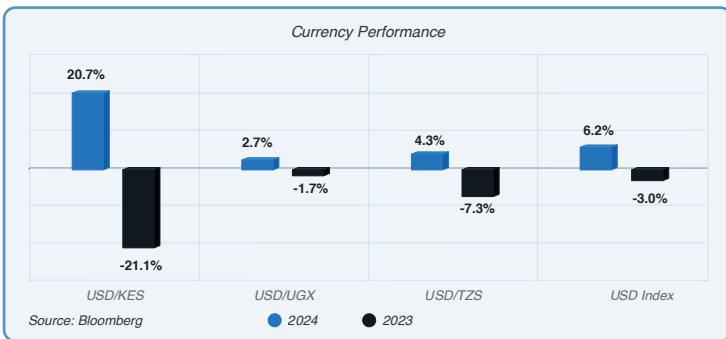
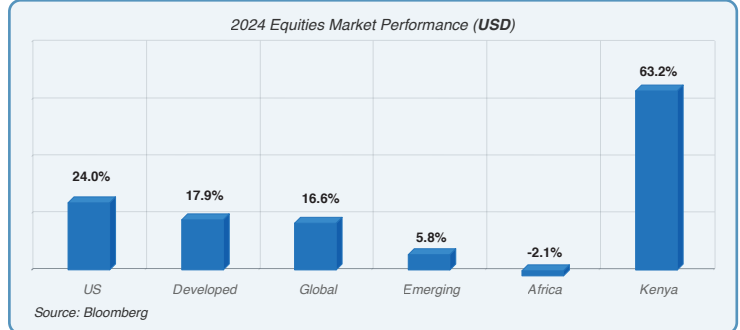


2024 ECONOMIC OVERVIEW

East Africa is expected to be one of the best-performing regions globally. The International Monetary Fund (IMF) is forecasting growth rates of 5.0%, 5.4%, and 5.9% for Kenya, Tanzania, and Uganda in 2024. These growth projections are significantly higher than the global forecast of 3.2% and Sub-Saharan Africa's 3.6%. Despite challenges like global monetary tightening, foreign exchange pressures, and electoral uncertainties, Kenya's Equities market has delivered a strong 63.2% return in US Dollar terms (34.1% in Ksh).



Kenya witnessed significant investor confidence, despite prior concerns over debt sustainability, following the successful issuance of a USD 1.5 billion Eurobond in international markets. This move facilitated the settlement of a USD 2 billion Eurobond set to mature in June 2024. Notably, the Kenyan Shilling (Ksh) emerged as one of the best-performing currencies, appreciating by 20.7% against the USD.

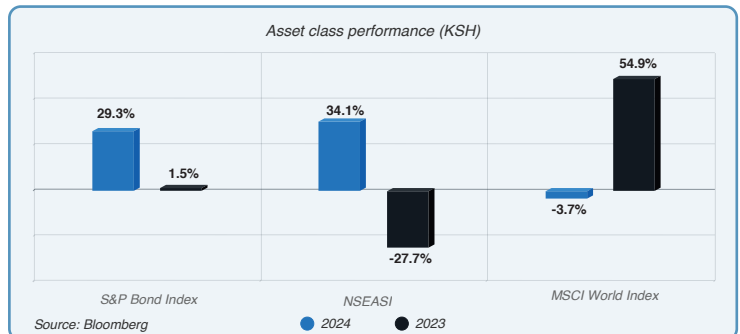
Regional currencies strengthened even as the USD Index (DXY) appreciated by 6.2% globally. The USD appreciation was driven by investor confidence following President Donald Trump's 2024 election victory and his proposed tax cuts and trade policy reforms.

Potential inflation moderated while global trade began recovering, avoiding a recession. The US Federal Reserve (FED) reduced interest rates by 1% to a range of 4.5%-4.75%, as inflation neared the 2% target, settling at 2.7%. This monetary easing had a trickle-down effect, with Kenya and Uganda's central banks also cutting their benchmark rates.

2024	Kenya	Uganda	Tanzania
Inflation Rate (December 2024)	3.0%	3.3%	3.0%
Central Bank Rate (CBR)	11.25%	9.75%	6.0%
2024 CBR Changes	-1.75%	-0.5%	+1.0%
91 Day Treasury Bill	9.9%	11.7%	7.8%

Source: Bank of Uganda / UBOS

In Kenya, interest rates on 3-month Treasury bills decreased from 16.7% to 9.9% by year-end. Local investments outperformed offshore assets, benefiting from currency appreciation and favorable macroeconomic conditions.



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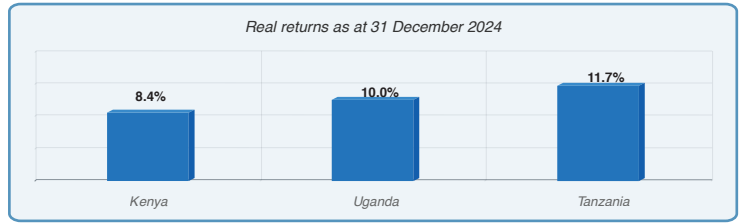
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EAST AFRICA INVESTMENT THEMES 2025

1. Interest Rates and Economic Policy

In 2025, the primary policy focus will be to bring inflation within Central Banks' target ranges. As inflation decreases, both Developed and Emerging economies are expected to lower interest rates. Investor sentiment towards Emerging and Frontier markets has improved, and real yields in EA are among the highest globally, ranging from 8% to 12% as of December 2024.



Interest rates are expected to decline due to:

Factor	Description	Impact on Interest Rates
Monetary Policy Cuts	CBK lowered its policy rate by 1.75% to 11.25%, and BOU reduced its rate by 0.5% to 9.75%. Inflation is expected to remain within target ranges.	We expect lower policy rates to reduce borrowing costs, signaling a move towards easier monetary policy.
Foreign Exchange(FX) Reserves	FX reserves reached USD 9.2 billion in December 2024. This is enough to cover 4.7 months of imports, exceeding the CBK's 4-month threshold	High reserves should reduce currency risk and the need for high interest rates to defend the currency.
Borrowing Targets	Kenya achieved over 90% of its domestic borrowing target of Ksh 413 billion. The main maturities in April and May of Ksh 100 billion and Ksh 104.5 billion respectively are manageable.	This eases fiscal pressures in FY2024/25 which allows for lower interest rates.
Robust External Funding	Kenya expects USD 853.5 million from the final IMF programme tranche in April 2025. There is likelihood of a new IMF programme given the Government of Kenya's (GOK) ongoing fiscal reforms.	Funding from IFIs enhance fiscal stability, reducing the need for high domestic borrowing costs.
Debt Management	Kenya is actively exploring domestic bond switches and refinancing options to smoothen debt maturities and reduce refinancing risks.	Improved debt management will reduce refinancing risks and helps lower interest rates.

2. Fiscal discipline and prudent debt management

In 2025, maintaining strong fiscal and debt management policies will be key for Africa's long-term economic stability. Key measures include broadening the tax base and rationalizing government spending. The IMF forecasts Sub-Saharan Africa's debt-to-GDP ratio will decrease by 80 basis points to 54.2%, contingent on effective fiscal consolidation.

Kenya: Debt-to-GDP ratio is projected to rise to 72.4% in 2025 from 69.9% in 2024 (IMF, Fiscal Monitor, October 2024 report) The anti-Finance Bill protests in 2024 stalled aggressive tax measures, making the 2025 fiscal deficit target of 4.3% difficult to achieve.

Uganda: FX reserves fell to USD 3.4 billion (3.8 months of import cover) in October 2024, from USD 3.9 billion in 2023 due to higher debt servicing. However, the Bank of Uganda (BOU) purchased USD 314 million in the domestic market during the financial year.

Factor	Description	Impact on Debt and Expenditure Management
Cheaper funding options in 2025	Kenya expects USD 1.5 billion in bilateral support from the UAE, a debt-to-food swap agreement, and a USD 500 million sustainability-linked bond. Additional funding may come from Panda and Sukuk bonds, World Bank and IMF programmes, and a possible Eurobond issuance in H1 2025.	This will provide cheaper and diversified financing sources, easing pressure on domestic debt and expenditure.
FX Stability	High FX denominated sovereign debt has made Kenya vulnerable to FX volatility. The CBK has made progress in improving FX market liquidity and price transparency.	Improved FX stability will reduce the risk of FX losses, leading to more predictable debt servicing costs.
Growth in Tax Revenue	Tax collections have increased by 1.1% year on year (July to November 2024) to Ksh 857 million meeting 34% of the Ksh 2.48 billion annual target. Positive amendments from the 2024 Finance Bill, signed in December 2024, aim to address revenue shortfalls.	Higher tax revenue will improve the government's fiscal position and ability to manage its debt and expenditures.
Pending Bills	A committee has been formed to verify and recommend settlement for Ksh 571.6 billion in outstanding bills up to June 2022.	Resolving pending bills helps reduce fiscal arrears and improve government liquidity.

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3. Equities Performance resurgence and sustainable investing

The election of President Trump has triggered optimism for a positive stock market performance in the US. In 2024 global equities (MSCI World Index) rose by 17.9%. The outlook for 2025 is positive, dependent on global economic conditions, geopolitical conditions and positive investor sentiment.

Region	Current P/E	10-Year Average P/E
Global Markets	20.8	18.9
Developed Markets	22.0	19.7
Emerging Markets	13.7	14.4
Frontier Markets	9.0	12.5
African Markets	12.8	12.3
Kenya	5.3	10.4

Kenyan equities and frontier markets are cheap relative to their historical levels. The NSE All-Share index was up 34.1% in 2024 supported by resilient corporate earnings and improved macroeconomic conditions. As global interest rates decline, quality companies should draw investor interest at the current discounted valuations.

4. Increase in retail investors participation

In Kenya, the CBK DHOW Central Security Depository (CSD) has simplified access for retail investors to Treasury Bills and Treasury bonds through their online portal.

The capital markets have also shown steady growth with Collective Investment Schemes (CIS) growing by 26.4% annually over five years to September 2024, to Ksh 316 billion.

As of the Capital Markets Authority (CMA) report for September 2024, Sanlam Investments East Africa (SIEAL) has a 14.8% market

Sustainable Investing

We believe that a long-term approach to sustainable investing focusing on Environmental, Social, and Governance (ESG) principles. ESG leaders in Developed and Emerging markets consistently outperform their counterparts aligning with our investment philosophy.

Our commitments include:

- Integrating ESG metrics into financial modelling and stock selection
- Strengthening our engagement philosophy with portfolio companies
- Voting on behalf of our clients on specific issues in company AGMs.

share, with Ksh 46.8 billion in assets spread across its Ksh Money Market Fund, Ksh Fixed Income Fund, USD Fixed Income Fund, and Ksh Balanced Funds.

The retail market in Uganda has expanded at a faster annual pace of 68.1% over four years to September 2024. According to the Uganda CMA 2024 third-quarter report, UGX 3.5 trillion is managed under CIS. SIEAL holds a 7.6% market share in Uganda, managing UGX 265.2 billion under CIS.

CONCLUSION

Looking ahead to 2025, EA presents a promising investment landscape. The anticipated easing of global monetary conditions and improved FX liquidity reduces the historical barriers to investment. These external factors, combined with strong corporate earnings and high yields create a favorable environment for both fixed income and equity investments.

The region's growth is benefiting from deeper economic integration; reducing trade barriers and harmonizing regulations. Major infrastructure projects, particularly in energy and transportation, are enhancing internal trade and attracting significant foreign direct investment.

We believe current market valuations inadequately reflect the region's positive fundamentals. The convergence of supportive monetary policy, fiscal reform momentum, and attractive valuations could mark the beginning of a sustained outperformance for East African assets.

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Asset Class Review

Asset	Outlook	Commentary
Local Government Bonds	Neutral	Market yields have declined rapidly, with the 91-day T-bill rate falling to 9.9% in Dec 2024. Real yields are attractive, and despite the attractive valuations in equities, we continue to prefer this investment choice. The Hold to Maturity (HTM) methodology remains a strong option for steady returns. Additionally, a further decline in rates could offer potential capital gains under the Mark to Market (MTM) approach.
Domestic Equities	Positive	In 2025, we expect listed companies on the Nairobi Securities Exchange (NSE) to maintain the positive earnings momentum. Listed companies are trading at low valuations of 5.3% with dividend yields of 7.9%.
Offshore Bonds	Negative	Interest rate cut expectations in the US and Europe in 2025, and the stability of the Kenya Shilling do not make USD Fixed Income Assets attractive.
Offshore Equities	Positive	Decline in interest rates in most countries, has been a good backdrop for equity markets. Steady global economic growth should further support global equities.

Outlook on Alternatives Assets

Private Assets (Private Debt and Private Equity)

In the African Private Capital Association (AVCA) latest report, a total of 287 private capital deals were concluded in Africa in Q3 2024. This represents 11% year on year decline and slightly lower than the 5 - year average of 294 deals. Investment ticket sizes above USD 50 million have contracted by 75% as investors shifted focus to smaller deal sizes. In 2024, private debt deal values grew by 14% year on year.

We expect that stability in regional currencies will gradually return interest on private assets in Africa. Development Partners International (DPI) is one of the African PE firms that will be fundraising in 2025.

Real Estate (RE)

The year 2024 presented a challenging backdrop for real estate financing. The sector struggled with high-interest rates and high construction costs. The sector continues to face various challenges including oversupply of high end residential and office space. 2025 developers such as Mi Vida and Centum Re are considering issuing REITS to protect themselves from the volatility of interest rates in the local market. We expect this trend to extend in the year 2025.

Sources: IMF, CBK, BoU, BoT, National Treasury, SIEAL Analysis

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Disclosure Statement

Sanlam Investments East Africa Limited (“the manager”) is regulated by Capital Markets Authority in Kenya and Uganda to provide investment advisory and management services. The firm has been operational in Kenya since 1998 and in Uganda since 2004 and is a leading fund manager in the region with a strong record of accomplishment in service delivery and performance

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Disclosure statement last updated December 2023.

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