MONTHLY MARKET REVIEW AND FORECAST

SEPTEMBER 2016

TRUSTFUND PENSIONS PLC RESEARCH

O C T O B E R 2 0 1 6

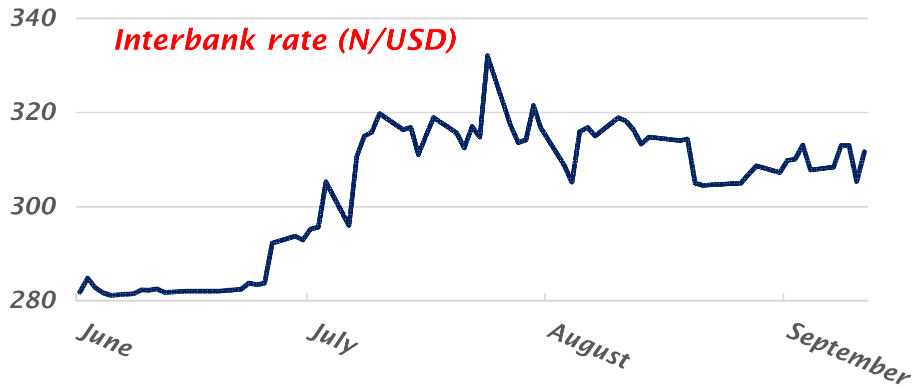
MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

Macroeconomic Environment

- ✓ The broader macro context has not changed or rather made worse by the news of high inflation figure.
- ✓ Naira has depreciated by 58% between June, when the flexible FX system was introduced and September 2016.
- ✓ External Reserve dipped to its lowest in 11 years, currently at N24.5bn after depreciating by 4% in September.
- ✓ Gradual reduction of the negative interest rate through adjustment of the MPR as a substantial amount of international capital to be attracted are in negative yielding investments globally
- ✓ CBN Shores up more banks reserves, to complement the recently revealed floating FX system by moderating FX demand by the DMBs.

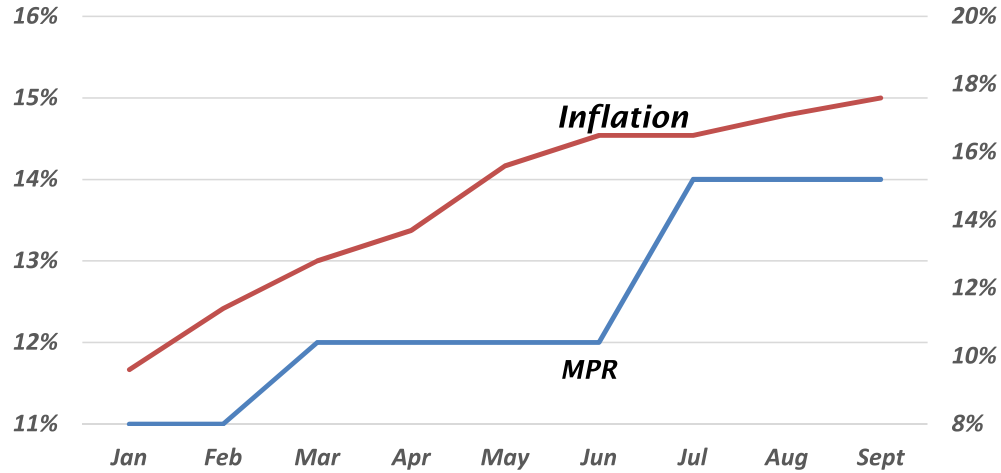
Naira/USD Exchange Rate Between June & September



Month	MPR	PLR	Inflation	Naira Returns	90 days T-bills rate	TFP 90 days MM rate
Mar	12.0%	16.8%	12.8%	-0.03%	5.5%	8.5%
Apr	12.0%	16.8%	13.7%	-0.02%	7.3%	9.0%
May	12.0%	16.1%	15.6%	0.04%	8.0%	9.6%
Jun	12.0%	16.8%	16.5%	1.92%	8.3%	12.8%
Jul	14.0%	17.1%	16.5%	0.70%	12.3%	13.7%
Aug	14.0%	17.8%	17.1%	-0.03%	15.3%	16.0%
Sept	14.0%	-	17.6%	2.07%	-	15.0%

Source: Trustfund Pensions Plc Research; Bloomberg

Real investment return remains in the negative as MPR maintains a wider margin with inflation (now at 17.6%)



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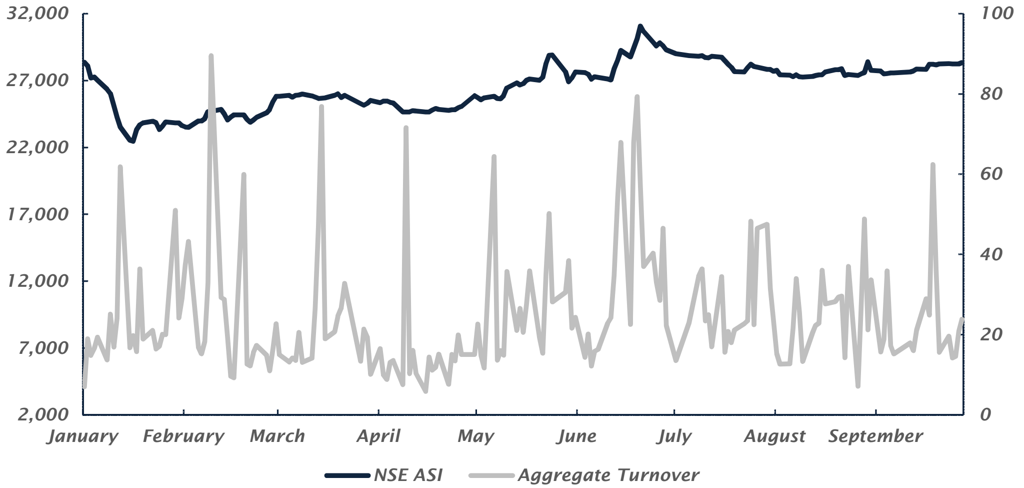
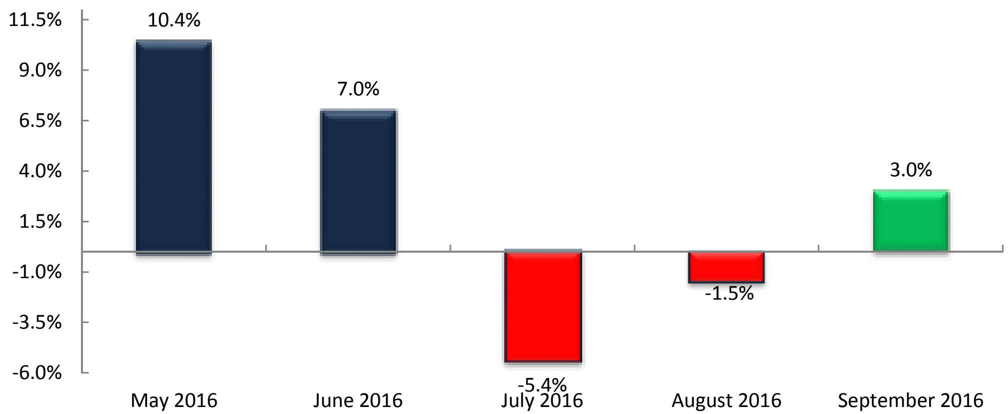
YTD Return on the Nigeria Equity Market is -1.07



Equity Market Commentary

- ✓ The local bourse rallied a notable 3% gain in September, defying disappointing economic data (negative GDP growth rate, high inflation and unemployment rates).
- ✓ The month witnessed three consecutive weeks of bullish trading (2.75%) largely driven by a mix of global and domestic catalysts. Specifically as investors already factored in the current macroeconomic drag into their stock valuation and MPC's resolve to strike a balance between growth and price stability.
- ✓ This moderated the Ytd performance to -1.07% even as the lead index remained below the 30,000 psychological level; a weak 9% of the YoY level of 31,000.
- ✓ Average volume of deals appreciated by 63% on renewed appetite for significantly undervalued stocks with dividend paying potential.

Monthly Equity Movement



Sector Indexes	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICE	1.3%	3.9x	8.6%
CONSUMER GOODS	-0.7%	18.2x	3.3%
CONGLOMERATES	0.8%	11.8x	5.2%
INDUSTRIAL GOODS	-2.6%	15.8x	4.6%
OIL AND GAS	-20.5%	16.7x	3.5%
AGRICULTURE	23.8%	10.6x	1.4%
SERVICES	-15.6%	8.4x	7.2%
HEALTHCARE	-33.0%	#DIV/0!	1.8%

Source: Trustfund Pensions Plc Research; NSE

Market – Fixed Income; Appetite stays cautious

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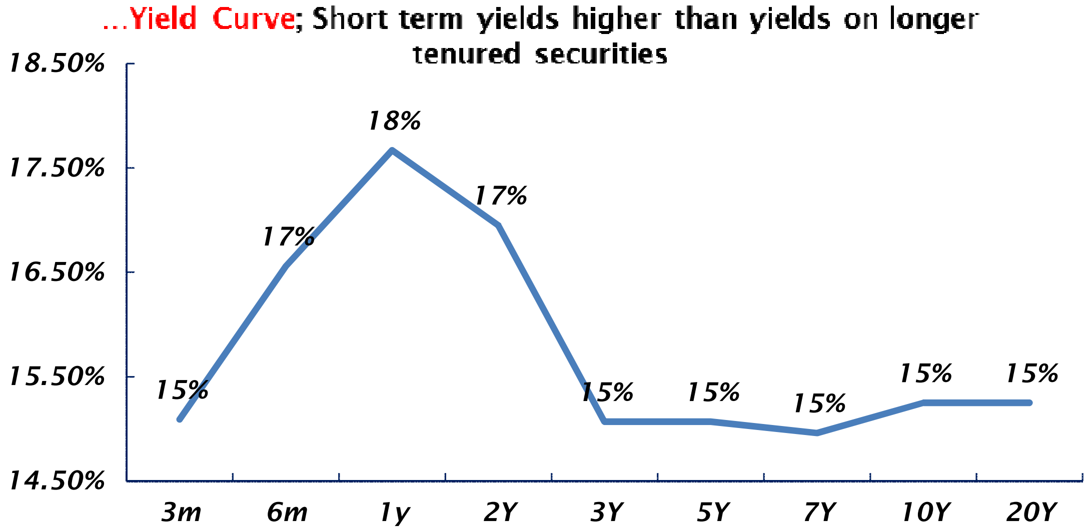
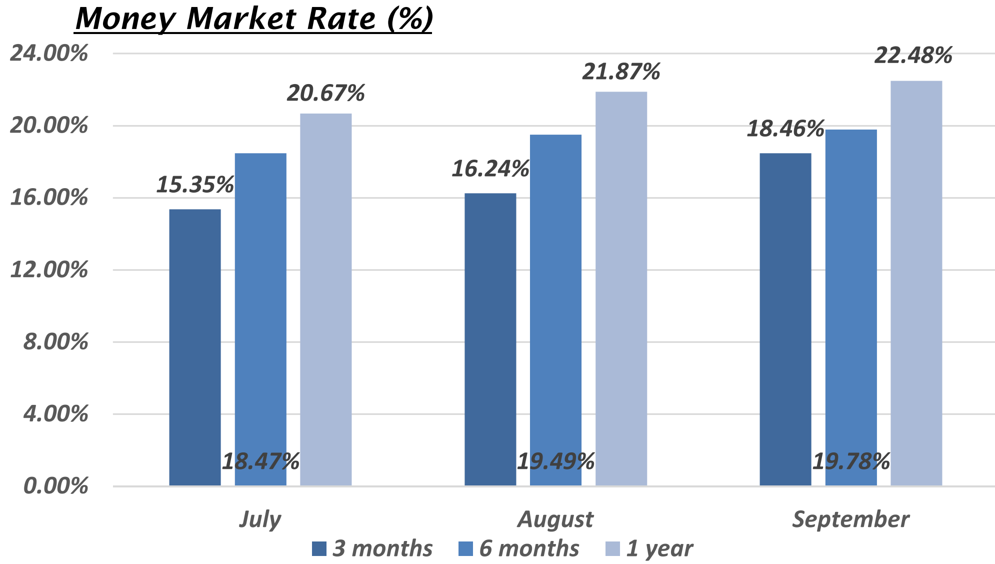
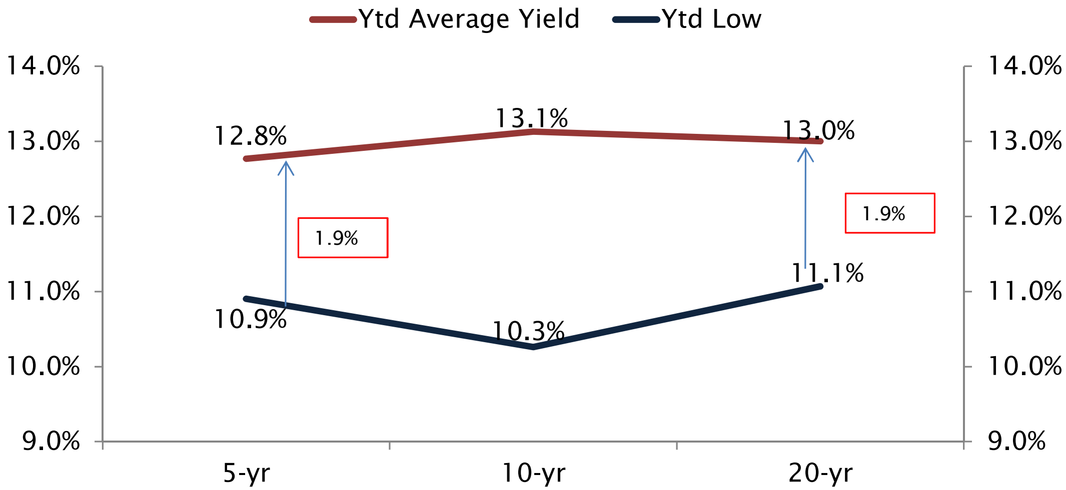




Steepening of the Yield curve: Risk exposure of bond instruments due to non parallel shift of the yield curve



Source: Trustfund Pensions Plc Research; Bloomberg

The yield curve has hovered between 10.9% and 16.7% across all maturities YTD.

Yields on fixed income instruments dipped on average of 12bps in September on the back of persistently rise in inflation

Given improved appetite for short term instruments, average 5 year bond yield increased by 1.9% from a low of 10.9% as investors demand higher yield to net negative return. Yields on benchmark 10 year and 20 year maturity instruments also witnessed ytd increased of 2.8% and 1.9% respectively.

Average Treasury bill yield moved northward by 142bps in September with sessions of OMO auctions which drove average stop rate to 18%. Interbank rate continued to move in tandem with liquidity level, reaching a high of 18.48% in September.

RSA Portfolio movement, 2016 Ytd

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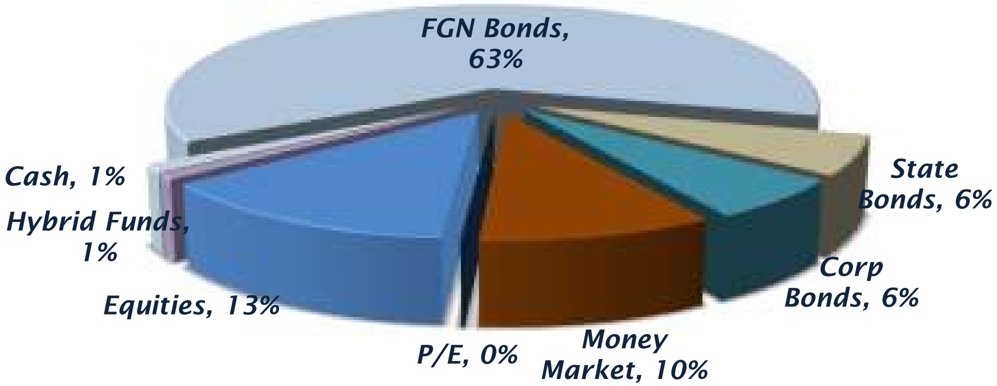
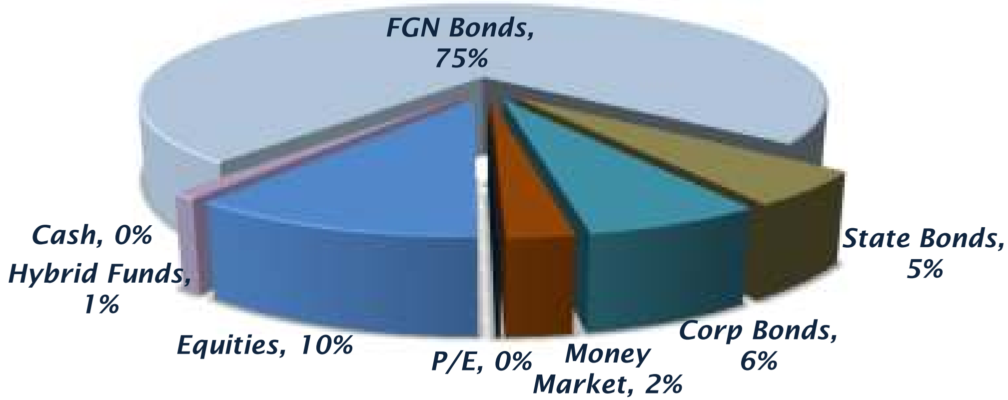
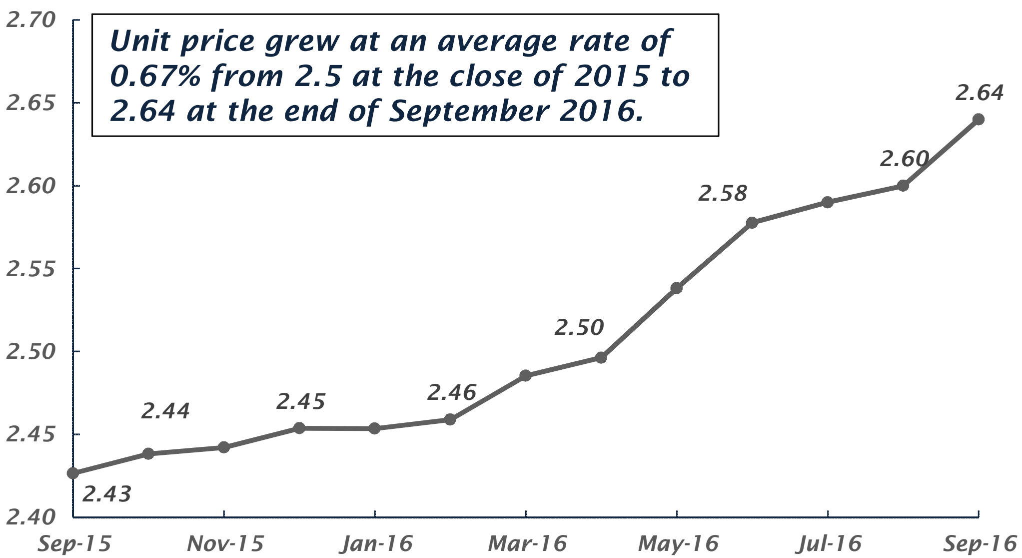
Asset Allocation - December, 2015



Asset Allocation - September, 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 10% 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 75%, 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 (as outlined in slide 9) thus, moving the portfolio value up by 9% in the first half of the year and by 10% at the end of August.

Market Outlook

Nigeria macro economic space remains gloomy in September on the back of H1 shocks, slow budget implementation to drive growth and negative real interest rate environment accentuated by high inflation. However, we remain consciously optimistic, going forward, following government resolve to strengthen institutions (FIRS, NCS, etc) that will boost non oil revenue and the CBN effort to gradually reduce negative return. Inflation should keep above 15% in the month ahead. Thus, the bearish overhang favours flight to safety . Hence, we recommend investment in fixed income instrument.

Equity

Outlook:

The balance of macro gesture and corporate returns outlook signal a cautious outlook for stocks in 2016Q3.

Our Strategy:

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

Bonds

Outlook:

Bond market remains benign on high yield environment accentuated by (a) high MPR (14%) and inflation figure (16.5%). (b) budget deficit financing and expected growth in the corporate bond market.

Our Strategy:

To increased our investment in >14% yield bond instruments for portfolio rebalancing.

Money Market

Outlook:

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.

Our Strategy:

We will Increase our position in short term instruments to take advantage of trading opportunities.

We will focus more on fixed income instruments, as the prospect for sustainable equity rebound remains frail. As inflation climbs, average bond yields should stabilize around the 15% levels in the coming weeks but trading opportunities on existing bonds will close out.