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MONTHLY MARKET REVIEW AND FORECAST

NOVEMBER 2016

TRUSTFUND PENSIONS PLC RESEARCH

D E C E M B E R 2 0 1 6

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

- Nigerian Macro Review
- Domestic Market Review
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- Fixed Income Market Outlook
- Our Asset Classes in graphics
- RSA Portfolio Movement, 2016 Ytd
- Monthly Income Report
- Income Report (Projected/Actual)
- Market Outlook

Snapshot of the Current Economic Environment

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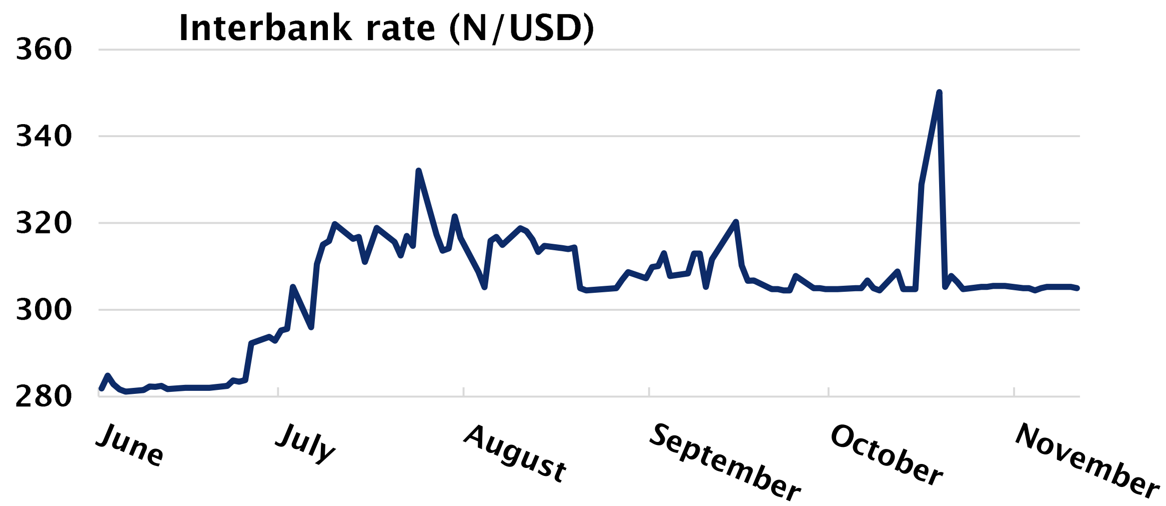
Macroeconomic Environment

- ✓ The Nigeria economy continues to struggle against strong headwinds, including rising inflation, weak foreign reserve, unstable oil prices and sustained pressure on the Naira.
- ✓ Naira has depreciated by 54% between June, when the flexible FX system was introduced and November 2016.
- ✓ External Reserve improved marginally in November to N24.77bn from N24.0bn recorded in October.
- ✓ The MPC retained MPR at 14% to enable fiscal policy the required space to improve public investment in infrastructure.
- ✓ CBN Shores up more banks reserves, to complement the recently revealed floating FX system by moderating FX demand by the DMBs.

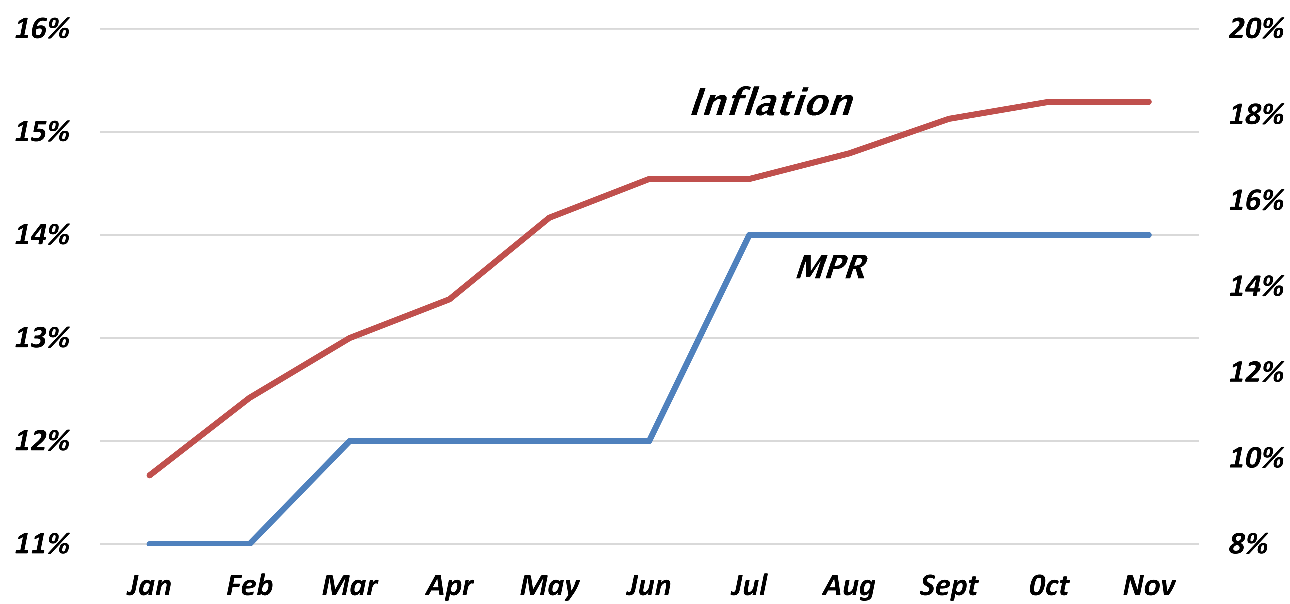
Naira/USD Exchange Rate Between June & November



Month	MPR	PLR	Inflation	Naira Returns	90 days T-bills rate	TFP 90 days MM rate
Jun	12.0%	16.8%	16.5%	42.0%	8.3%	12.8%
Jul	14.0%	17.1%	16.5%	13.0%	12.3%	13.7%
Aug	14.0%	17.8%	17.1%	-1.1%	15.3%	16.0%
Sept	14.0%	17.1%	17.6%	-1.5%	14.0%	15.0%
Oct.	14.0%	17.1%	17.9%	-0.9%	14.0%	18.5%
Nov.	14.0%	-	18.3%	-1.2%	-	18.5%

Source: Trustfund Pensions Plc Research; Bloomberg

Real investment return remains in the negative as MPR maintains a wider margin with inflation (now at 18.3%)



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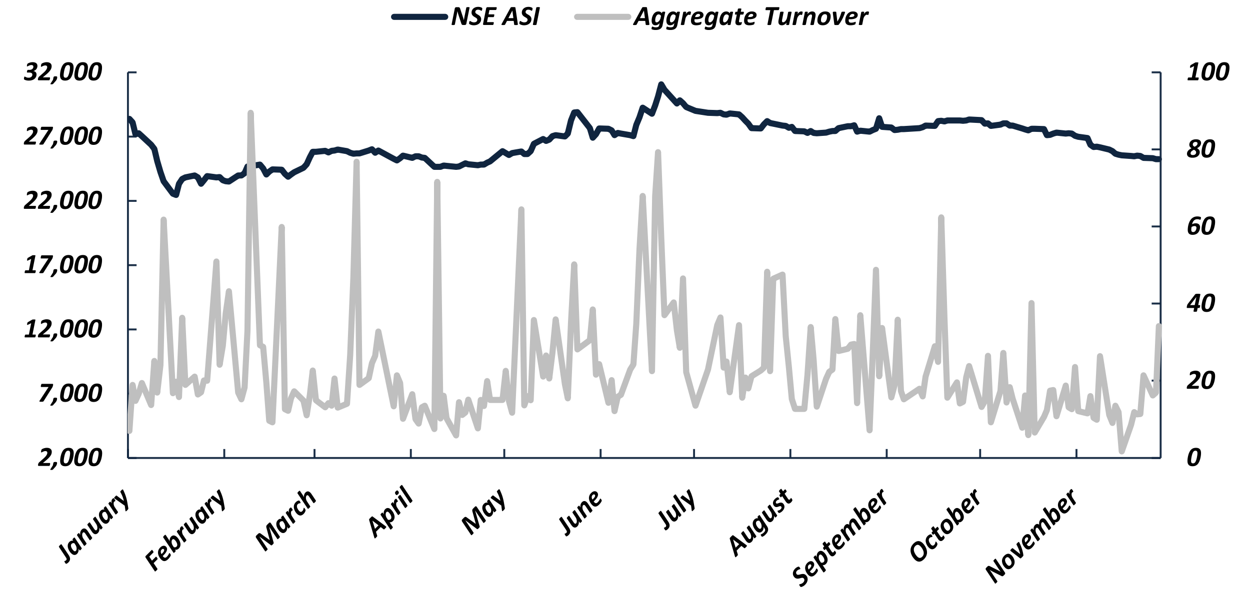
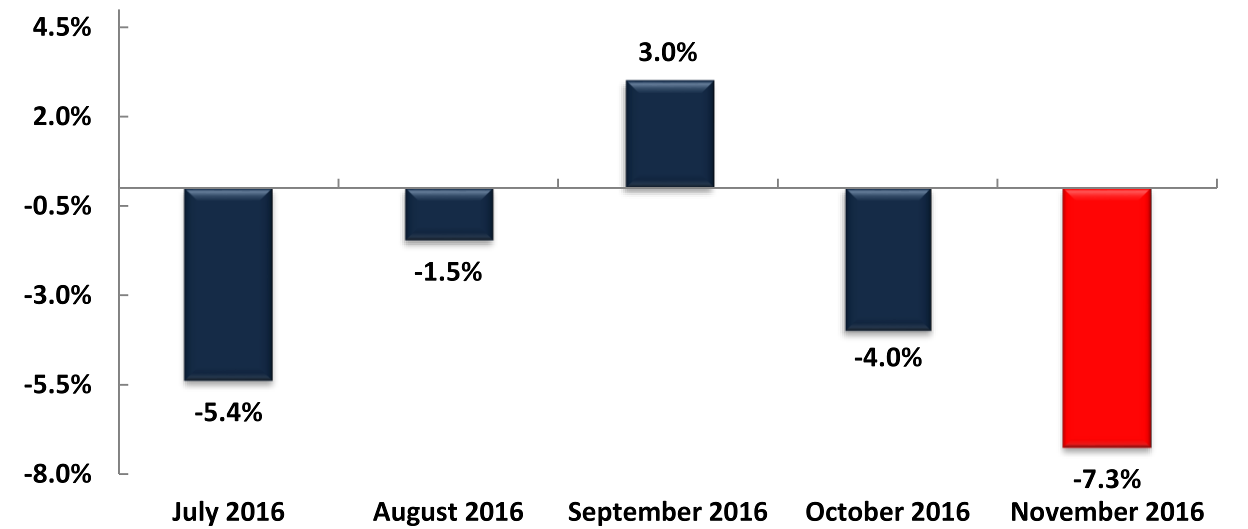
YTD Return on the Nigeria Equity Market is -11.87%



Monthly Equity Movement



Source: Trustfund Pensions Plc Research; NSE

Equity Market Commentary

- ✓ The Nigerian equity extended the pullback in November, falling 7% to close the month at 25,241.
- ✓ While we noted relatively weak foreign portfolio inflows into Nigerian stocks, domestic investors resumed selective bargain hunting, particularly within the Oil & Gas and the Banking sectors.
- ✓ Aggregate daily turnover for the month was N6 billion (representing 66% rise compared to the preceding month), highlighting the strong pulse of the selloff.
- ✓ Overall, the YTD performance weakened to -11.87%, rendering broad market valuation more attractive at 5.7% div yield and 8.1x P/E.
- ✓ The pressure on Nigerian stocks can be explained by domestic and external liquidity factors, including currency weakness (-53% YTD) and estimated 33% decline in crude oil price to $47/barrel levels.

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%	-	1.8%

Market – Fixed Income; Appetite stays cautious

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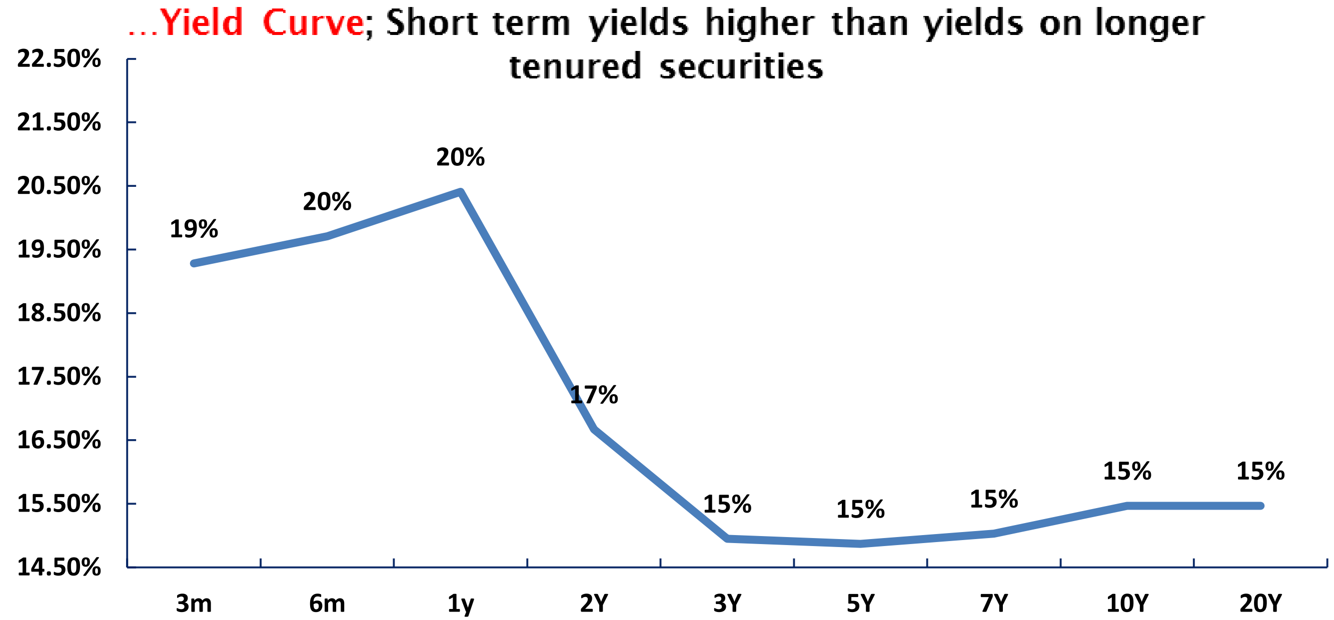
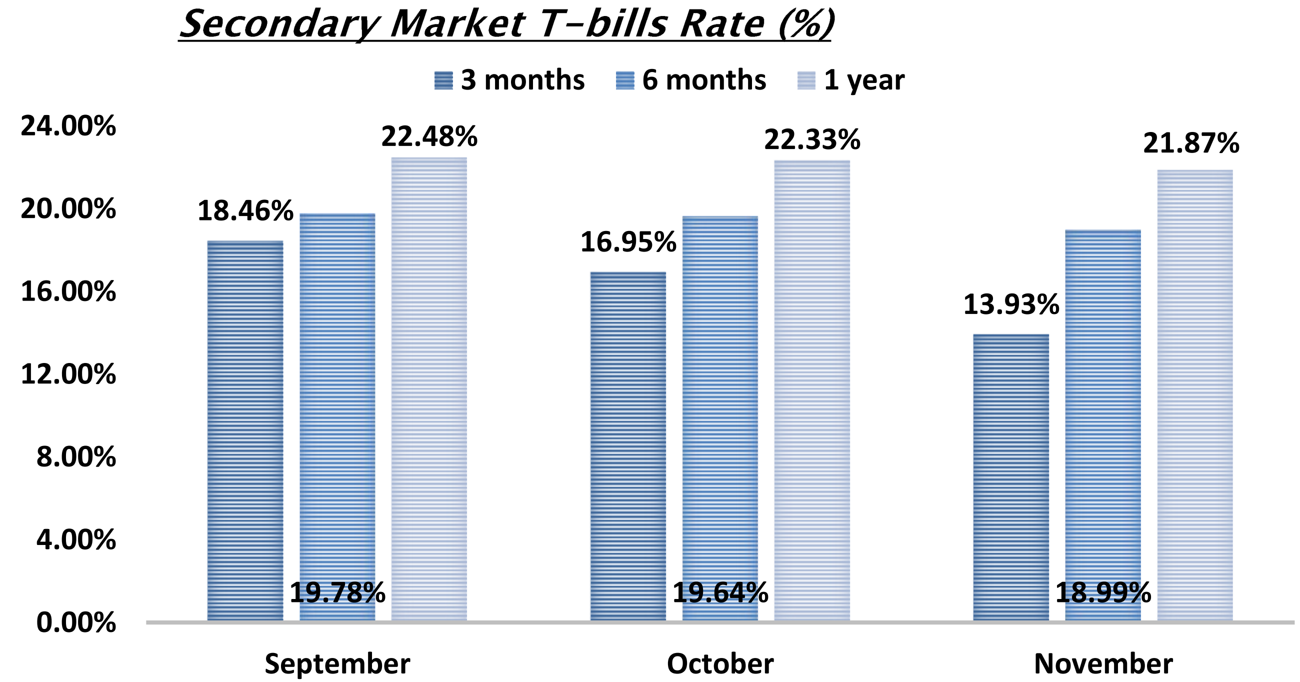
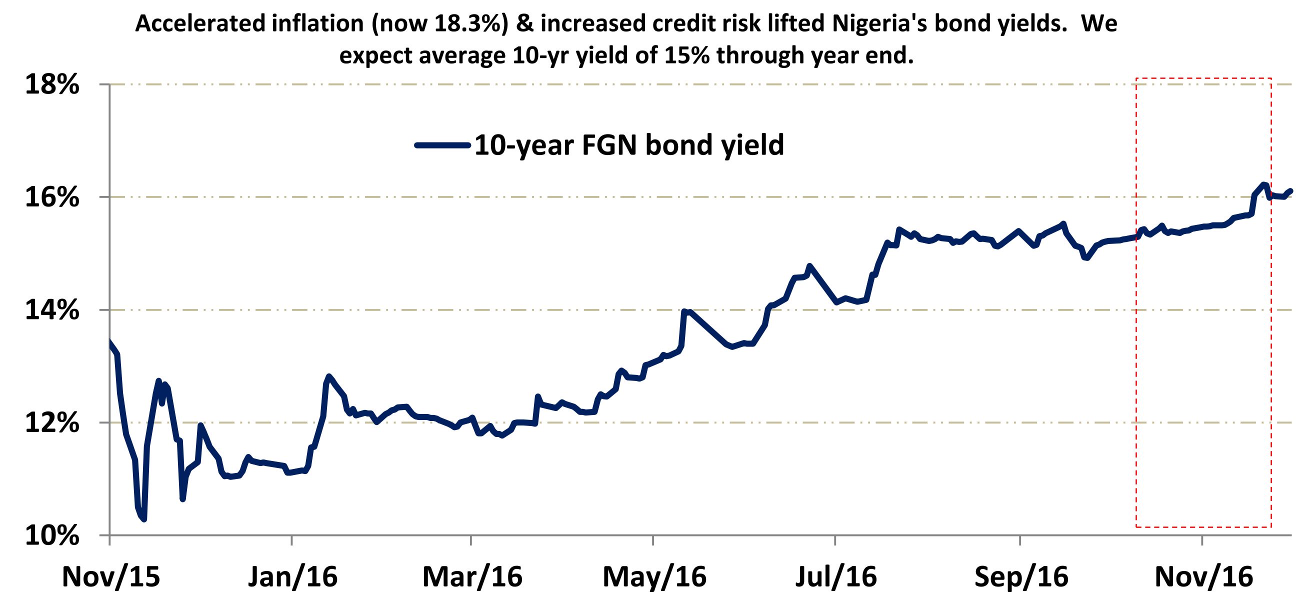




2016 10-year Bond Yield Trend (YTD)



Source: Trustfund Pensions Plc Research; Bloomberg

Broadly reflecting bearish investor sentiment, average bond yield surged by 47bps in November to close the month at 16.66%.

This is an indication of slippage in investor appetite for bonds, amid the expectation of likely uptrend in yield levels particularly as inflationary pressure lifts the risk premium on federal government debts.

Conversely, average Treasury bills rate closed the month at 18.23%, a notable decrease, relative to the October threshold (19.83%).

The generic 5-year,10 -year and 20-year instruments posted 15.81%, 16.09% and 16.10% yields respectively.

In view of the limited upside to stock market return through the year end, we anticipate sustained demand for bonds, which implies marginal depreciation in yields level in the month ahead.

Money market interest rates oscillated in tandem with the level of liquidity in the banking system. Thus, average inter-bank rate, which stood at 16.13 per cent on 31st of October 2016, closed at 10.42 per cent on November 30, 2016 following liquidity surfeit from FAAC disbursement in the month.

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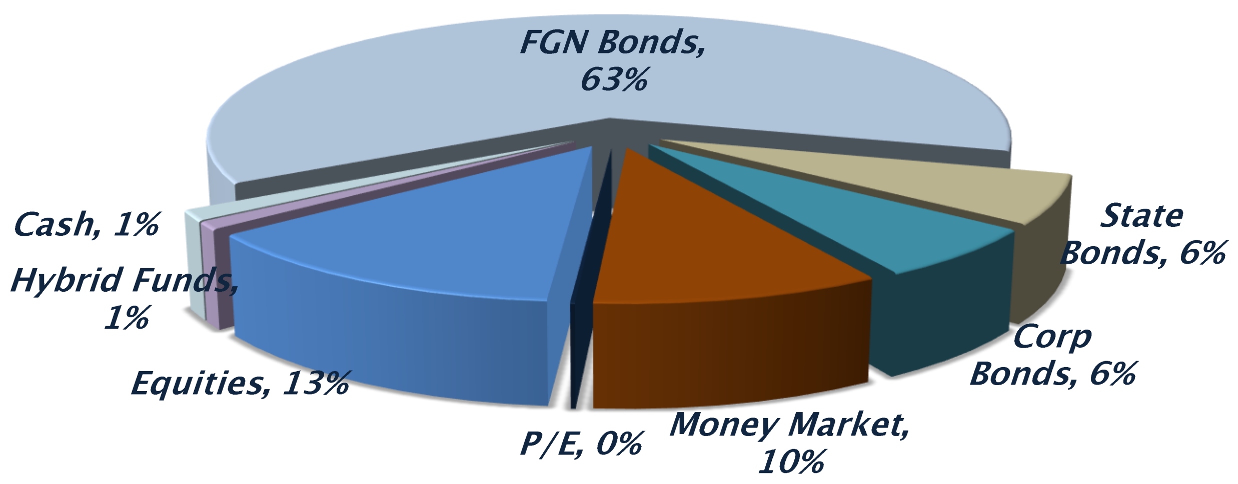
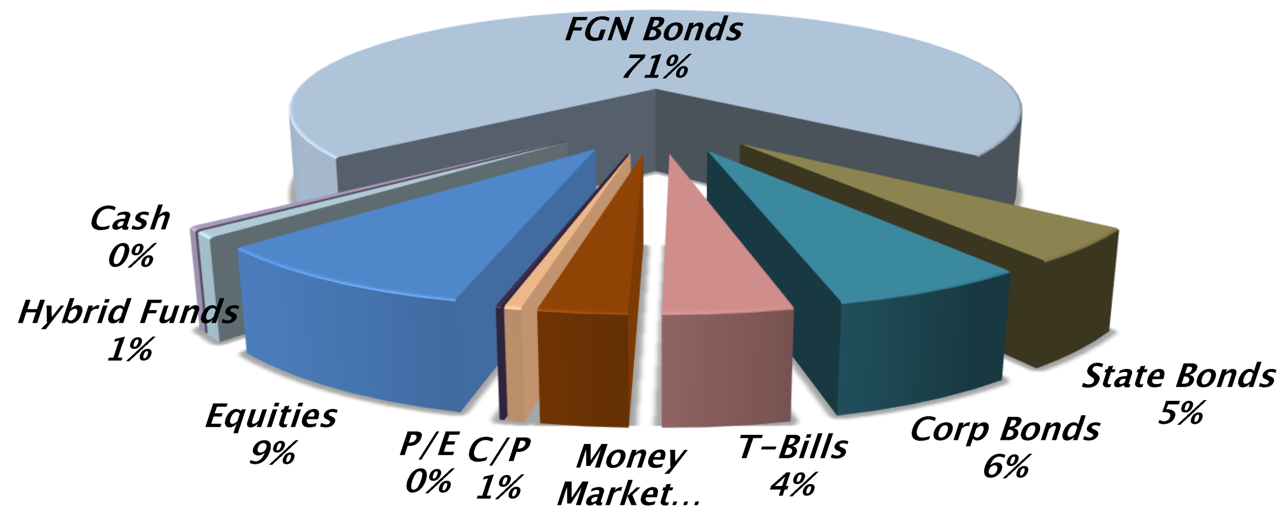
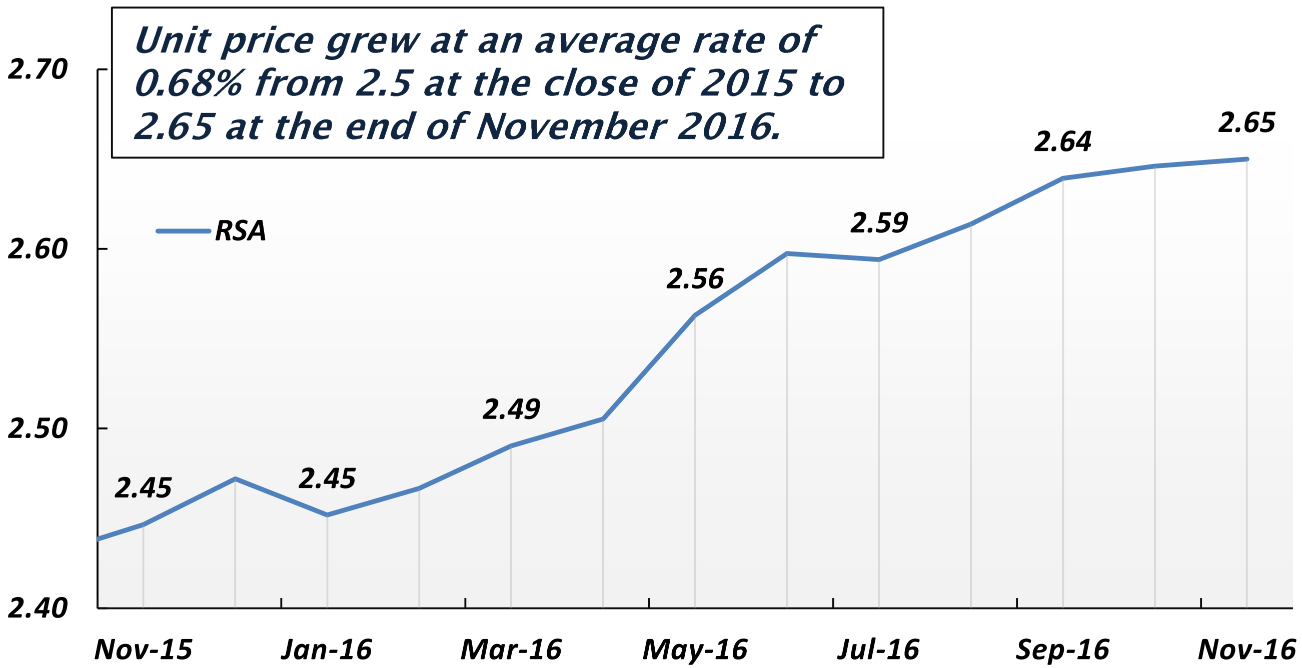
Asset Allocation – December, 2015



Asset Allocation – November, 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 9% 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 71%, 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 65% of our projected income (as outlined in slide 8) thus, moving the portfolio value up by 9% in the first half of the year and by 16% at the end of November.

Market Outlook

Nigeria financial market through year end 2016 will be largely shaped by the November MPC decision on the balance of growth and price stability, actual and expected inflation readings, depleting foreign exchange reserve, unstable crude oil price and sustained pressure on the Naira. 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 18% in the month ahead. Thus, the bearish overhang favours flight to safety . Hence, we recommend investment in fixed income instrument.

Equity

Outlook:
Equity Market outlook remains cautious on account of persistent macro headwinds and underwhelming Q3 corporate earnings.

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:
We see a marginal depreciation in yield in the month ahead on moderate inflation expectation amidst growth contraction. Likewise, sustained demand for bonds in view of limited upside to stock market return.

Our Strategy:
To increase 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.