Trustfund Pensions Plc

H1 Performance Report

Update on the Economies, Markets and Portfolio Performance...

Global Economy...Nigeria...Trustfund Pensions Plc

Investment Department

June 2016

Global Economy and markets

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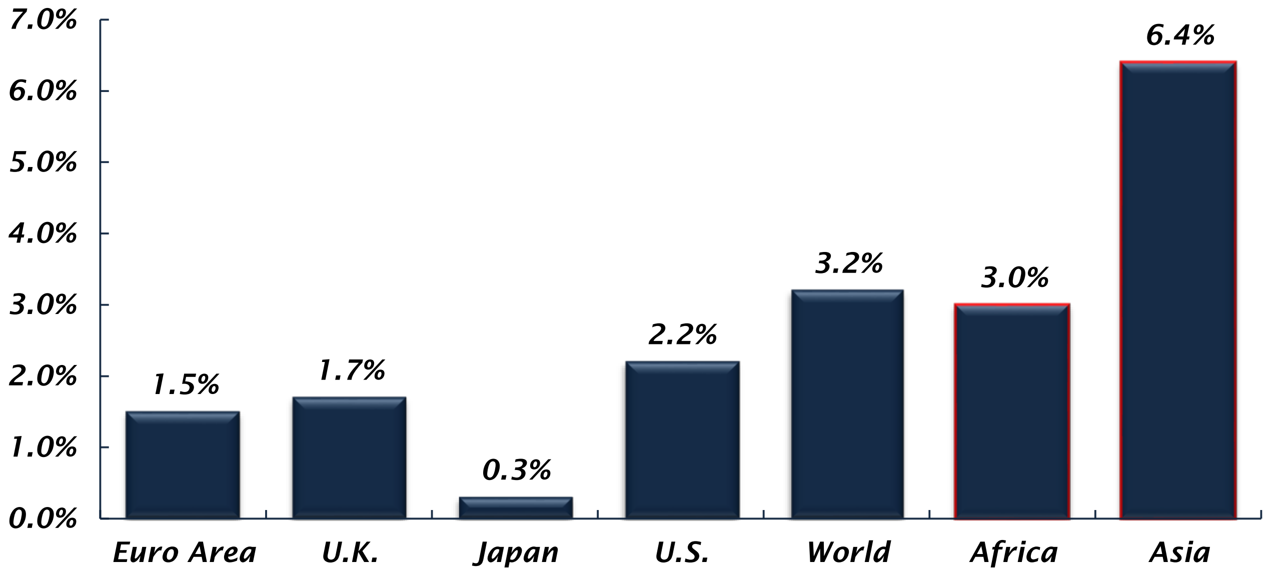
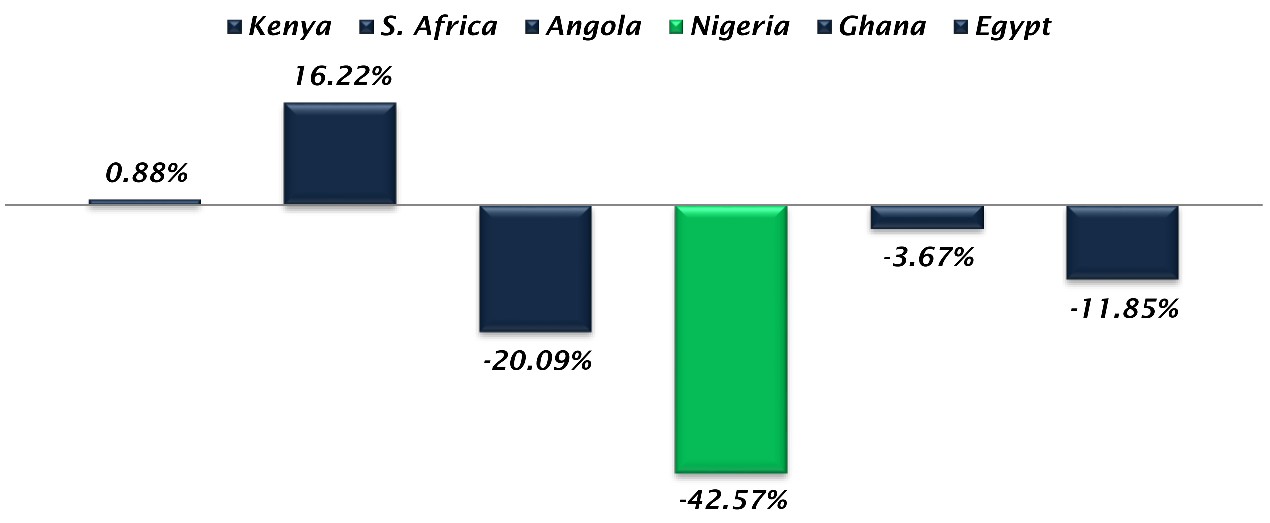
2016F Real GDP Growth; Africa and Asia are the drivers



Source: IMF; Trustfund Research

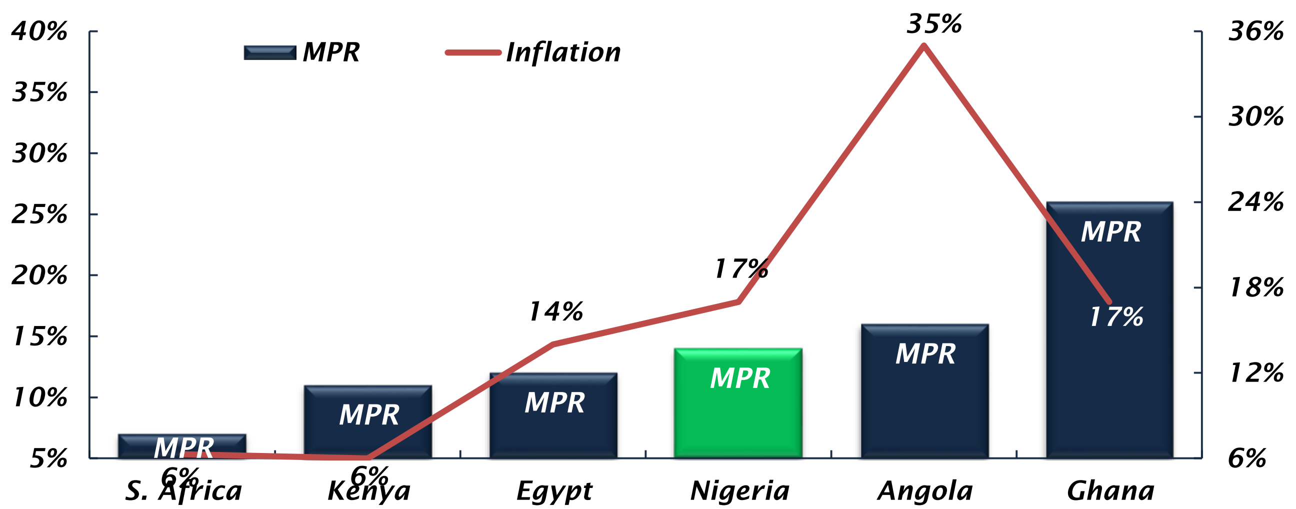
YTD Performance of major African Currencies



Naira still costs more on the street despite shedding 43% to close up gap with the parallel market

Source: Bloomberg; Trustfund Research

Real Investment Return remain mix across African Countries



Source: Bloomberg; Trustfund Research

- ✓ **At 3% and 6.4% respectively, Africa and Asia are the drivers of global growth despite weak commodity prices and tight consumer spending.**
- ✓ **Safe for South African (Rand) and Kenyan (Kwase), African currencies returned weak relative to the USD on pressured commodity prices.**
- ✓ **Return on investment is negative in Angola (-), Egypt (-), and Nigeria (-); relatively fair in South Africa and Kenya on benign inflation , while overshadowed in Ghana due to high cost of finance.**
- ✓ **Overall, outlook for output growth remain weak.**

Nigeria Capital Market at a glance

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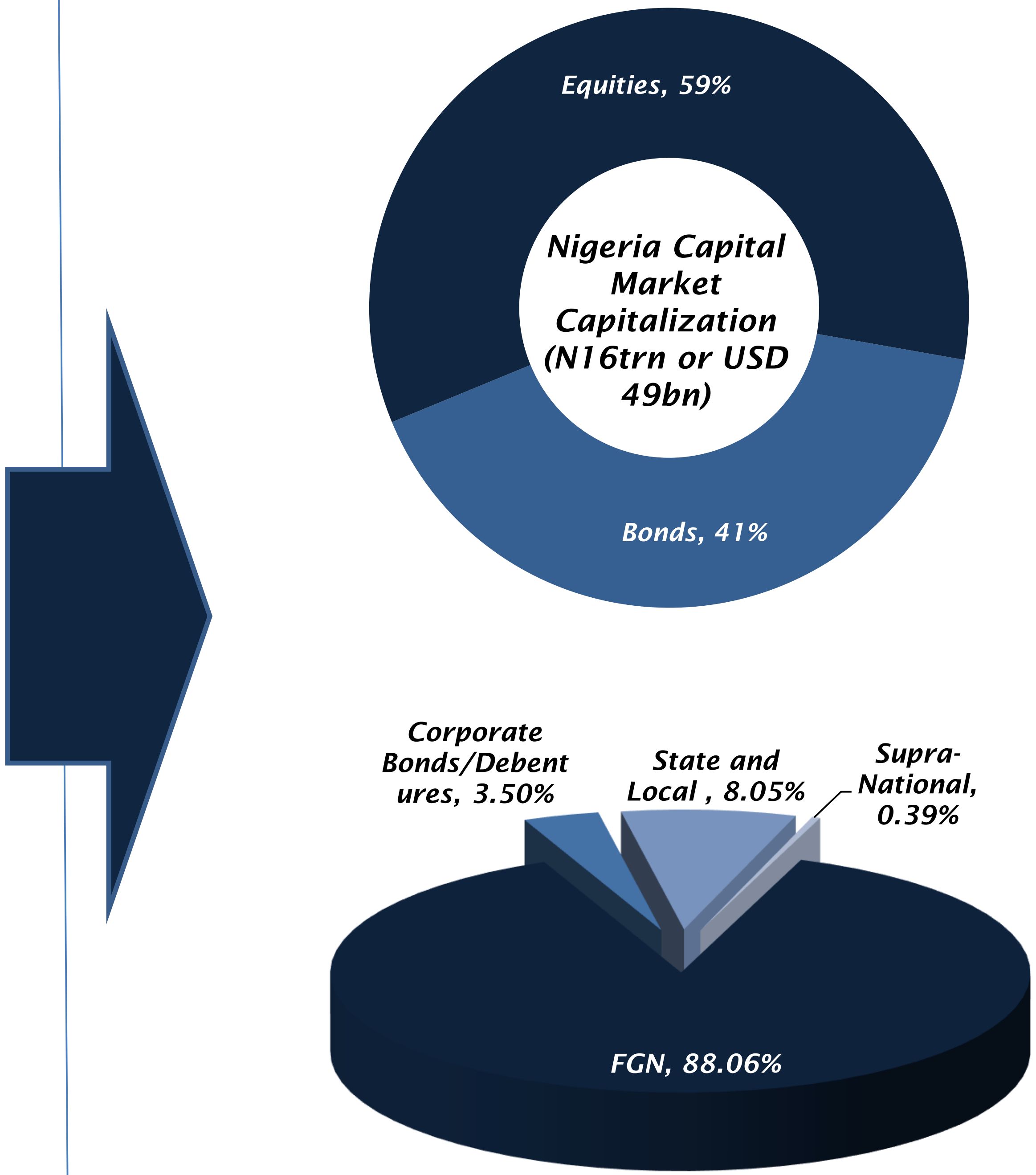
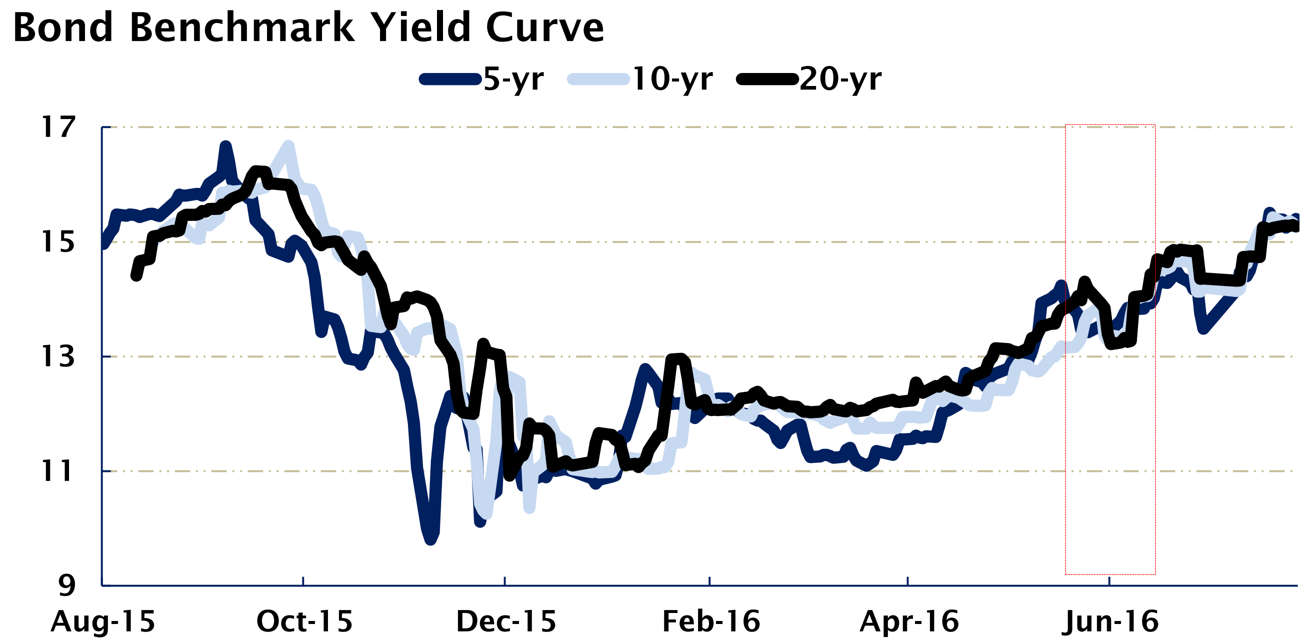
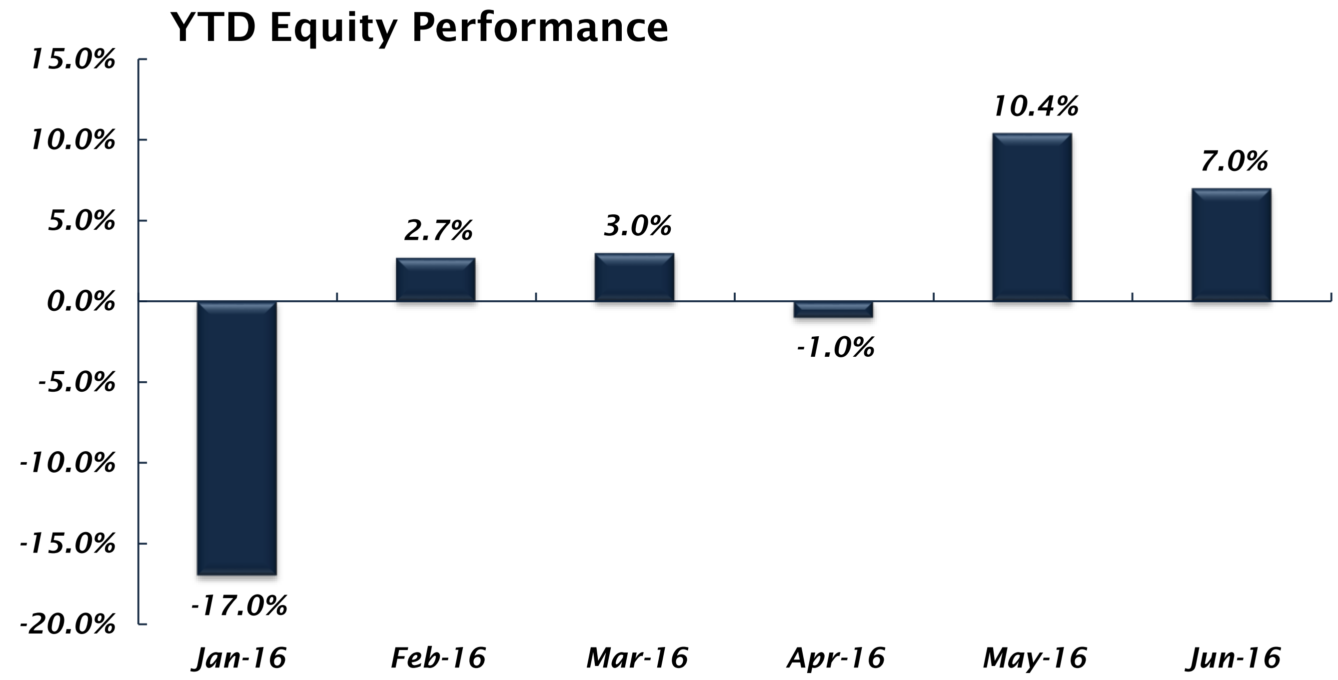
- ✓ Equities represent 59% of Nigeria total market capitalization which currently stands at N16trn and represents 10% of Nigerian GDP.
- ✓ Albeit, when adjust for devaluation is USD49bn.
- ✓ At 41%, the Nigerian debt market represents a huge share of the Nigerian capital market even as it remains a mild 4% of the GDP.
- ✓ Government securities are the main drivers of the debt market; representing 96% of the total debt market capitalization.
- ✓ Corporate and supra-National debts (non-government bonds) represent a mild 4% of the debt market in Nigeria.
- ✓ A reflection of how much the private sector has been crowded out of the debt market, thus reinforcing the need for more corporate benchmarks.



Source: NSE, Trustfund Research

H1-2016 Stocks and Bonds Performance





Sector Indexes	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	1.5%	3.9x	8.6%
CONSUMER GOODS	-3.3%	17.7x	3.4%
INDUSTRIAL GOODS	2.2%	16.6x	4.4%
OIL AND GAS	-24.5%	16.6x	3.5%
SERVICES	-11.1%	9.6x	6.6%
CONGLOMERATES	-1.8%	11.5x	5.3%
AGRICULTURE	13.2%	12.8x	1.5%
HEALTHCARE	-32.6%	-	1.8%
NSE ASI	**-3.1%**	**8.9x**	**5.2%**

Source: NSE; Trustfund Research

- ✓ The yield curve has hovered between 9.8% and 16.75 across all maturities Ytd.
- ✓ Given improved appetite for short term instruments, average 5 year bond yield increased by 4.8% from a low of 9.8% as investors demand higher yield to net negative return. Yields on benchmark 10 year and 20 year maturity instruments also witnessed Ytd increased of 2.9% and 2.5% respectively.
- ✓ After January low (-17%), the equity market recovered in February (+2.7%) and March (3%), slowed a bit in April (-1%) and recorded its highest Ytd gain in May (+) after gaining 10% in the month.
- ✓ Activity level also improved on the NSE in June; an average daily transaction value of N3.5 billion (Vs. N2.4 billion in the first quarter of the year).

Trustfund Portfolio Composition

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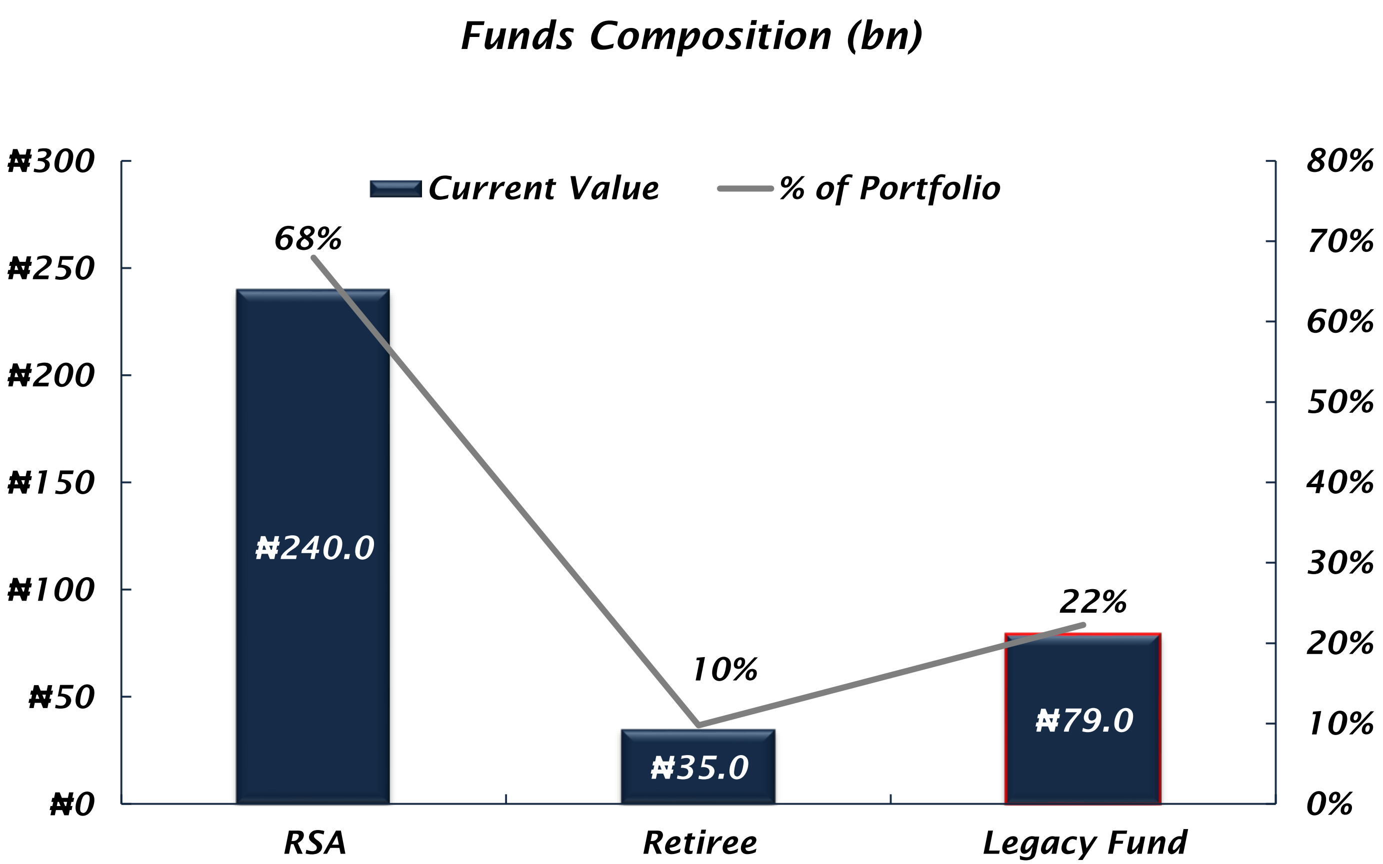
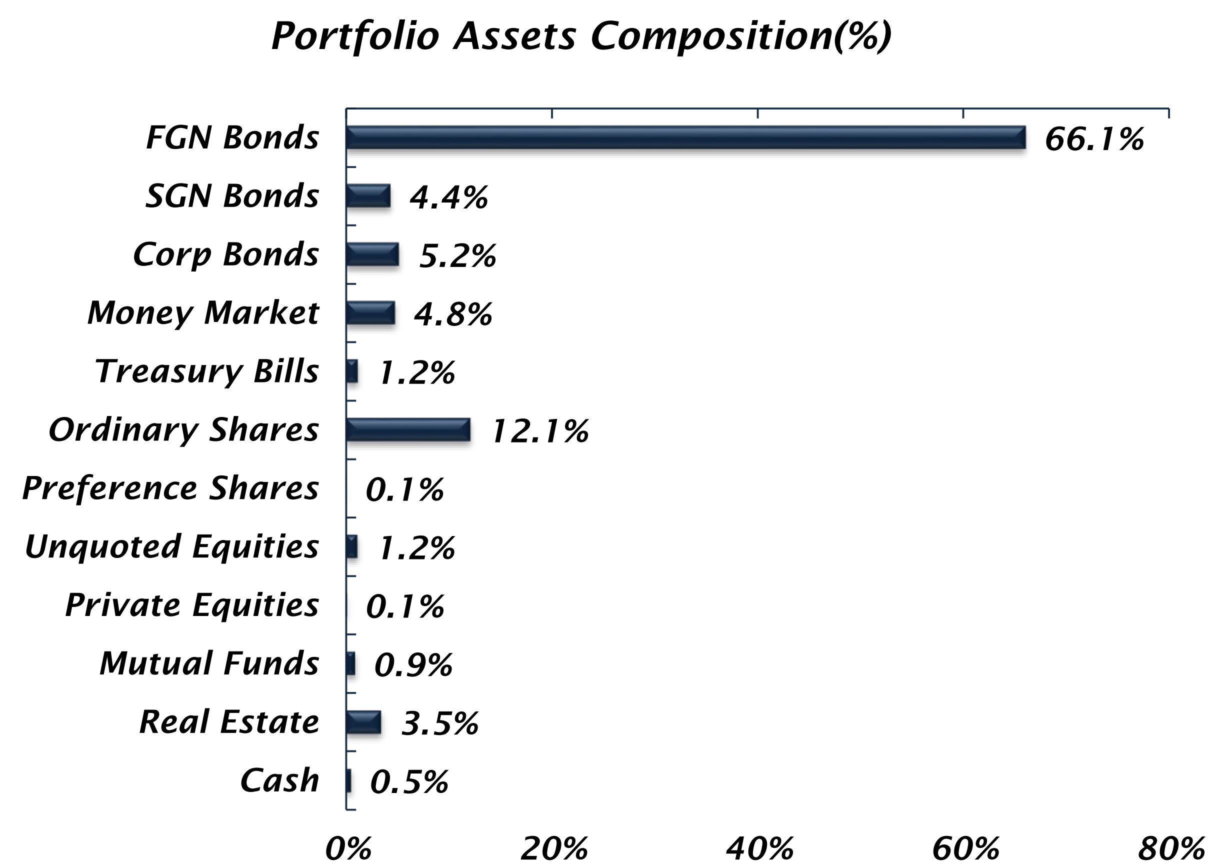
- ✓In Nigeria, Pension Funds are primarily invested in secured Fixed Income instruments to ensure safety of contributors fund under management while maintaining stable investment returns.
- ✓Against this backdrop, our portfolio is strategically positioned for fund safety, liquidity and attractive investment returns while balancing the risk appetite of our active contributors and retirees.
- ✓Our portfolio composition is as outlined below to reflect the dynamism and flexibility of our investment strategy.





Source: Trustfund Research

RSA Portfolio movement, H1-2016

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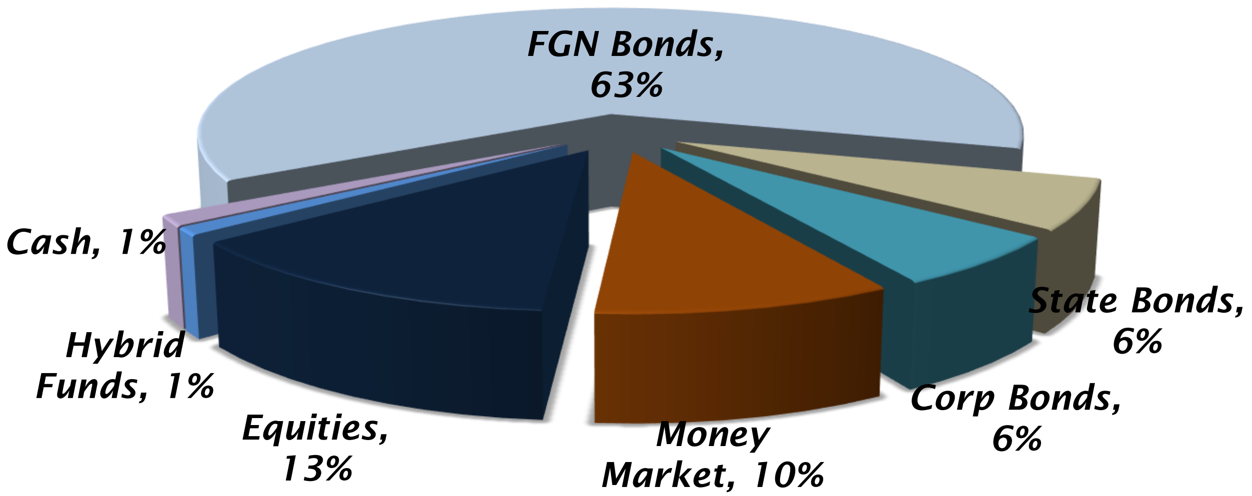
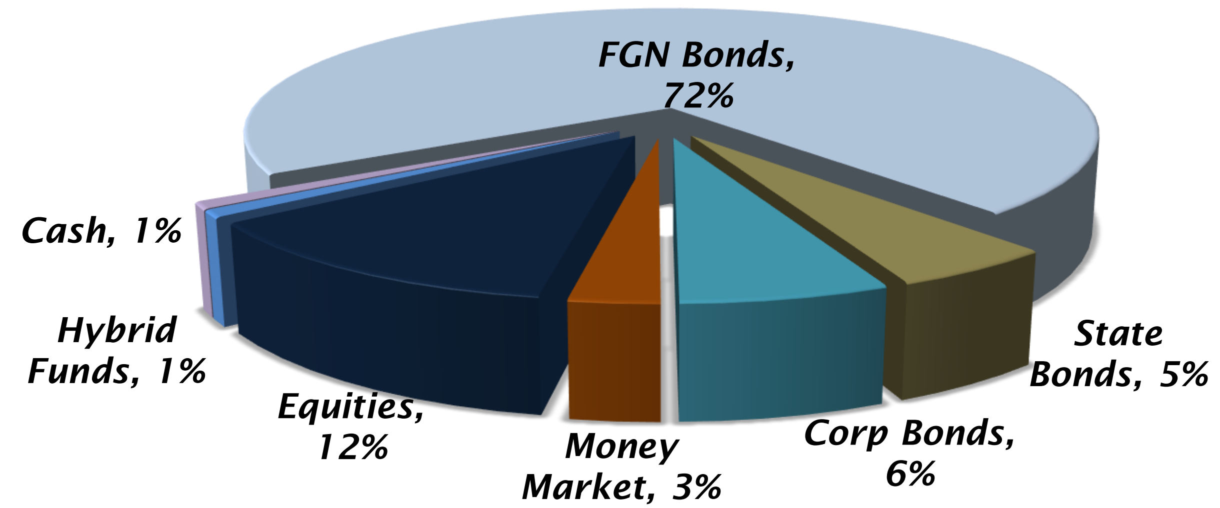
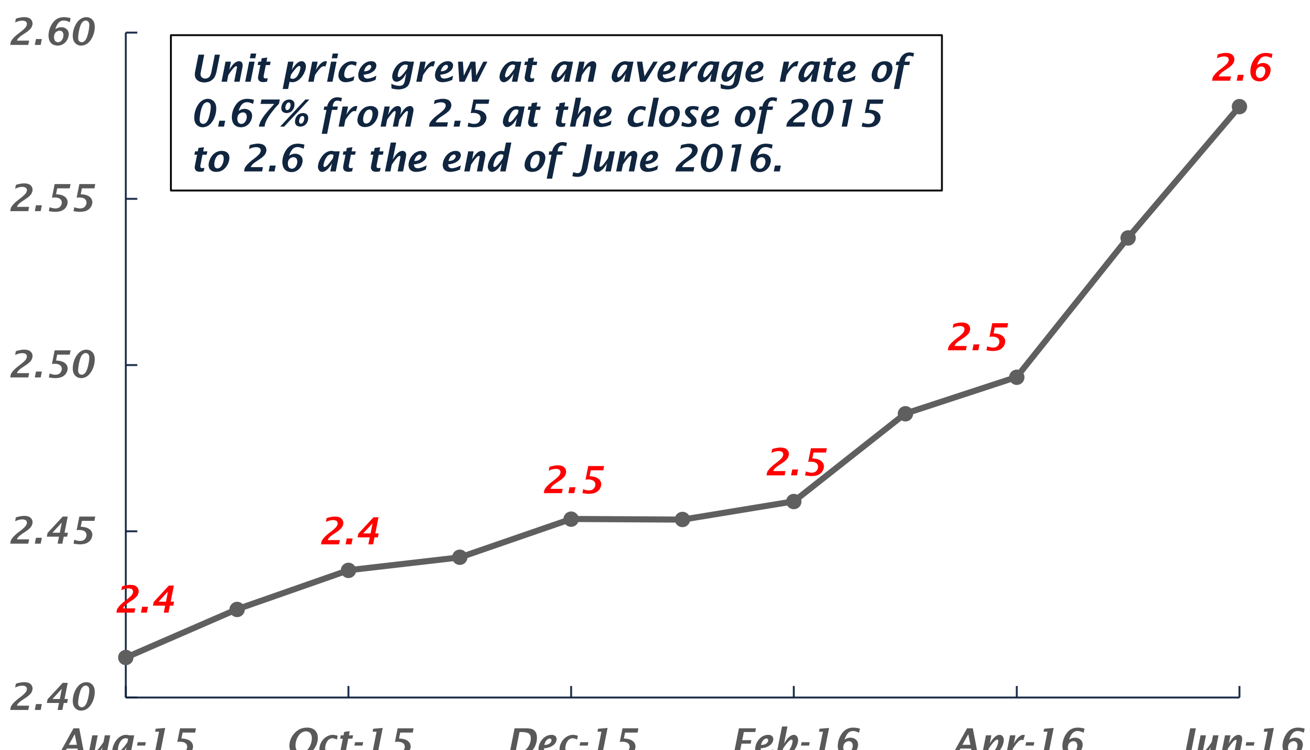
Asset Allocation - December, 2015



Asset Allocation - June, 2016





- ✓ In line with our defensive strategy, we reallocated our financial assets coming into 2016 to accommodate market uncertainties and immune our portfolio from market volatilities.
- ✓ The proportion of equities in the portfolio was tactically reduced to 12% from 13% at year end 2015 to reduce exposure while averaging down on quality stocks with appreciable short term earnings growth outlook.
- ✓ Funds were reallocated to other asset class with high return potential, thus, FGN bond surge to 72%, boosting the safety profile and average return on our portfolio.
- ✓ We were, however, conservative on short term trading, due to unattractive rate on money market and Treasury bill instruments in the first half of the year.
- ✓ Overall, we were able to achieve over 95% of our projected income for Q2 2016, thus, moving the portfolio value up by 9% in the first half of the year.

Market Outlook and Strategies for 2016 H2

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Macro Outlook; Cautious but Optimistic

- ✓While we share the IMF view of a negative GDP for the year, on depressed output, falling oil price and pressured naira, we see some recovery in Q4 2016 and Q1 2017. This is against the backdrop of the deregulation of the downstream oil sector and the introduction of a flexible FX system by the CBN.
- ✓Others are government resolve at economic diversification – more focus on the Mining sector, renewed strategy for agriculture, the introduction of an efficiency unit in the civil service to ensure fiscal discipline and the negotiation move to resolve the militancy issues in the Niger Delta region among other measures.
- ✓ We expect inflation to stabilize around 17% in Q3 as market gradually adjust to economic realities with inward looking strategy to source needed raw materials.
- ✓ MPR position going forward is largely hinged on inflation reading as CBN effort seems directed towards gradual reduction of the negative interest rate environment to attract FPI. Thus, we expect MPR to maintain a mild margin with inflation figure.
- ✓ We expect the re-admittance of the parallel market into the FX system by the CBN through sale of foreign currency accruing from inward remittances to licensed Bureaux De Change (BDCs) operators, to further support other CBN efforts at ensuring liquidity in the FX market.

Our Strategies: Surfing the tide defensively

<u>Consideration:</u>

MPR at 14% implies good return on fixed income assets as bond market remains benign on high yield environment accentuated by high inflation figure (16.5%) and budget deficit financing.

Average money market rates remain attractive for liquidity and profitability. Similar to the bonds market, T-bills yields remain high on improve appetite for short term instruments.

<u>Our Pledge</u>

We will increased our investment in >14% yield bond instruments for portfolio rebalancing. Likewise we will beam more light on short term instruments to take more advantage of trading opportunities.

We will be cautious on long equity positions and take available profits on our "in the money" stocks in our satellite portfolio.

