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# TRUSTEE INVESTMENT BRIEFING — PART 2

## INVESTMENT SELECTION & DUE DILIGENCE

Path to PPP Alpha Returns: How to screen, evaluate and safely allocate to PPP instruments — from prospectus to portfolio.

# BEFORE YOU DEPLOY CAPITAL

## THREE QUESTIONS EVERY TRUSTEE MUST ANSWER



### 01. IS THIS DEAL ACTUALLY INVESTABLE?

Ringfenced cashflows? Rated instrument? CMA-approved? Step-in rights defined? Most PPPs that reach your desk are not ready.



### 02. IS THE RETURN REAL — OR JUST PROJECTED?

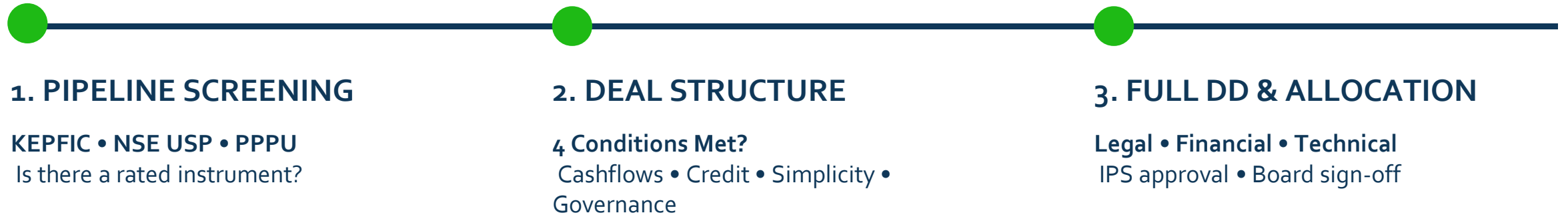
IRR is only as good as assumptions. What are stress scenarios? What happens at 50% demand? Who bears construction risk?



### 03. CAN YOU EXIT IF YOU NEED TO?

Is the instrument NSE-listed with secondary market? What is redemption mechanism? Bond indenture step-in rights?

# YOUR 3-STAGE FILTER



## Next: Investment Selection & Due Diligence

CPF Consulting guides trustees through all three stages — from IPS to final allocation.

# WHY DD MATTERS

## THE ASYMMETRY PROBLEM

Sponsors know everything about a deal. Trustees know very little. This gap kills allocations — not risk appetite.

- ✓ Sponsors present deals at terms favorable to themselves
- ✓ Financial models use optimistic assumptions — stress scenarios absent
- ✓ DD costs KES 5-15M per deal — prohibitive for small funds

## CONSEQUENCE

Trustees default to govt bonds — not because PPPs are bad, but because they cannot tell a good PPP from a bad one. Information asymmetry masquerades as risk aversion.

## PART A: THE FOUR PILLARS OF DD



### LEGAL DD

SPV ring-fencing, bankruptcy-remoteness, levy assignment enforceability, step-in rights, and security packages.

► **Risk:** No step-in = unsecured loan.



### FINANCIAL DD

Base case cashflow, DSCR stress testing (target >1.3x), IRR sensitivity, and Big 4 quarterly reporting.

► **Risk:** DSCR < 1.2x under stress.



### TECHNICAL DD

Contractor track record (NCA Cat 1), Independent Engineer Report (IER), and fixed-price EPC contracts.

► **Risk:** Unproven contractor + no bond.



### COMMERCIAL DD

Pricing vs benchmarks (Talanta 15.04%), secondary market exit, and arranger track record.

► **Risk:** Illiquidity not priced in.

## THE DD PROCESS: PROSPECTUS TO ALLOCATION

- ✓ **1. Deal Origination:** Sponsor submits IM + Term Sheet. Screening against 4 conditions.
- ✓ **2. Prospectus Issued:** CMA-approved document containing waterfall and risks.
- ✓ **3. Independent DD:** Advisors (NOT arranger) engaged for 4-pillar report (4–8 weeks).
- ✓ **4. Credit Rating:** Minimum AA for pension eligibility based on cashflow quality.
- ✓ **5. Credit Enhancement:** SBLC (KCB for Talanta) + DSRA covering 3 months.
- ✓ **6. Trustee Board Vote:** IPS check + allocation decision (Min KES 5M for NSE).
- ✓ **7. Investment & Monitoring:** Semi-annual distributions + quarterly SPV reporting.

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*Step 3 is where most deals fail. Independent DD is the single most important protection for trustees.*

## PART B: CASE STUDY — TALANTA STADIUM IABS

Pillar	Status	Notes
Legal	PASS	Linzi FinCo 003 — Bankruptcy remote, SASDF levy assigned.
Financial	PASS	15.04% IRR, 3mo DSRA funded at close, amortizing structure.
Technical	PASS	CRBC (Nairobi Expressway builder), KDF Engineering supervision.
Commercial	PASS	+150bps premium vs GoK 15yr, Liaison Group track record.



### Linzi FinCo 003 Trust

KES 44.79B • 15yr • 15.04% IRR  
AA(KE)(IR) GCR Moody's Stable

## PART C: CREDIT & ASSURANCE CHAIN

### HOW RISK IS LAYERED AWAY — FIVE SHIELDS

Layer 1

#### **STATUTORY BACKING**

National Treasury &  
Cabinet resolutions.  
SASDF levy assigned.

Layer 2

#### **SPV RING-FENCE**

Bankruptcy-  
remote. Revenue  
flows direct to SPV  
waterfall.

Layer 3

#### **DSRA**

3-6 months cash  
reserve funded at  
issuance.

Layer 4

#### **SBLC**

Bank guarantee  
(KCB) if cashflows  
temporarily stall.

Layer 5

#### **CREDIT RATING**

AA(KE)(IR)  
validates  
probability of  
repayment.

## PART D: THE CO-INVESTMENT SOLUTION

### COST OF GOING ALONE

**KES 5-15M** DD cost per deal

Most small/mid funds lack capacity and budget for deep technical PPP diligence, leading to 0 deal allocations.

### WHAT A PLATFORM DOES

- ✓ Pools DD cost (KES 500K each)
- ✓ Shared research across all pillars
- ✓ Single block allocation / Better pricing
- ✓ Capacity building for junior teams



## PACK HUNTERS: KENYA CO-INVESTMENT CLUB

*"Lions hunt alone and fail. Wolves hunt in packs and take down prey far larger than any individual could."*

**10-20**

Founding members

**KES 200M**

Min ticket per deal

**KES 2-10B**

Aggregate capacity

**CPF**

Lead Advisor

### GLOBAL MODELS → KENYA

**GLIL (UK):** 6 LGPS funds, £4.1B committed. **KEPFIC (Kenya):** 24 member funds, KES 15B+ deployed. Acorn D-REIT 18.3% return.

## EXECUTIVE SUMMARY: WHY PPP HOUSING NOW?

**KES 2.7T**  
Annual Housing Gap

**12–15%**  
Target IRR Range

**KES 1.5T**  
Pension Capital Ready

### STRUCTURAL DEMAND

Urbanization at 4.2% p.a. creates predictable, long-term demand insulated from FX volatility.

### GOVERNMENT AS PARTNER

AHP provides land and levy funding (KES 73B collected FY25) — de-risking deployment.

# THE COMPLETE PATH TO ALPHA

## PRACTICAL ROADMAP

- ✓ **Governance:** Review IPS & appoint specialist advisor.
- ✓ **Sourcing:** Evaluate Sukuk/IABS on NSE USP.
- ✓ **Assurance:** Statutory → SPV → DSRA → SBLC → Rating.

## THE REWARD

**+60-110 bps**

Annual return uplift on portfolio

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"Good due diligence is not a cost — it is the price of entry to returns that others cannot access."



5th Floor, Crescent Business Centre (CBC), Parklands, Nairobi.

P.O Box 48179 -00100, GPO Nairobi, Kenya

Call: +254 719 560 656, +254 740 257 777, +254 11 1052230

Email: [insurance@finnettrust.com](mailto:insurance@finnettrust.com) | [info@finnettrust.com](mailto:info@finnettrust.com)

[finnettrust.com](http://finnettrust.com)



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