MONTHLY MARKET REVIEW AND FORECAST

OCTOBER 2016

TRUSTFUND PENSIONS PLC RESEARCH

NOVEMBER 2016

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

Snapshot of the Current Economic Environment

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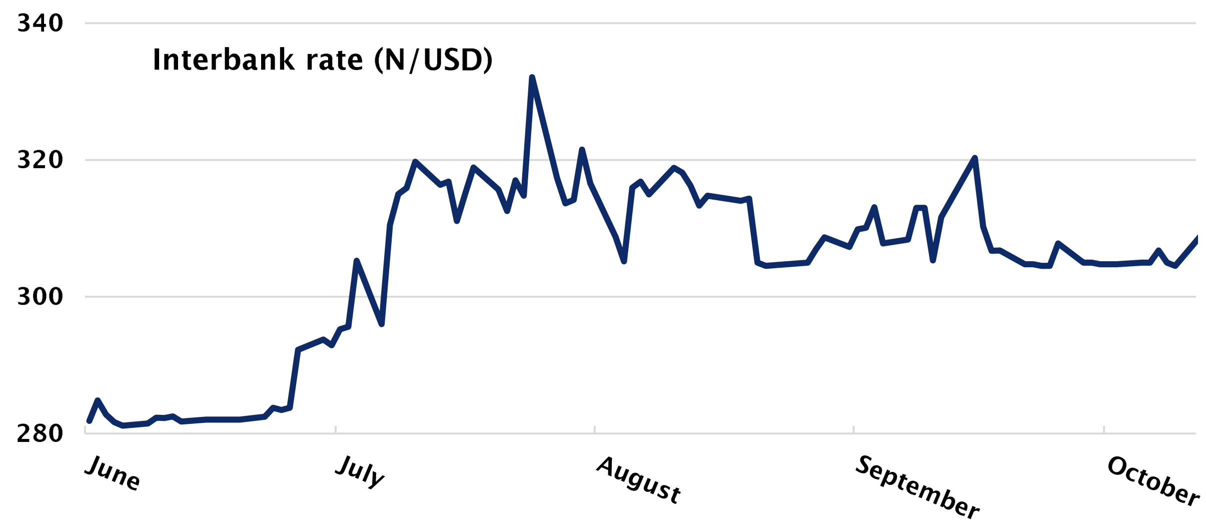
Macroeconomic Environment

- ✓ The broader macro context has not changed or rather made worse by the news of high inflation figure.
- ✓ Naira has depreciated by 55% between June, when the flexible FX system was introduced and September 2016.
- ✓ External Reserve dipped to its lowest in 11 years, currently at N23.8bn after depreciating by 4% in October.
- ✓ 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.

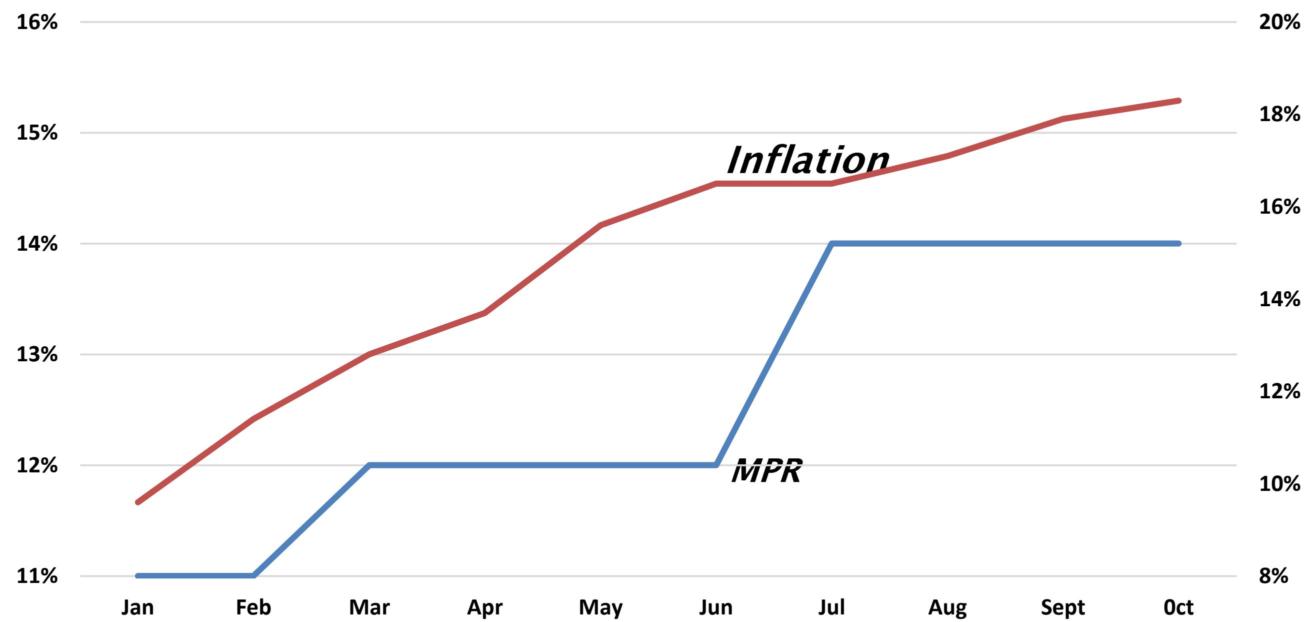
Naira/USD Exchange Rate Between June & October



Month	MPR	PLR	Inflation	Naira Returns	90 days T-bills rate	TFP 90 days MM rate
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%	17.1%	17.6%	2.07%	14.0%	15.0%
Oct.	14.0%		17.9%	3.24%		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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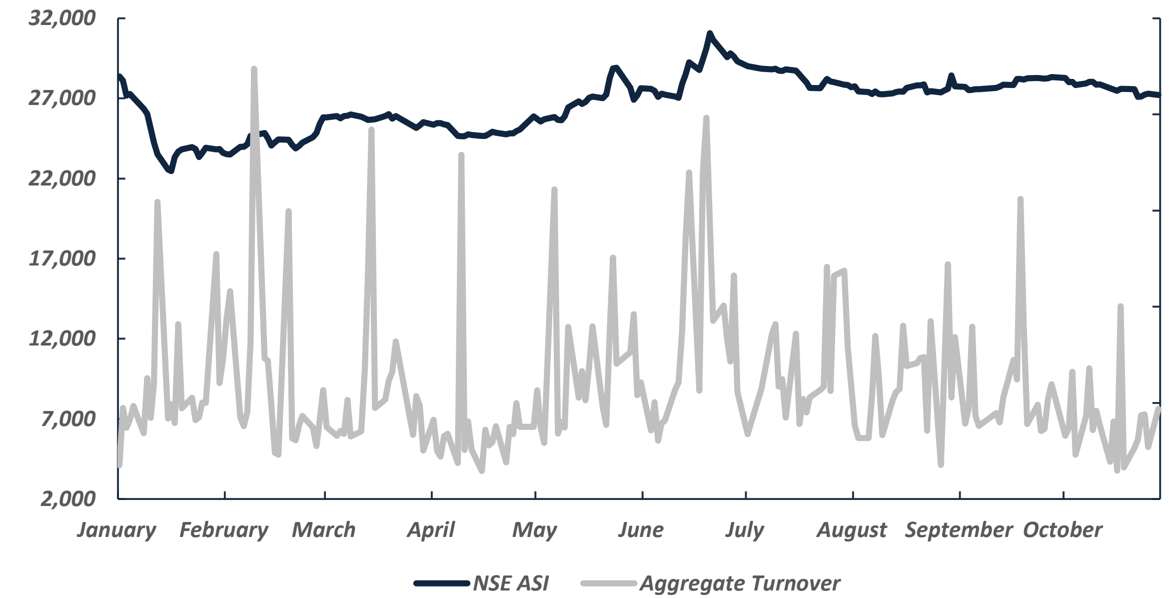
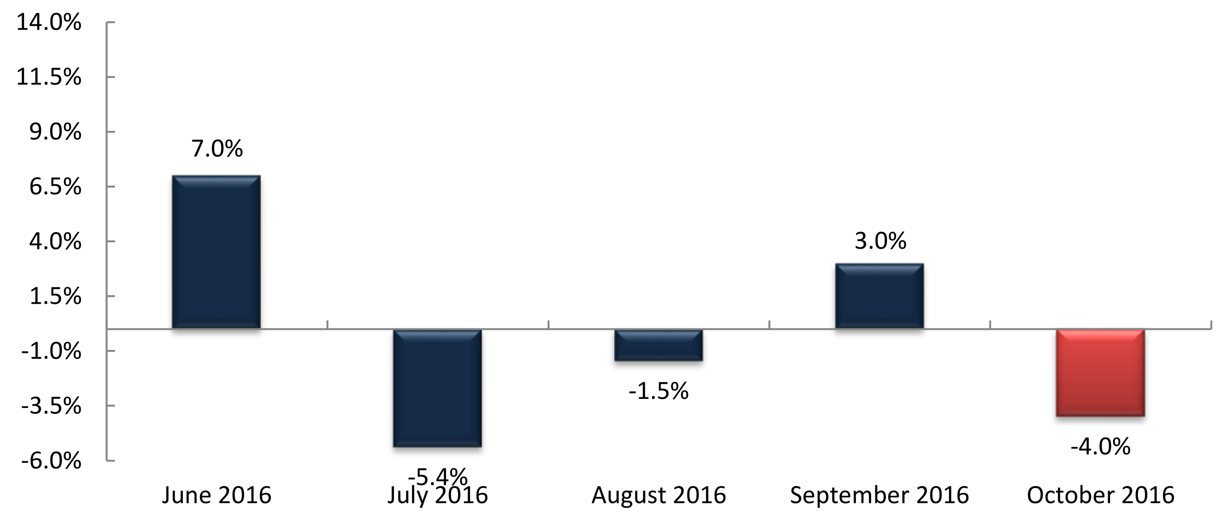
YTD Return on the Nigeria Equity Market is -5%



Equity Market Commentary

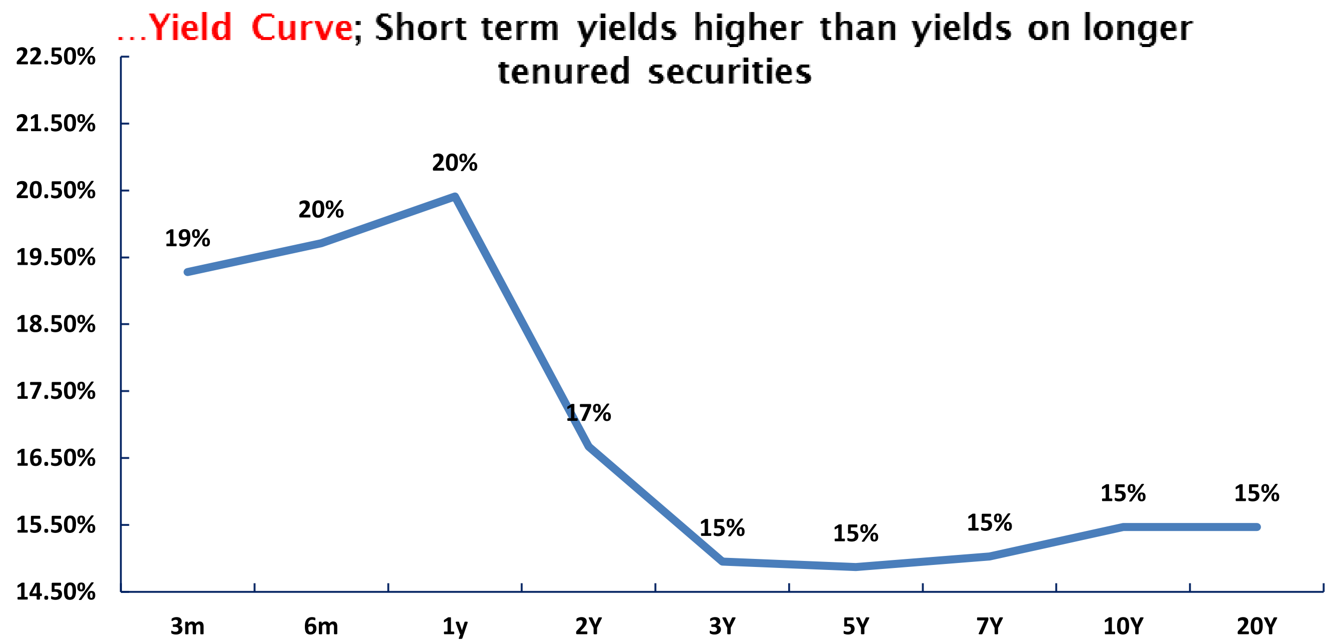
- ✓ The Nigerian equity market returned to the cautious mode in October, broadly reversing the September rally that preceded the 2016Q3 earnings season.
- ✓ Notably, the composite market index purged a notable 4% in the month, with YTD performance sliding from -1% in September to close October at -5%.
- ✓ The October correction in prices could be attributable to the broad based pullback in market bellwethers. Most of the large cap stocks purged gains including: Dangote Cement (-4.4%), NESTLE(-3.6%), Nigerian Breweries (-2.6%), GUINNESS(-18.4%) and Zenith Bank (-3.4%).
- ✓ We note the concentration of losses for the month within the Consumer Goods, Industrials and Financial sector indices. The Agriculture and ICT sectors paced the Year-to-date gain, at +26% and +15% respectively.
- ✓ Overall, the Financial services basket remained the most under priced sector (3.8x P/E) as at October ending, followed by the Service (7.4x P/E) and the Construction/Real Estate sector

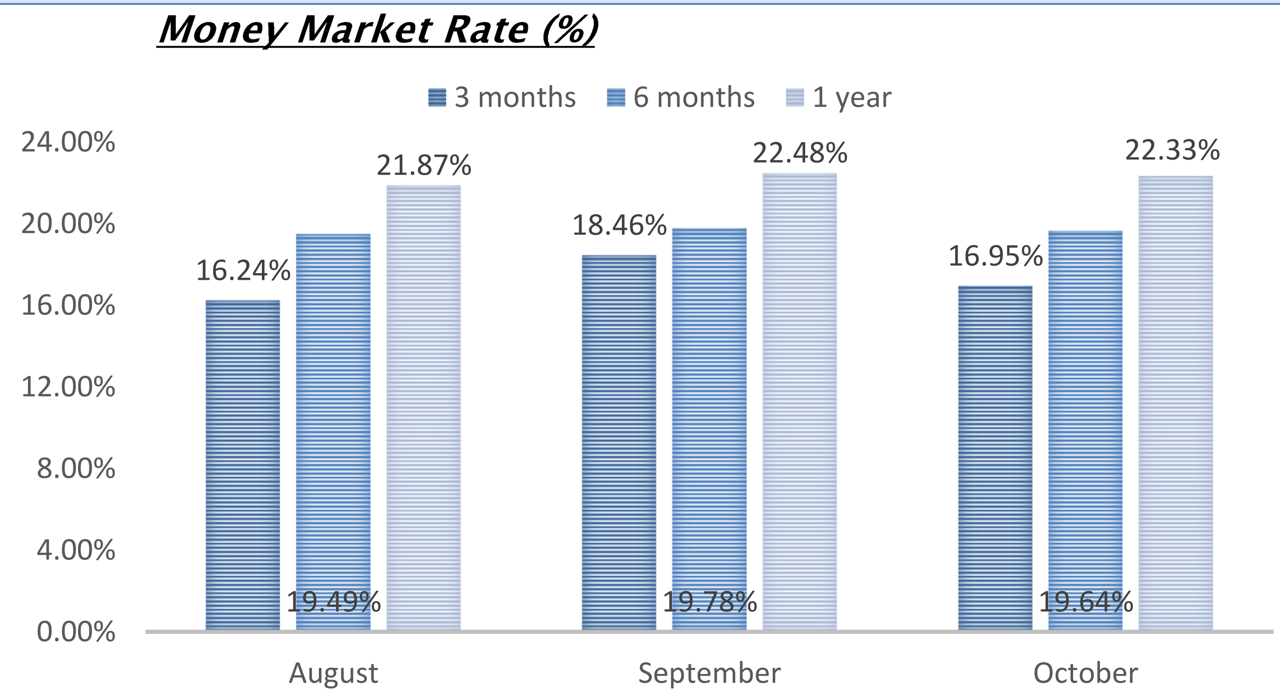
Monthly Equity Movement



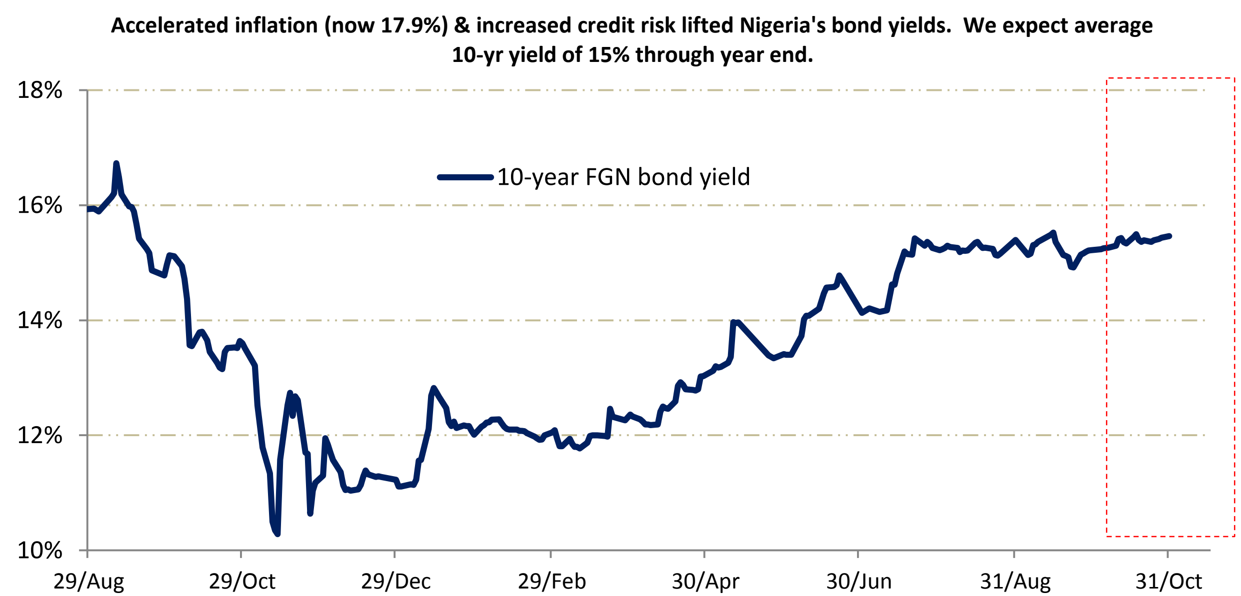
Source: Trustfund Pensions Plc Research; NSE

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%





2016 10-year Bond Yield Trend (YTD)



Broadly reflecting neutral investor sentiment, average bond yield fell by a negligible 4bps in October to close the month at 16.19%.

This is lower than the 12bps decline in Bond yield recorded in August, and an indication of slippage in investor appetite for bonds, amid the sustained fall in the general yield level.

On the other hand, average Treasury bills rate closed the month at 19.83%, a modest upswing, relative to the September threshold (19.60%).

The benchmark 7-year bond recorded a mild decline in yield at -4bps following investors' attraction to the mid end of the curve.

The generic 5-year,10 -year and 20-year instruments posted 14.87%, 15.47% and 15.29% 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.

Source: Trustfund Pensions Plc Research; Bloomberg

RSA Portfolio movement, 2016 Ytd

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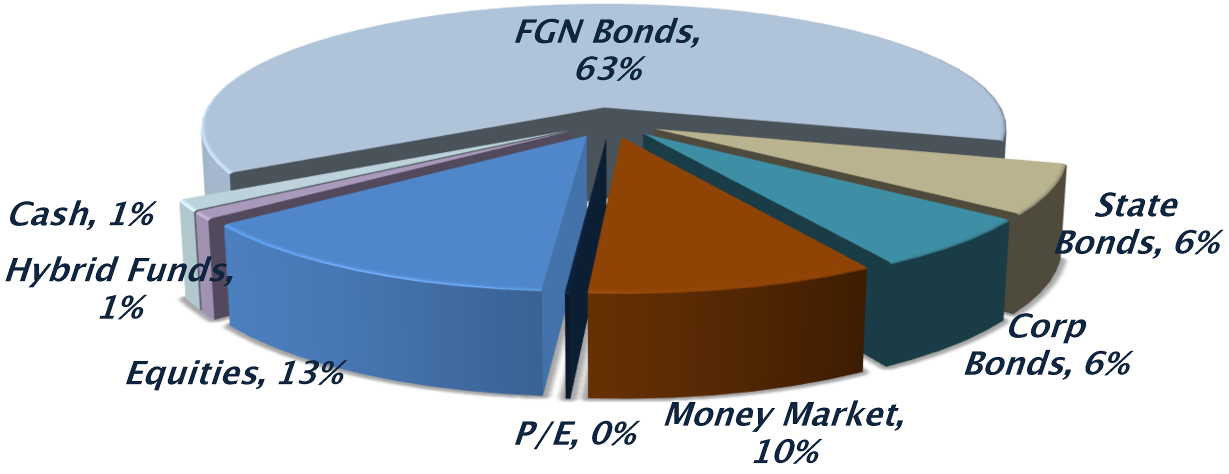
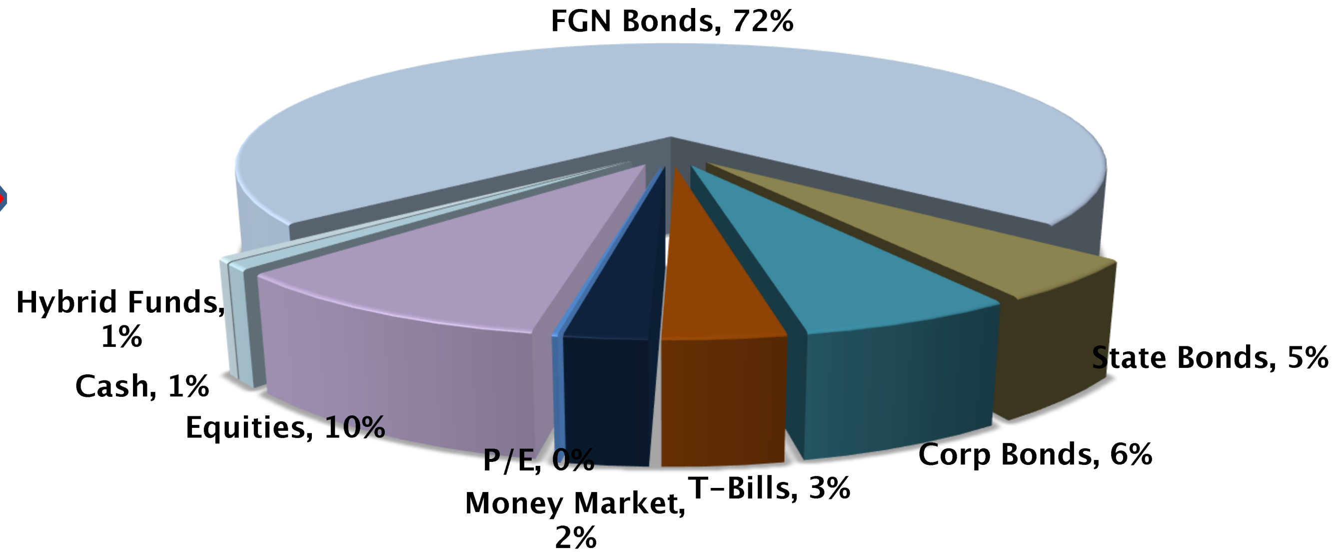
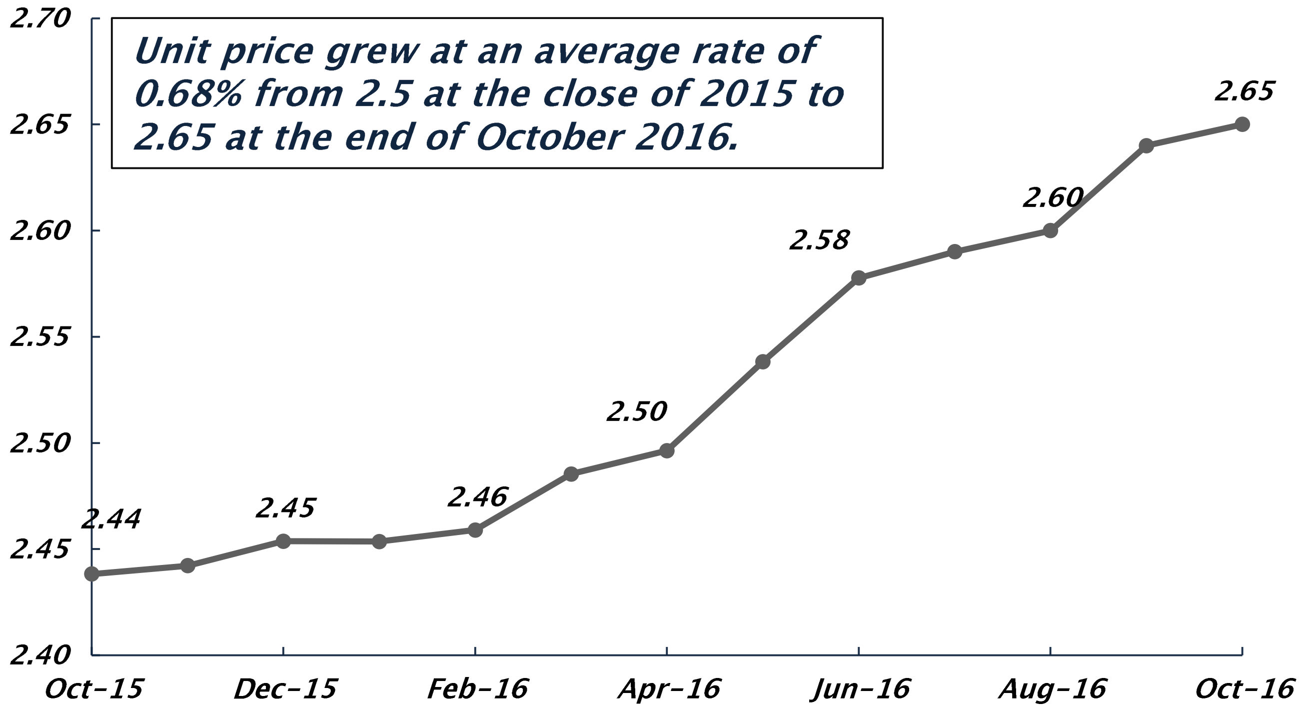
Asset Allocation – December, 2015



Asset Allocation – October, 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 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 78% 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 15% at the end of October.

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 15% 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.