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MONTHLY MARKET REVIEW AND FORECAST

APRIL 2017

TRUSTFUND PENSIONS PLC RESEARCH

M A Y 2 0 1 7

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

Nigerian Macro Review

Domestic Market Review

Equity Market Outlook

Fixed Income Market Outlook

Trustfund Unit Price – Riding the tide of Bearish Market

Market Outlook

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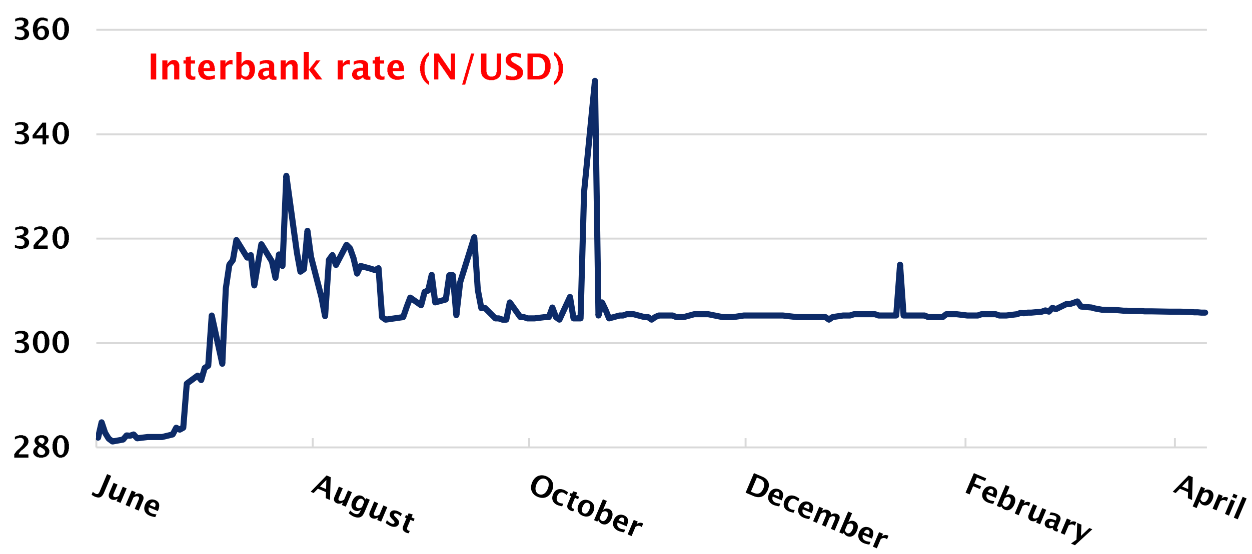
Macroeconomic Environment

- ✓ MPR sustained at 14% in April, leaving investment return in the negative as inflationary pressure persist.
- ✓ CRR maintained the previous threshold to ensure financial system stability as the banking sector was becoming less resilient due to adverse macroeconomic environment.
- ✓ Headline inflation contracted to 17.26% in March and is expected further down in April on high 2016 base effect.
- ✓ Naira appreciated by 0.16% at the interbank but lost 0.26% on the street after closing April at N396/USD$.
- ✓ External reserve balance improved by 1.98% to $30.9bn in April on increasing Oil price and output.

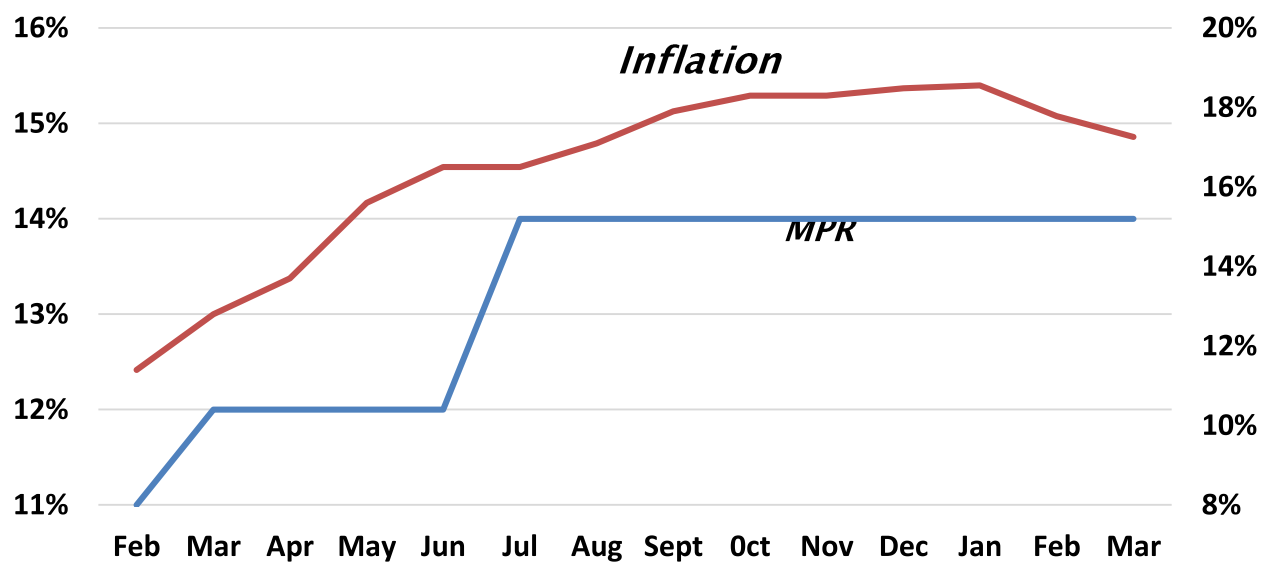
Naira/USD Exchange Rate Between June 2016 & April 2017



Month	MPR	PLR	Inflation	Naira Returns	90 days T-bills rate	TFP 90 days MM
Oct-16	14.0%	17.1%	17.9%	-0.9%	14.0%	18.5%
Nov-16	14.0%	17.06	18.3%	-1.2%	14.0%	18.5%
Dec-16	14.0%	17.1%	18.5%	0.1%	14.0%	17.5%
Jan-17	14.0%	0.0%	18.6%	0.0%	0.0%	15.0%
Feb-17	14.0%	17.1%	17.8%	0.1%	13.8%	17.3%
Mar-17	14.0%	-	17.3%	0.3%	-	18.5%

Source: Trustfund Pensions Plc Research; Bloomberg

Real investment return remains in the negative even as March inflation rate came lower to 17.26%



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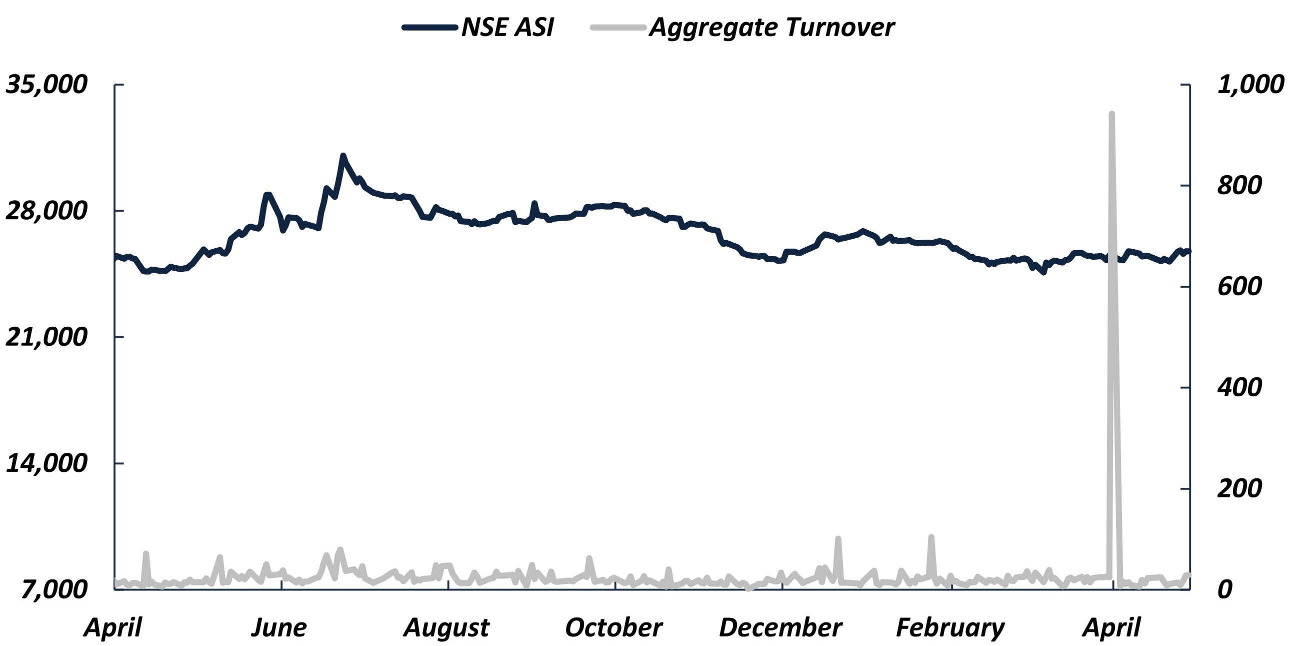
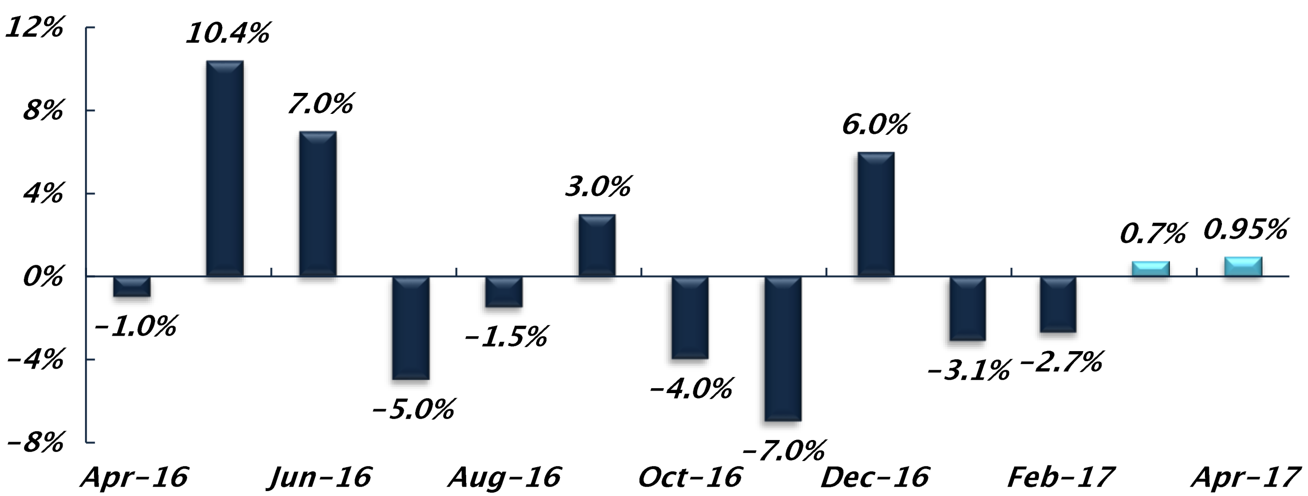
The Nigeria equity market has returned -5.05% YTD



Monthly Equity Movement



Source: Trustfund Pensions Plc Research; NSE

Equity Market Commentary

- **The Nigerian equity market index rallied 0.95% in April, likely justifying our view of a gradual recovery in Q2 as the Ytd loss moderated to -4.17%.**
- **We note improved domestic investors upbeat about the 2017Q1 corporate earnings of blue-chips, particularly those with attractive dividend history and striking 2016FY Profit after Tax (PAT).**
- **Likewise, Market breath closed positive (1.3x - Advance/Decliner's ratio; 39 Gainers Vs 31 Losers), suggesting improved investor sentiment in April as macro headwinds and FX concern wane gradually.**
- **Going forward, we expect investor mood to radiate macro developments and corporate fundamentals, especially as foreign portfolio investors resume interest in local stocks.**
- **From a valuation point of view, the Nigerian equities are priced at 5.1% dividend yield and 8.8x P/E, rendering local stock lucrative vis a vis regional peers and historical averages.**
- **Our top sector picks are Financials (4.5x P/E; 7.1% div yield), Services (8.6x P/E; 5.9% div yield) and Conglomerates (8.7x P/E; 7.2% div yield).**

Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-0.47%	19.8%	4.7x	6.9%
CONSUMER GOODS	3.08%	-0.8%	18.2x	3.2%
INDUSTRIAL GOODS	-4.48%	-8.2%	14.9x	4.9%
OIL AND GAS	0.56%	-18.3%	14.1x	4.2%
AGRICULTURE	-1.0%	47.1%	12.7x	1.2%
SERVICES	-0.2%	-13.7%	8.3x	6.1%
CONGLOMERATES	-1.8%	-23.0%	8.9x	7.1%
HEALTHCARE	-3.0%	-44.2%	0.0x	2.3%

*YTD means Year-to-Date; WTD means Week-to-Date. Sector P/Es are adjusted for companies with negative trailing earnings

Market – Fixed Income; *Average long term yield returned to the 16% levels in April*

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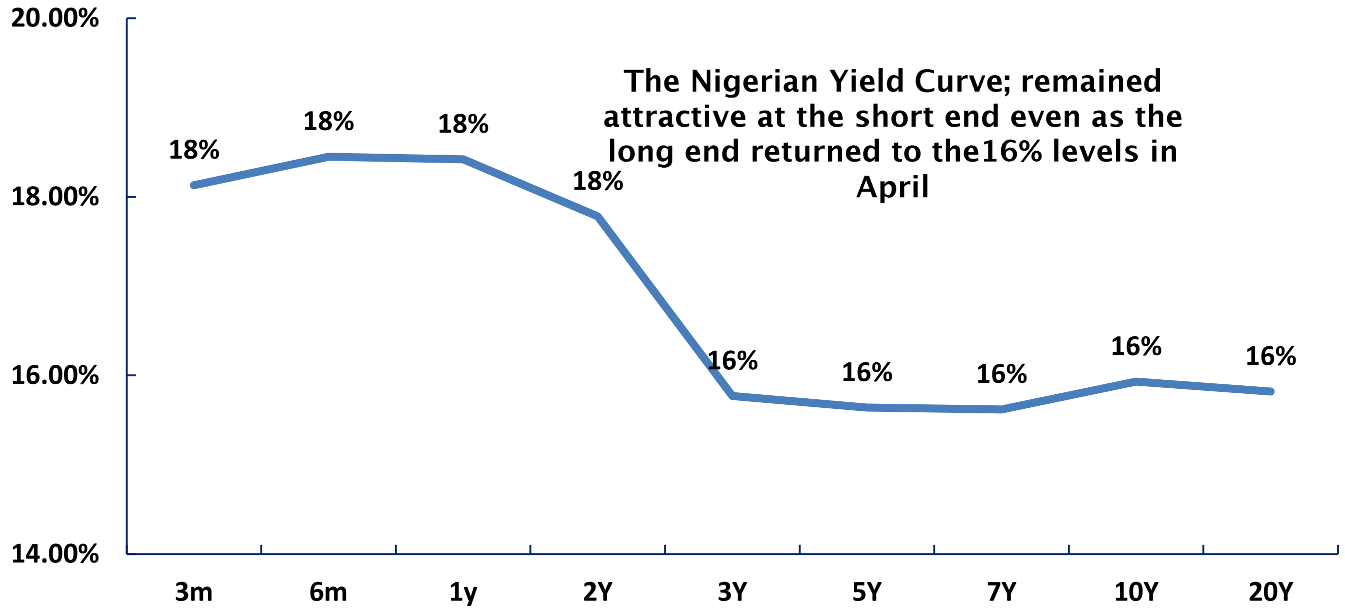
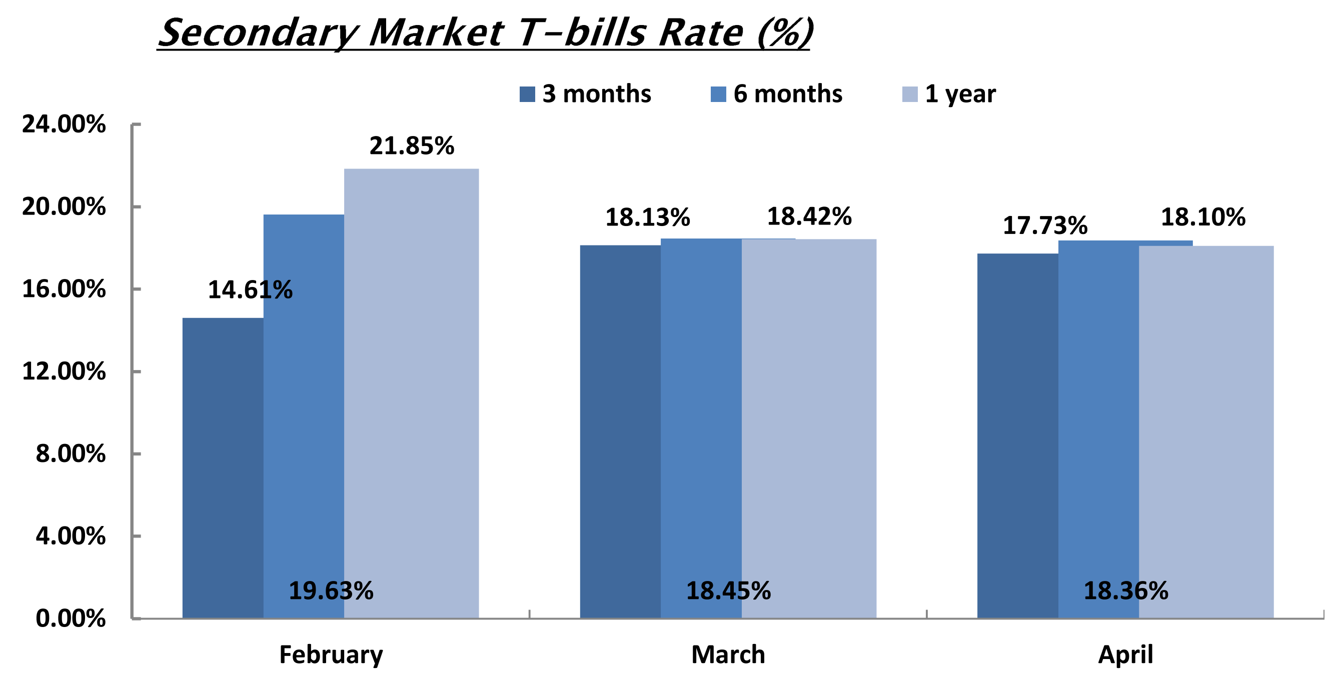
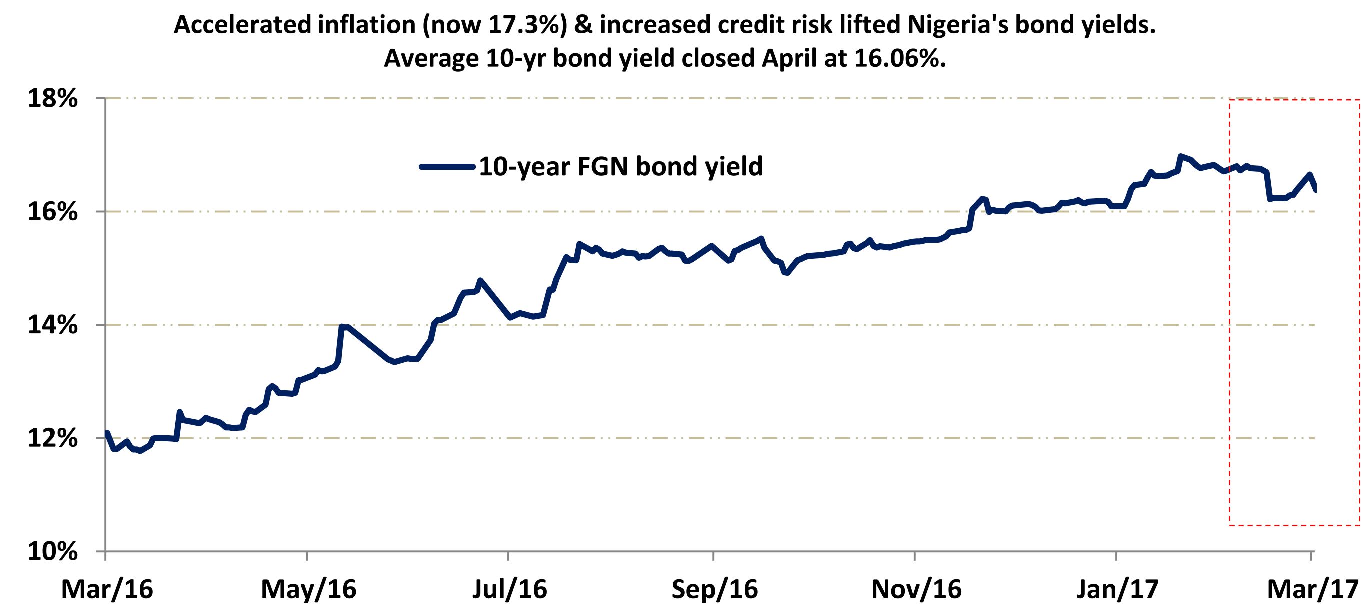




2016 10-year Bond Yield Trend (YTD)



Source: Trustfund Pensions Plc Research; Bloomberg

- Activities in the bond market was largely quiet in the previous month amid the release of lower March inflation figure (17.26%) by the NBS.
- This intensified tepid demand across the intermediate and long end of the curve, lifting average bond yield by 39bps to 16.66% across tenors.
- Consequently, the benchmark 7-year, 10-year and 20-year bonds closed the month at 15.95%, 16.17% and 16.29% yield respectively.
- We reiterate our attraction to medium to long term bonds (maturities of 10-20 years) vis a vis other tradable tenors, considering the shape of the yield curve and our outlook for yield contraction in the near term.
- Sentiment closed bearish in the Treasury bill market as average yield expanded by 58bps to 18.14% from 17.56% recorded previously. This was largely driven by high system liquidity level which spurred aggressive mop up by the CBN in the month

Trustfund Unit Price – Resilient, despite volatile Market

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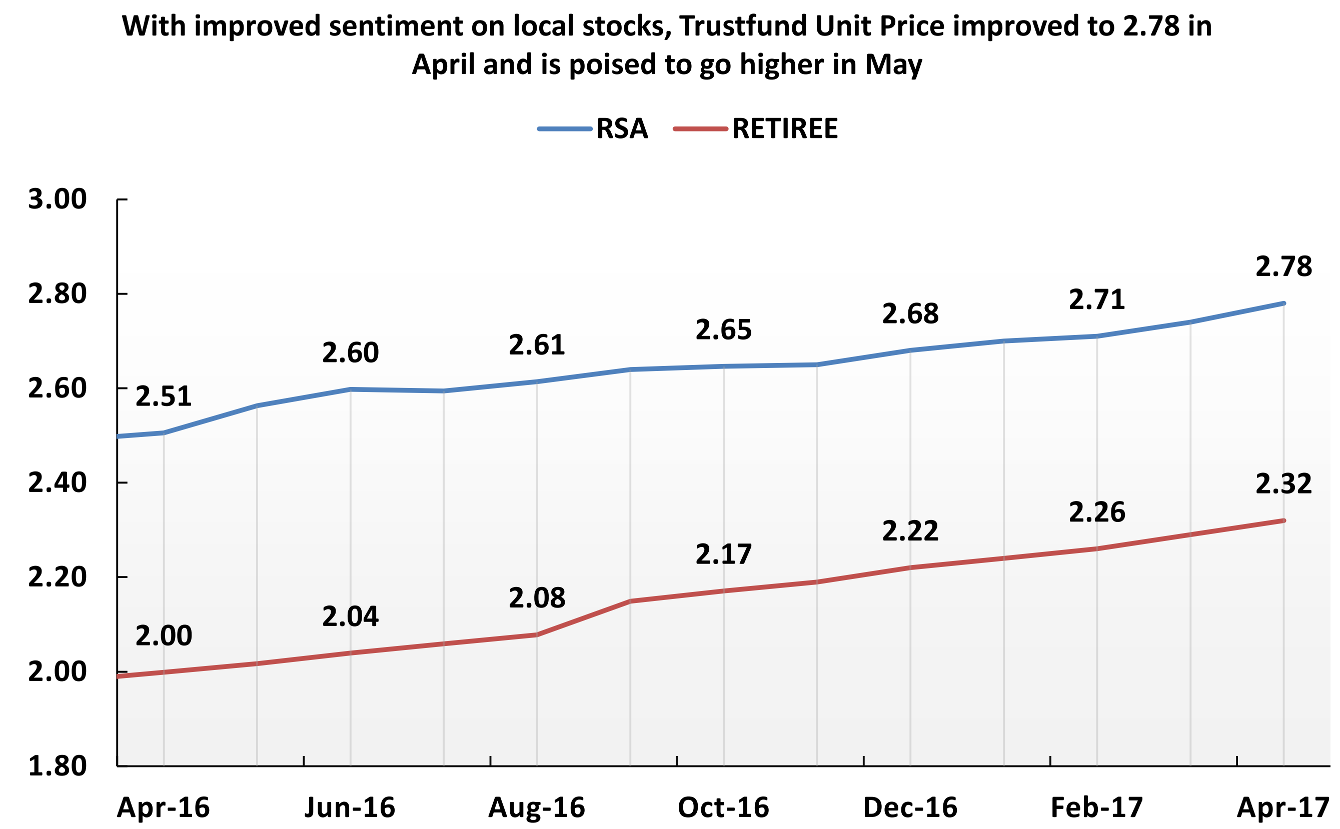
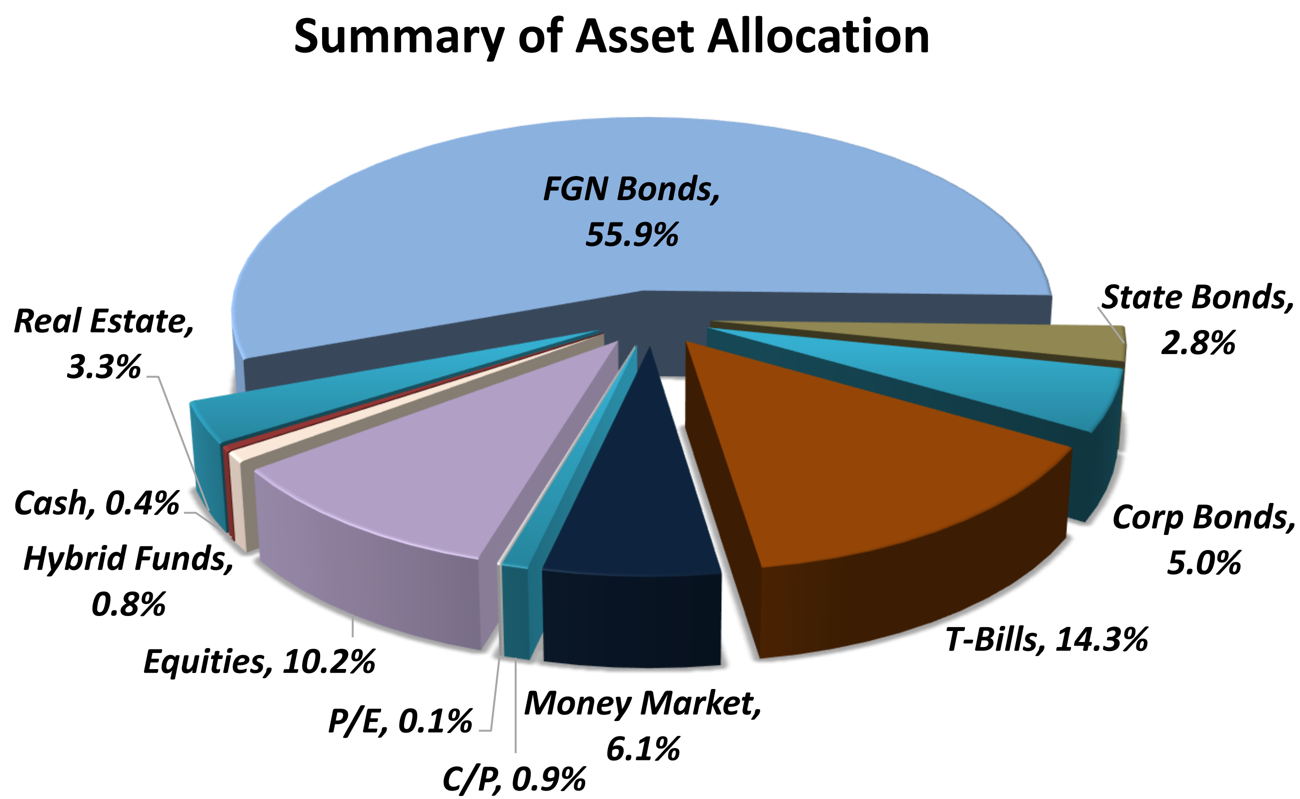


Trustfund Pensions Plc Investment Department



**The RSA portfolio maintains a defensive style which helps to protect Investment value from unanticipated shocks to asset prices*
** Gross return includes fees*

- The impressive growth on the RSA fund saw NAV jumped from 2.51 in April 2016 to 2.78 in April, 2017 representing a 11% total growth.
- We expect broad investor sentiment to improve by the end of Q2, even as multiple FX rate and pressured Naira remain major concerns for investors.
- Thus, losses in equities should reverse before the end of the year, while we lock in attractive yield on the fixed income assets.
- Likewise, we have broadened our investment universe to include alternative asset classes like Commercial Paper and REIT, in order to cautiously diversify portfolio risk and optimize return etc.

Income Report (Projected/Actual)

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	YTD Income (N'm) as at 30 April 2017				Return on Investment
	Projected	Actual	Variance	% Achieved	
RSA	15,004.00	11,828.35	(3,175.65)	79%	12.64
Retiree	1,918.32	1,769.83	(148.49)	92%	14.52
NNPC	480.00	690.88	210.88	144%	13.80
IMSU	125.32	112.39	(12.93)	90%	13.63
Custody	156.68	186.27	29.59	119%	12.59
Diamond	1,486.32	1,365.14	(121.18)	92%	7.92
UBA	541.32	590.84	49.52	109%	5.90
In House	23.00	12.38	(10.62)	54%	14.72
Ekiti	2.32	2.24	(0.08)	97%	15.49
Niger	10.68	10.08	(0.60)	94%	1.21
UBA CDBS	8.32	5.20	(3.12)	63%	2.84
Union Bank	44.00	40.37	(3.63)	92%	18.09
Total	19,800.28	16,613.98	(3,186.30)		

- While we note the substantial shortfall in our projected fresh inflow, the negative return on equities brought on by persistent macroeconomic challenges, fragmented FX system and fragile global market condition kept us behind our projected income.

- Nonetheless, we maintain a weighty position in fixed income instruments; a defensive strategy to immune the portfolio from market vitality and “hold the horse” on equity position in the short term, as we seek more attractive trading points in the months ahead

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Economic optimism stemming from the modified FX system, tapered inflation rate and government economic recovery plan continue to play host to equity rally in the near term. Nonetheless the Nigerian financial market will remain volatile in 2017H1. Thus, we maintain our conservative view on equities pending improvement to the economic backdrop. That said, we have defended the portfolio by increasing investment in fixed income assets. Further to this, we have also realized gains from attractive yields in fixed income to improve our asset balance and returns.

Equity

The recent rally on equity reflects improved appetite on local stocks following recent recovery in key macroeconomic variables. In view of this, investors should reconsider long positions in the "Dividend Knights" toward the end of the second quarter.

Bonds

We see bond yield crystalizes at 15% level in the near term. With average yield at 16.66%, its strategic to lock-in gains especially on longer duration instruments. This is crucial because the current high yield might be unsustainable in view of the contraction in inflation growth rate.

Money Market

At a yield 18.14% T-bills remains more attractive than interbank placements which closed April at 13.25%. Thus, to take advantage of any liquidity induced volatility in the market, it is strategic to lock in effective yield not less than 18% to boost portfolio duration.

We also intend to take profit on some assets and redirect the proceeds to Treasury bill at an effective yield of not less than 20% in order to improve the portfolio yield.