MARKET AND ECONOMIC COMMENTARY
NOVEMBER 31, 2014

TRUSTFUND PENSIONS PLC

Investment Research

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

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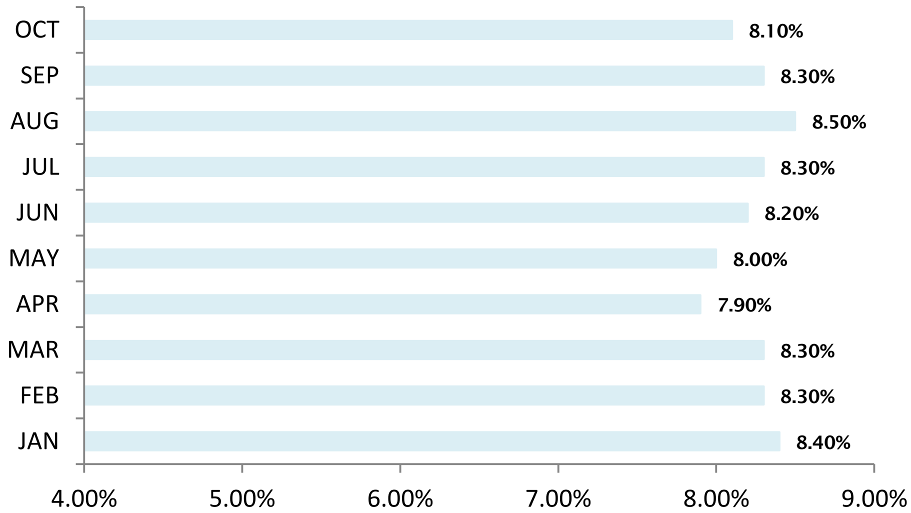
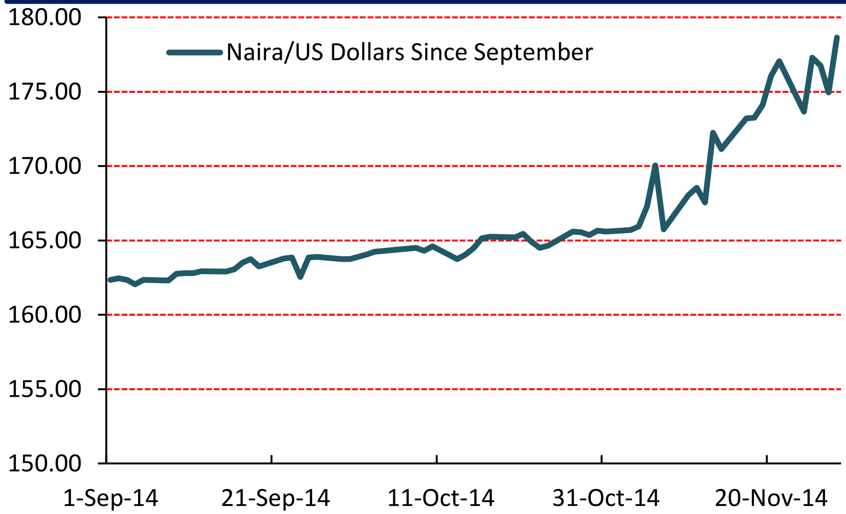
Key Macro Variables

Headline	September	November	%Change	Remark
Monetary Policy Rate (MPR)	12.0%	13.0%	1.0%	The CBN has reviewed the MPR to 13%, to support the Naira & attract investment inflow
Cash Reserve Requirement (CRR)	15%/75%	20%/75%*	+5.0%	CRR on private sector deposit was raised by 5% to 20%, thus mopping up over N500 billion from the interbank system and reducing speculative tendencies against the domestic currency.
Inflation	8.5%	8.1%	-0.4%	Headline inflation fell by 0.4% to 8.1% on account of moderating food prices
Exchange Rate (NGN/USD)	N162.4	N184.2	+11.2%	Naira lost 10% in 3 months through November. We expect Naira depreciation to wane, even as oil price decline continues in the global market
External Reserves (USD'bn)	$39,469	$36,852	-$2.6bn	FX reserves has declined by 7% in the past 3 months

Imported Inflation: Devaluation is expected to push inflation up by 0.3% to 8.4% in November



FX Update – The Naira depreciated by 9.2% between September and November



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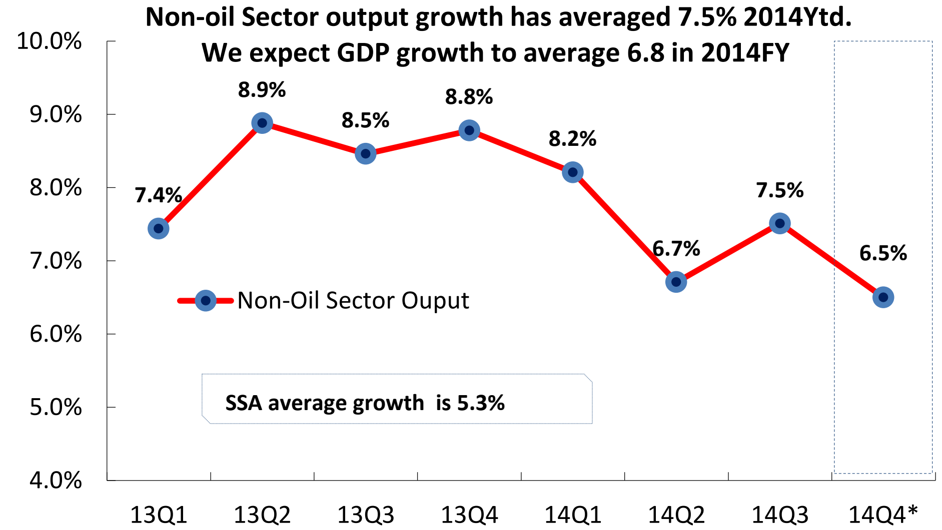
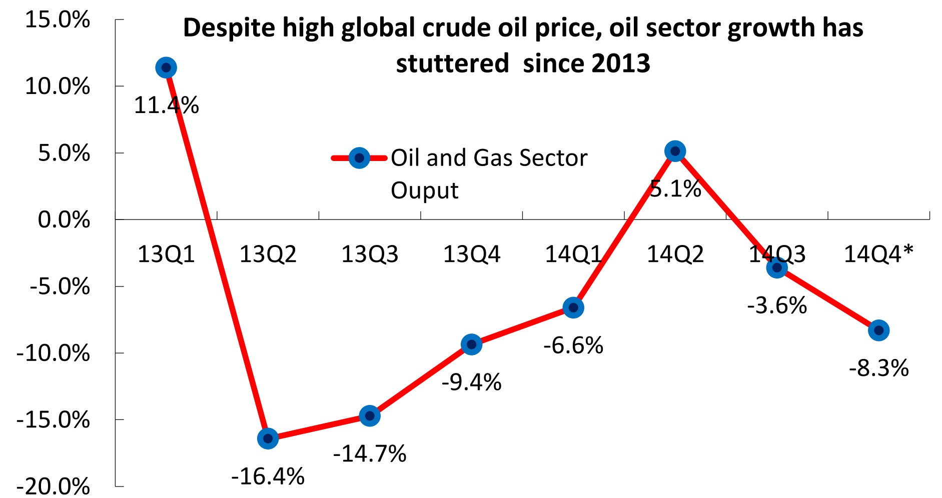
Growth performance Vs Pension Industry Assets

Non-Oil Sector Output Growth (2013Q1 – 2014Q3)



Oil Sector Output Growth (2013Q1 – 2014Q3)



i. Nigeria's current economic size of $510 Billion should increase by approximately 50% to $760 Billion by 2020. The non-oil sector has remained the prime source of growth.

ii. The 6.2% GDP growth is dwarfed by Pension Industry CAGR of 25% per annum between 2007 and 2014.

iii. Conservatively, Pension Industry Assets are expected to grow to N15.6tn by 2020, compared to N760tn forecast GDP in the same year. This will improve the Pension Asset/GDP ratio from the current 5% to 13.6% by 2020.

iv. Major impediments to economic take off are; supply-side related, including weak energy and transport infrastructure and high cost of financing. Similarly, policy inconsistency and poor mentoring are key challenges to SME development

NB: Pension assets has been growing at a CAGR (compound growth rate) of 25% since 2007.

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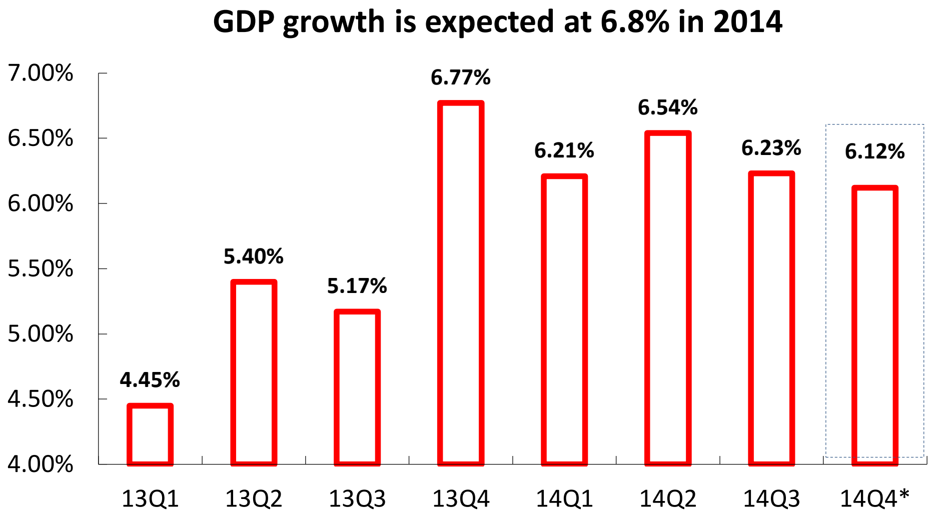
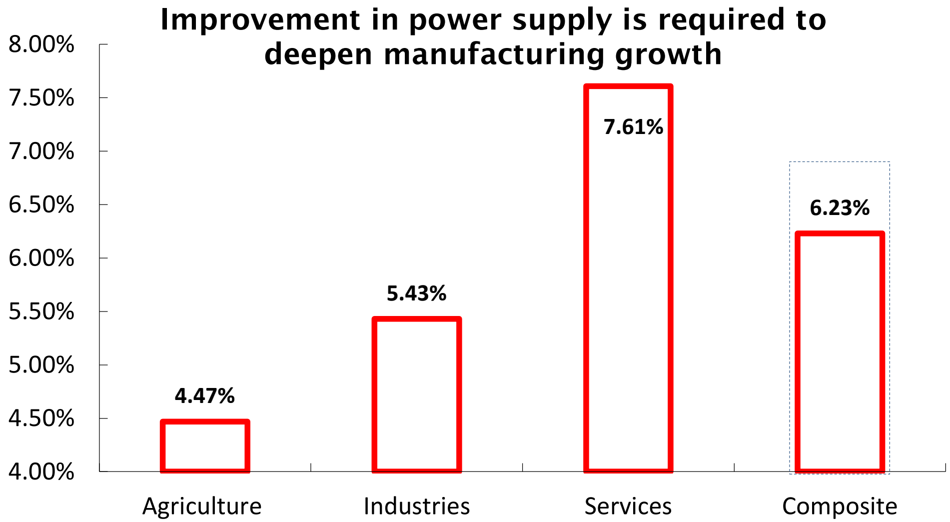
Splitting the growth bean

Non-Oil Sector Output Growth (2013Q1 – 2014Q3)



Contribution of broad sectors to growth in 2014Q3



i. We forecast a GDP growth of 6.8% in 2014 (mildly lower than the 6.77% feat in 2013). Broadly, GDP growth has come in stronger in 2014, compared to the previous year. Growth in 2014Q3 was 6.12%, relative to 5.17% in 2013Q3.

ii. The services sector remained the engine room of growth, recording 7.6% growth in 2013Q3. ICT (which represents 9.51% of the economy) grew by 17.66% in 2013Q, while Trade sector and Finance and Insurance sectors grew by 23.8% and 17.6%, respectively.

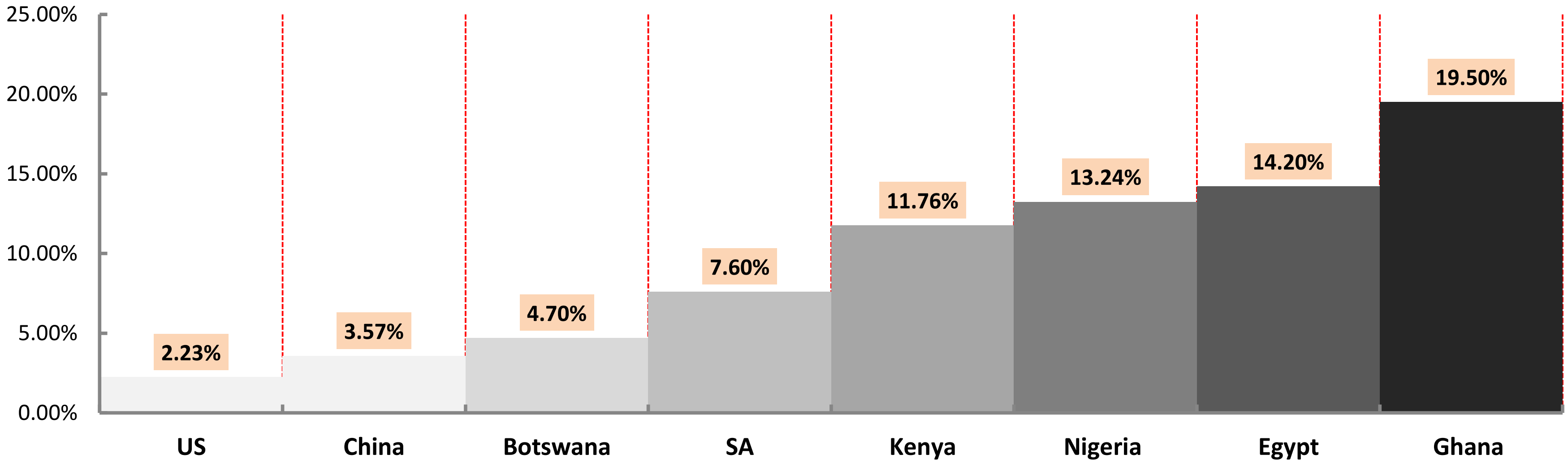
iii. Despite various reforms in the Agriculture sector, growth has remained relatively weak at 4.47% due to low mechanization.

iv. Austerity measures will hinder government spending in 2015. Also, we expect softer foreign capital inflow to depress Net Capita Inflows. In all, Nigeria requires more private sector Consumption and Investment to compensate for lower momentum from government and external sectors.

Bond Market: Round-Up and Outlook

- Considering the sustained slide in fiscal earnings and external reserves due to crude price (projected to touch $63/barrel), bonds yields are expected to peak around the 14% levels in 2015Q1.
- Our view of rise in yield is further supported by expected surge in deficit financing of the 2015 budgets
- Average bonds is currently 13.3%, an implied 0.62% rise from the Year-open level of 12.68%
- Credit to private sector increased by 9.3% Ytd to 17.78billion in Oct'14. However, this is short of CBN's target of N24billion in 2014.
- External demand for Nigerian Bonds has cooled off in the wake of the significant pressure on the Naira.
- The CBN has tempered OMO auctions since rise in CRR (Private) and MPR to 20% and 13%, respectively.

10 Year Generic Bond Yields Across Africa, China and the US; Nigeria Tends Closer to Crises-Prone Economies



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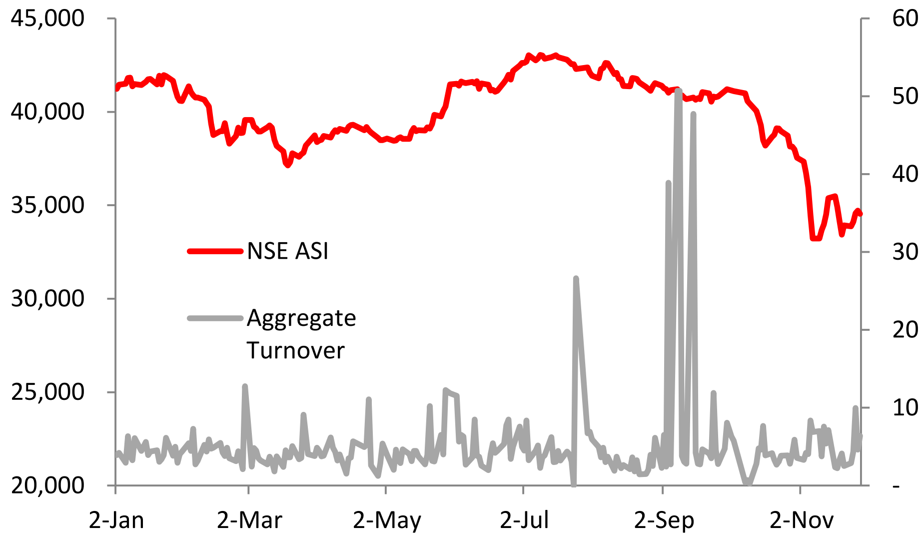
Equity Market: Round-Up and Outlook

YTD Return on the Nigerian Equity Market is -16.2%



Source: Trustfund Pensions Plc Investment Department

Equity Market Commentary

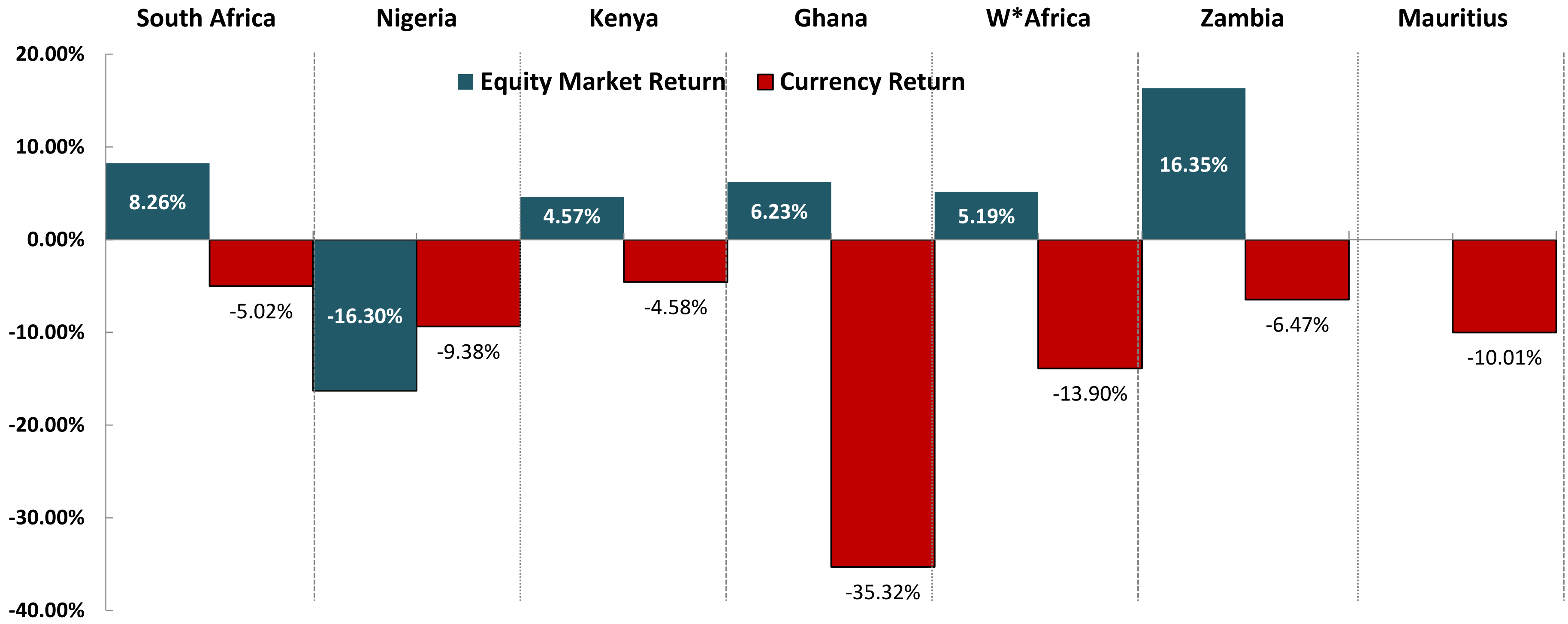
- Our equity return outlook for 2014 has been conservatively reviewed to -10%.
- Negative macro-economic shocks and currency weakness and weak global liquidity have turned the tide on the Nigerian stock market towards the tail end of year.
- Stocks recovered mildly late November, with Ytd loss reducing to -16.03% from -19.4% in October.

Equity Commentary

- Even as we see minimal downside from the current levels, we expect Investor sentiment to remain weak till after the elections.
- Financial Services remained cheapest sector at 5.9x P/E and 7.5% Dividend yield.
- ICT is the least affected sector (-0.4% Ytd).

Sector Indexes	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-20.4%	5.9x	7.5%
CONSUMER GOODS	-21.3%	21.9x	3.3%
INDUSTRIAL GOODS	-18.7%	16.5x	3.9%
OIL AND GAS	-2.4%	19.4x	3.4%
SERVICES	-10.7%	12.0x	1.7%
CONSTRUCTION/REAL ESTATE	-14.5%	8.3x	4.9%
CONGLOMERATES	-33.8%	15.4x	4.3%
AGRICULTURE	-36.6%	9.0x	2.1%

Regional and Currency Stocks Comparison



Source: Trustfund Pensions Plc Research

- Major Sub-Saharan African (SSA) economies have recorded currency depreciation in the year, with Ghana trailing the pack at 35.3% loss in the Cedis against the US Dollars.
- Except for Nigeria nonetheless, the region has seen mild gains in stocks market performance Ytd , with South Africa (+8.26%), Kenya(+4.57%) and Ghana(+6.23%), all outperforming Nigeria.
- Thus, the current lull in the Nigeria market may not be totally resolved by FX stability. Other factors like peaceful conduct of the 2015 polls and enhanced domestic investor interest are required for a sustainable recovery.