8	600,358,611
		<hr/> <hr/>

THE MADISON WEALTH FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2023

1. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) Standards and interpretations affecting amounts reported in the current period (and/or prior periods)

Several new and revised standards and interpretations became effective during the period. The Trustee have evaluated the impact of their new standards and interpretations and none of them had a significant impact on the Fund's financial statements.

(ii) Standards and interpretations issued but not yet effective

Several other standards and interpretations have been issued and are effective for accounting periods beginning on or after 1 January 2024 or later periods.

These standards are as stated below:

- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 - Non - current liabilities with covenants
- Amendments to IFRS 16 - Lease liability in a sale and leaseback
- Amendments to IAS 7 and IFRS 7 - Supplier finance arrangement
- Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture

The adoption of these standards and interpretations, when effective, is not expected to have a material impact on the financial statements of the Fund.

(iii) Early adoption

The Fund did not early adopt any new standards and/or interpretation that are in issue but not yet effective.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards.

Going concern

The financial performance of the fund is set out in the report of the trustee and in the statement of profit or loss. The financial position of the fund is set out in the statement of financial position. Disclosures in respect of principal risks and uncertainties are included within the report of the trustee and disclosures with respect to risk management are set out in Note 11.

Based on the financial performance and position of the Fund and its risk management policies, the trustee is of the opinion that the Fund is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

THE MADISON WEALTH FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Critical accounting estimates and judgement

In the application of the accounting policies, the trustee is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The trustee has made the following estimates and judgements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial period:

- **Impairment of investments** - the fund reviews their portfolio of investments on an annual basis. In determining whether investments are impaired, the trustee makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

Measurement of expected credit losses (ECL):

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behavior.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

Probability of default:

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon. The Fund applies PD rates associated with the credit ratings for banks and Kenya Government from rating agencies.

Loss Given Default:

LGD is an estimate of the loss arising on default. The Fund uses LGD based on the Global Credit Data (GCD) LGD study, whose average is 38%.

THE MADISON WEALTH FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Critical accounting estimates and judgement (Continued)

Measurement of expected credit losses (ECL) (continued):

The ECL model applied for financial assets other than trade receivables and contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Assessment of significant increase in credit risk: The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The fund uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions. The fund has an IFRS 9 provision model and has made provisions as per note 13.

c) Revenue recognition

Investment income

Interest income is recognized in profit or loss as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognized when the right to receive the payment is established.

Realized/unrealized gains and losses

Unrealized / realized gains and losses on valuation of financial assets at the reporting date or sale of financial assets are recognized in profit or loss. Gain and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

THE MADISON WEALTH FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments

Financial instruments are recognized when, and only when, the fund becomes party to the contractual provisions of the instrument. All financial assets are recognized initially using the trade date accounting which is the date the fund commits itself to the purchase or sale.

- *Financial assets*

The fund classifies its financial assets into the following categories:

Amortized cost;

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortized cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured.

All financial assets of the fund are carried at an amortized cost.

Derecognition/write off

Financial assets are derecognized when the rights to receive cash flows from the financial asset have expired, when the fund has transferred substantially all risks and rewards of ownership, or when the fund has no reasonable expectations of recovering the asset.

Financial instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Impairment

The fund recognizes loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortized cost.

- Cash and cash equivalents
- Treasury bonds
- Fixed deposit
- Commercial paper

No impairment loss is recognized on investments measured at FVTPL.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (Continued)

- *Financial assets (Continued)*

Impairment (Continued)

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognized in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

- *Financial liabilities*

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The fund may also, on initial recognition, irrevocably designate a financial liability as at **fair value through profit or loss** if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

All other financial liabilities are classified and measured at **amortized cost**.

e) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise of deposits held at call with banks.

f) Taxation

The unit trust is registered under the Income Tax Act (collective investments scheme rules 2002) and is exempt from income tax.

g) Comparatives

These are the first financial statements being prepared by the fund and hence there are no comparatives.

THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. INVESTMENT INCOME

	2023 Kshs
<i>From financial assets carried at amortized costs:</i>	
Interest on call deposits	1,043,112
Interest on fixed deposits	43,159,690
Income on treasury bonds	50,999,092
Interest on commercial papers	95,865,065
	<hr/>
	191,066,959
	<hr/> <hr/>

3. EXPENSES

3.1 Operating expenses

Management fees	29,066,151
Publishing costs	90,000
Annual general meeting costs	15,672
Audit fees	80,816
Trustee fees	2,617,841
Custody fees	2,303,624
	<hr/>
Total operating expenses	34,174,104
	<hr/> <hr/>

The fund total expense ratio (TER) for the year was 2.35%.

The fund also incurred Kshs 2,346 brokerage commission in it dealing activities for treasury bonds.

3.2 IFRS 9 impairment provisions:

Fixed deposits (note 5)	4,004,662
Commercial papers (note 6)	5,415,870
Treasury bonds (note 7)	1,772,041
	<hr/>
Total IFRS 9 impairment provisions	11,192,573
	<hr/>
Total fund expenses	45,366,677
	<hr/> <hr/>

4. PROFIT BEFORE TAX

The following items have been charged in arriving at the profit before tax:

	2023 Kshs
Provisions for expected credit losses (note 11)	11,192,573
	<hr/> <hr/>

THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FIXED DEPOSITS

	2023 Kshs
Fixed deposit	600,358,555
Fixed deposit maturity analysis	
Maturity within 90 days	604,363,217
Less: Provisions for expected credit losses (note 11)	(4,004,662)
	<u>600,358,555</u>

The weighted average effective interest rate on fixed deposits at 31 December 2023 was 16.61%.

The carrying amounts of the fund's fixed deposits are denominated in Kenya shillings.

6. COMMERCIAL PAPERS

	2023 Kshs
Commercial papers	811,919,776
Commercial papers maturity analysis	
Maturity within 90 days	308,644,524
Maturity within 180 days	214,331,131
Maturity within 364 days	294,359,991
Less: IFRS 9 impairment provision (note 11)	(5,415,870)
	<u>811,919,776</u>

The weighted average effective interest rate on commercial papers as at 31 December 2023 was 17.24%.

The carrying amounts of the commercial papers are denominated in Kenya shillings.

THE MADISON WEALTH FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. TREASURY BONDS

	2023 Kshs
Cost	701,311,146
Unamortized premium	(3,130,760)
Accrued Interest	23,804,651
Less: Provisions for expected credit losses(note13)	(1,772,041)
	<hr/>
	720,212,996
	<hr/> <hr/>

The weighted average effective interest rate on Treasury bonds as at 31 December 2023 was 15.92 %.

The carrying amounts of the treasury bonds are denominated in Kenya shillings.

8. CASH AND CASH EQUIVALENTS

	2023 Kshs
Cash at bank and in hand	56
Less: Provisions for expected credit losses(note13)	-
	<hr/>
	56
	<hr/> <hr/>

For the purpose of the statement of cash flows, the period-end cash and cash equivalents comprise of the following: -

Cash at bank	56
Fixed deposits	600,358,555
	<hr/>
	600,358,611
	<hr/> <hr/>

The carrying amount of the fund's cash at bank and in hand are dominated in Kenya shillings.

9. OTHER PAYABLES

	2023 Kshs
Other payables	2,360,457
	<hr/> <hr/>

The payables are due within three months after the reporting period.

THE MADISON WEALTH FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. RELATED PARTY BALANCES AND TRANSACTIONS

Madison Wealth Fund is managed by Madison Investment Managers Limited as their Fund manager. Madison Investment Managers Limited is a subsidiary of Madison Group Limited which is a holding fund and owns a number of other subsidiaries which are fellow subsidiaries to Madison Investment Managers Limited. The fund transacted with the Company as follows;

As at 31 December 2023, the investments held on behalf of the related parties were as below:

	2023 Kshs
Transactions with related parties over the period:	
Madison Investment Managers Limited	
- Investment	6,215,287 =====
- Management fees	29,066,151 =====
Due to related parties; The balance outstanding at period end was as follows:	
Madison Investment Managers Limited	
Management fees	3,521,399
VAT	563,939
	<hr/> 4,085,338 =====

11. RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management

The fund generates revenues for the members by investing in various income generating activities which involve trading in the Securities Exchange. These activities expose the fund to a variety of financial risks, including credit risk and the effects of changes in market dynamics. The trust deed sets out the investment policy and management of the fund's assets to minimize potential adverse effects on its financial performance.

Risk management is carried out by the management.

(a) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest-bearing assets include term deposits, treasury bills, commercial papers and treasury bonds which have fixed interest rates hence exposure to interest rate risk is not considered to be material.

(b) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Fund. The credit risk on term deposits and bank balances is limited as the counterparties are all recognized banks with good reputations.

THE MADISON WEALTH FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk management (Continued)

(b) Credit risk (Continued)

In assessing whether the credit risk on a financial asset has increased significantly, the trustee of the fund compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the trustee of the fund considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

If the fund does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognized on a collective basis.

For such purposes, the fund's financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument;
- industry in which the debtor operates; and
- nature of collateral.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

The gross carrying amount of financial assets with exposure to credit risk at the statement of financial position date was as follows:

Basis for measurement of loss allowance

	Internal/external rating	12 months or lifetime ECL	Gross carrying amount	Loss allowance	Net amount
31 December 2023					
Fixed deposits	Various	12 months ECL	604,363,217	(4,004,662)	600,358,555
Commercial papers	Various	12 months ECL	817,335,646	(5,415,870)	811,919,776
Treasury bonds	Various	12 months ECL	721,985,037	(1,772,041)	720,212,996
Bank balances	Various	12 months ECL	56	-	56
			2,143,683,956	11,192,573	2,132,491,383
			2,143,683,956	11,192,573	2,132,491,383

THE MADISON WEALTH FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk management (Continued)

(b) Credit risk (Continued)

Basis for measurement of loss allowance (Continued)

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analyzed above based on their credit risk ratings as follows:

- i) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
- ii) financial assets that are credit impaired at the balance sheet date;
- iii) trade receivables, contract assets and lease receivables for which the loss allowance is always measured at an amount equal to lifetime expected credit losses, based, as a practical expedient, on provision matrices.

The changes in the loss allowance during the period were as follows:

Basis for measurement of loss allowance	Fixed deposits Kshs	Commercial papers Kshs	Treasury bonds Kshs	Bank balances Kshs	Total Kshs
As at 31 December 2023					
At start of period	-	-	-	-	-
Changes relating to assets	4,004,662	5,415,870	1,772,041	-	11,192,573
Exposure to credit risk	4,004,662	5,415,870	1,772,041	-	11,192,573

(c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or at the risk of damaging the Fund's reputation. The Fund's financial liabilities as at 31 December 2023 amounted to Kshs 6,445,795 and are payable within one period hence any discounting effect is not significant.

Being a constant value Fund, extra caution is exercised in selecting nature and tenure of assets to invest in. This is because the Fund's liability is pegged on a fixed unit price, whereas the Fund's assets may be unduly exposed to market risk. The Trustee actively monitors these investments.

12. EVENTS AFTER THE REPORTING PERIOD

The trustee approved the financial statements and authorized that the financial statements be issued. At the time of approval, the trustee was not aware of any matter or circumstances arising since the end of the financial period, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the fund and results of its operations as laid out in these financial statements.

THE MADISON WEALTH FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. REGISTRATION

The fund is registered in Kenya under the Capital Markets Authority (CMA) Act.

14. PRESENTATION CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).