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MONTHLY MARKET REVIEW AND FORECAST

FEBRUARY 2017

TRUSTFUND PENSIONS PLC RESEARCH

M A R C H 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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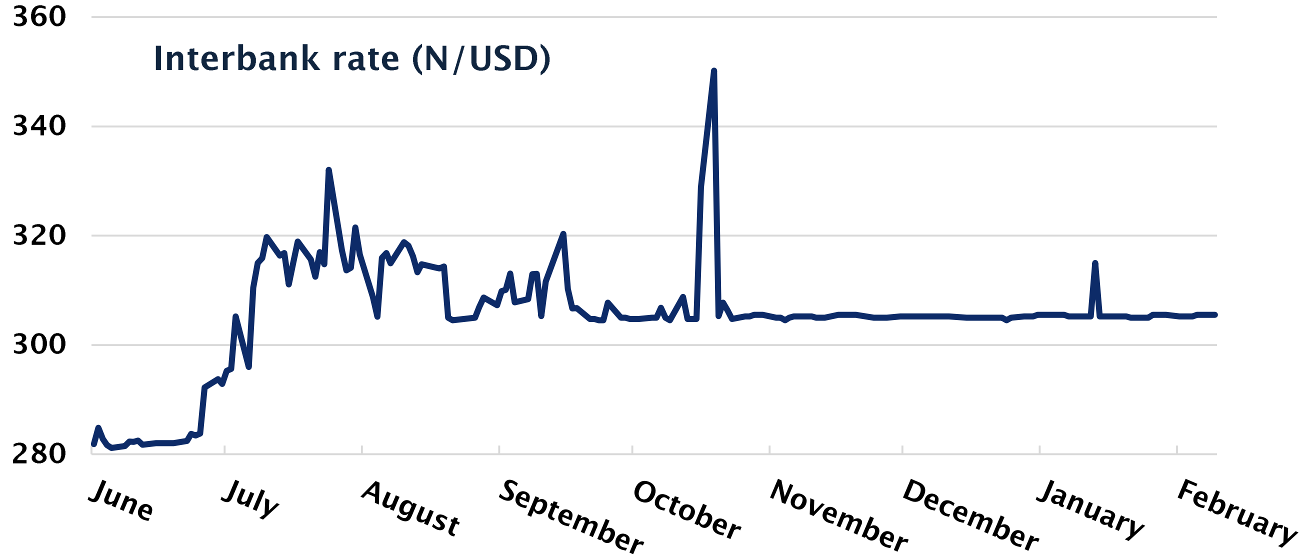
Macroeconomic Environment

- ✓ The apex bank might be obliged to keep the MPR at 14% to promote policy stability, despite tapered February inflation rate.
- ✓ Banking system reserves ratio maintained the previous threshold in February and may be sustained at the March MPC meeting on improved credit to the private sector.
- ✓ On base effect, headline inflation slowed to 17.78% in February shedding 0.94% from the January reading of 18.72%.
- ✓ With the recently fine-tuned FX system, Naira appreciated by 9.6% in the parallel market but lost 0.08% at the interbank after closing February at N305.50/USD$.
- ✓ External reserve balance increased to $2.96bn in February due to increase in oil price and output.

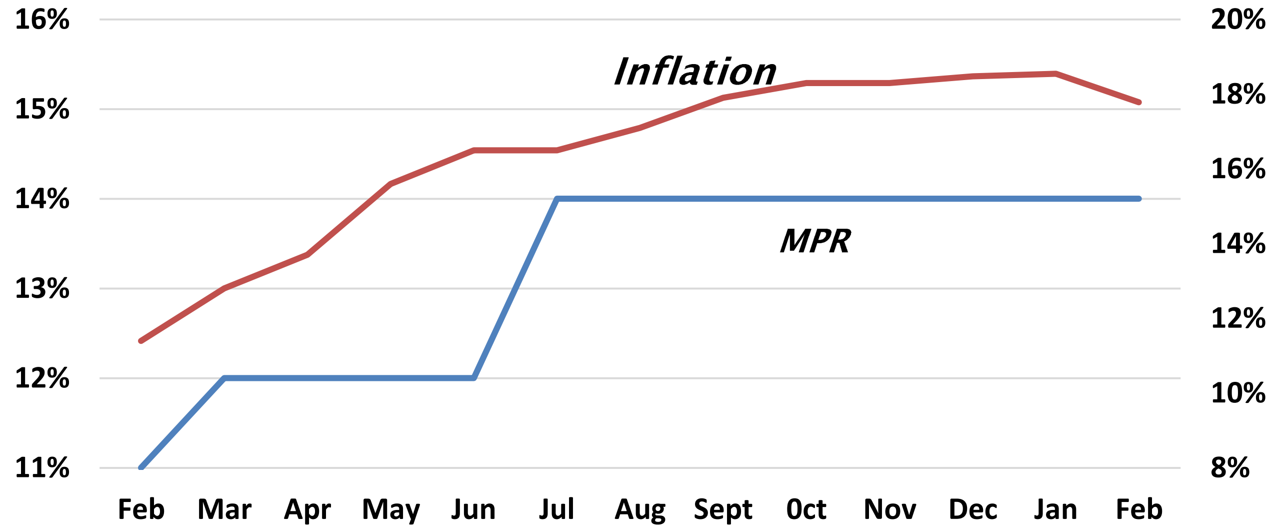
Naira/USD Exchange Rate Between Jun. 2016 & Feb. 2017



Month	MPR	PLR	Inflation	Naira Returns	90 days T-bills rate	TFP 90 days MM
Sep-16	14.0%	17.1%	17.6%	-1.5%	14.0%	15.0%
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%

Source: Trustfund Pensions Plc Research; Bloomberg

Real investment return remains in the negative even as February inflation rate came lower by 17.78%



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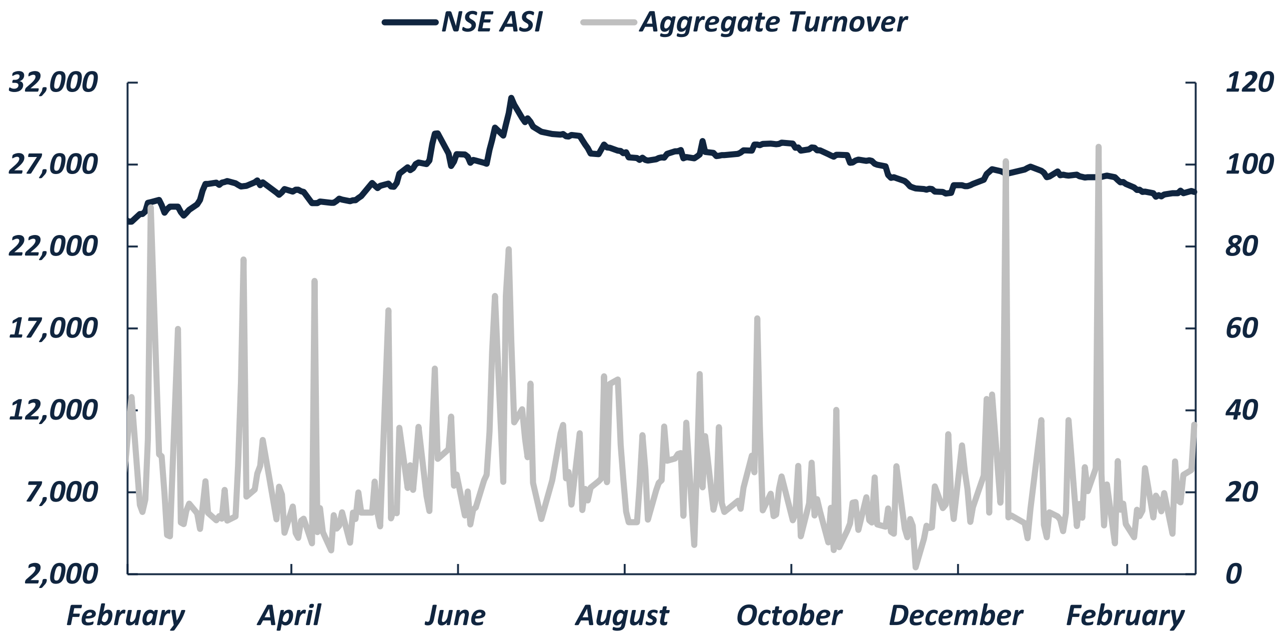
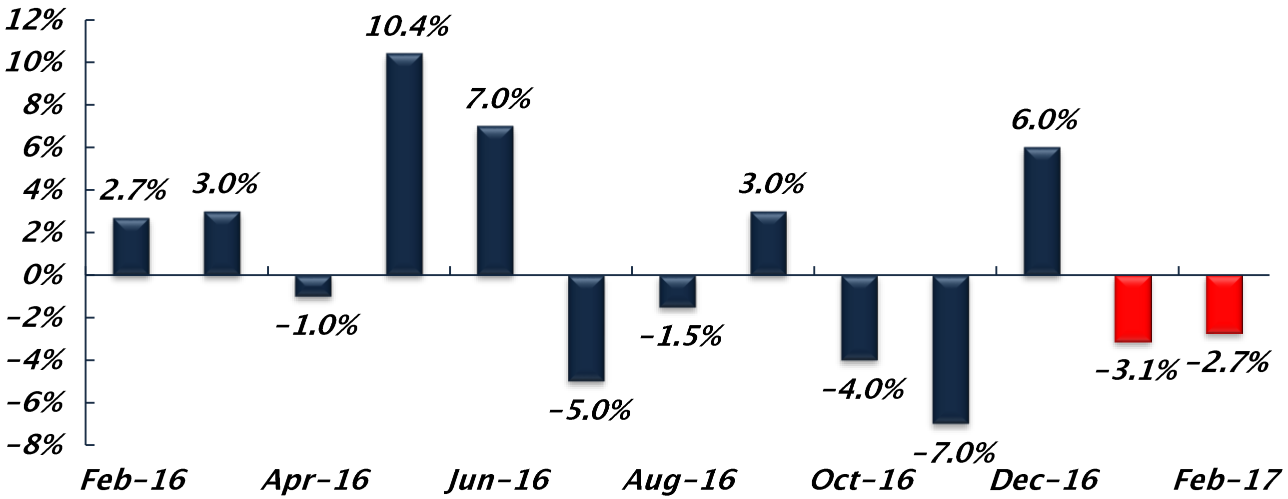
Equity Returned -6.17% in 2016 and has returned -5.75% YTD



Monthly Equity Movement



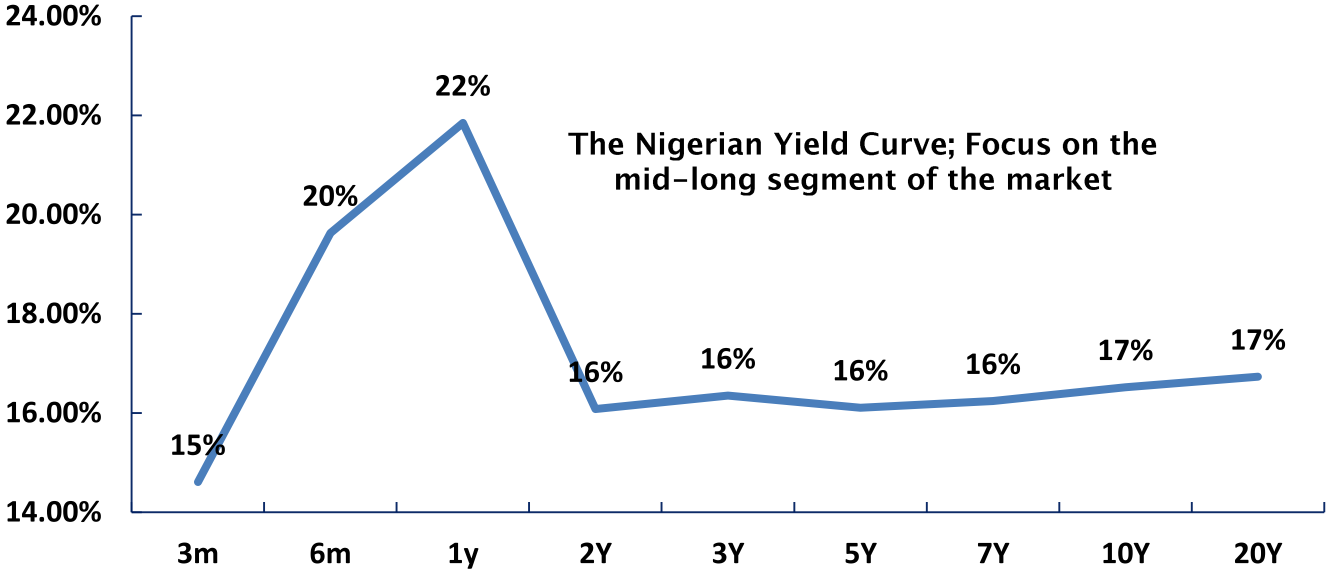
Source: Trustfund Pensions Plc Research; NSE

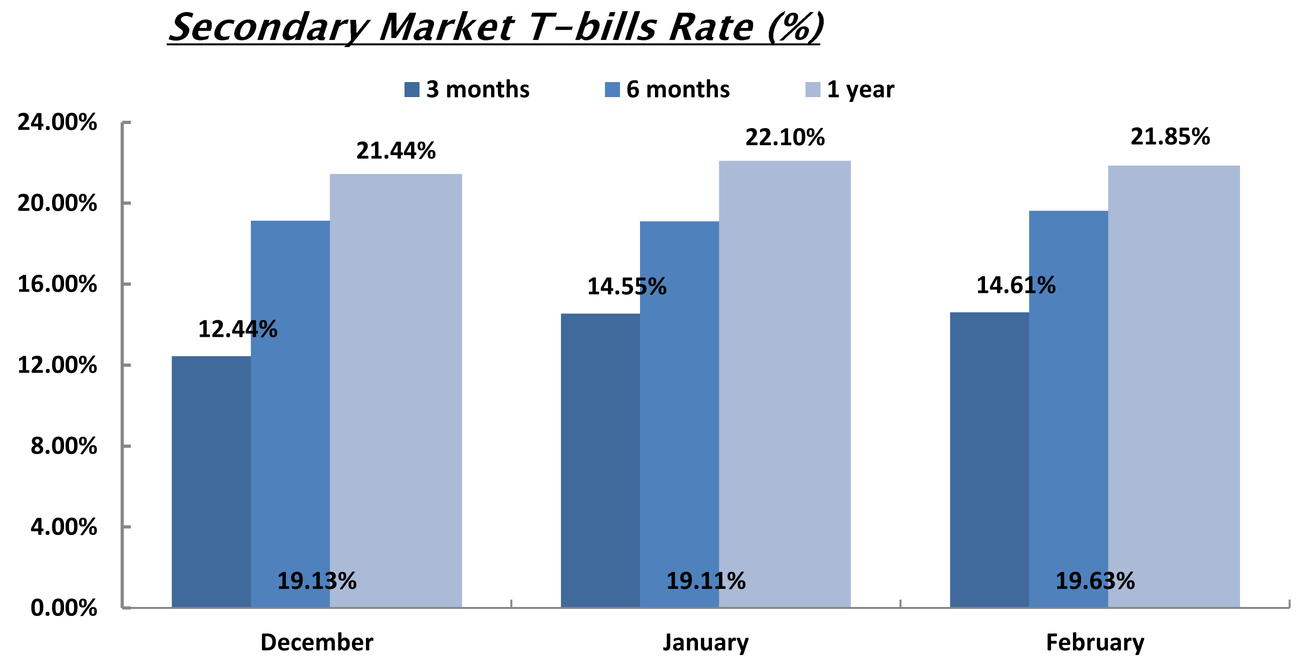
Equity Market Commentary

- **The Nigerian bourse closed February in the red (-2.72%), completing the second consecutive monthly losses triggered by low investor appetite for equities amid fragmented FX market, pressured naira and high inflation.**
- **Thus, the YTD performance plunged further into the negative territory (-5.75%), mainly explained by the 233bps pullback in the Industrial Goods basket.**
- **We believe the market is yet to find support, given the fragile trading activity level and negative market breadth (0.58 Advance/Decliner's ratio; 22 Gainers Vs 38 Losers). Likewise, corporate earnings released so far have inspired less rally on stocks due to obvious macroeconomic drags.**
- **We, however, expect investors to remain cautiously optimistic pending improvement in the economic backdrop anchored on the recently unveiled Economic Recovery and Growth Plan.**
- **Also, average daily turnover should improve modestly in March, as early birds take positions ahead of more 2016FY corporate releases and dividend declarations.**

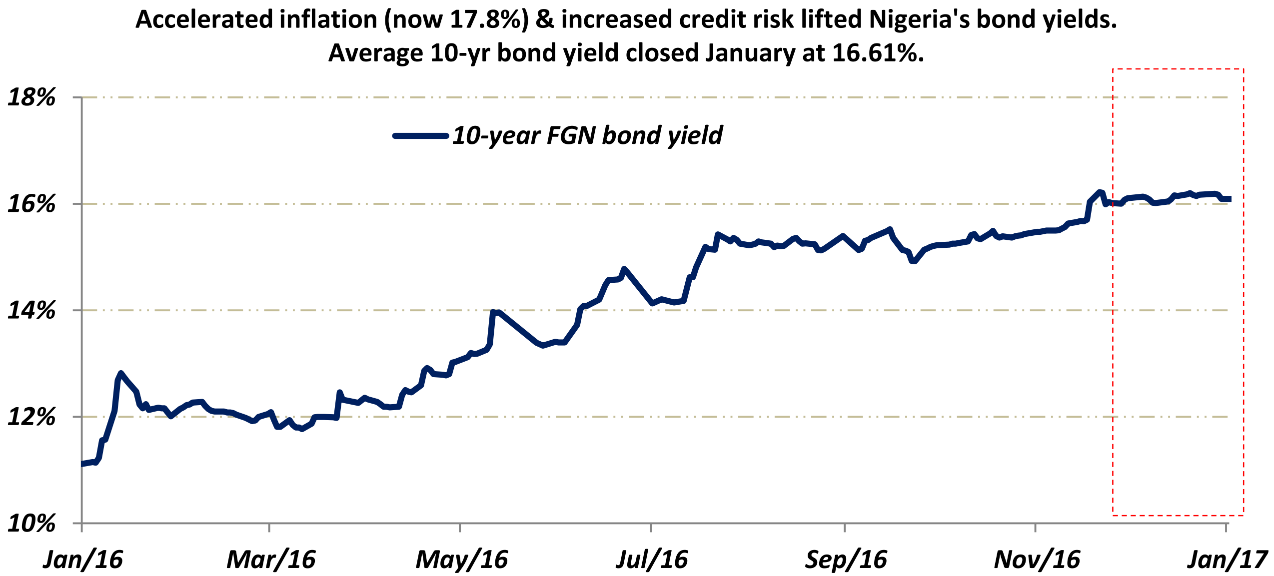
Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	1.85%	2.9%	4.0x	8.1%
OIL AND GAS	0.37%	-25.6%	13.1x	4.5%
CONSUMER GOODS	0.98%	-11.9%	16.1x	3.6%
INDUSTRIAL GOODS	-0.33%	-12.2%	14.2x	5.1%
SERVICES	-0.4%	-27.2%	6.7x	7.8%
AGRICULTURE	0.0%	44.0%	12.4x	1.2%
CONGLOMERATES	-1.3%	-27.0%	8.3x	7.5%
HEALTHCARE	-0.3%	-48.4%	#DIV/0!	2.3%

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





2016 10-year Bond Yield Trend (YTD)



Source: Trustfund Pensions Plc Research; Bloomberg

- Proceedings in the bond market were broadly bullish in February as average yield contracted by 11bps MoM and across tenors to close at 16.61%.
- Demand was strong across all segments of the curve, with yield contracting at the short (-21bps m/m), mid and long (-6bps m/m apiece) ends.
- Yield contraction at the short end was driven by demand for the APR 2017 (-71bps m/m) bond, while at the mid and long end of the curve, the JAN 2022 (-9bps m/m) and JAN 2036 (-11bps m/m) maturities respectively attracted the most demand.
- Average T-bills yield closed February at 18.57% (a notable 0.55% MoM increase), as demand shifted to longer maturity instruments on likely yield contraction in the near term. However, it remained relatively more attractive than interbank placements which closed the month at 13.25% average.

Trustfund Unit Price – Riding the tide of Bearish Market

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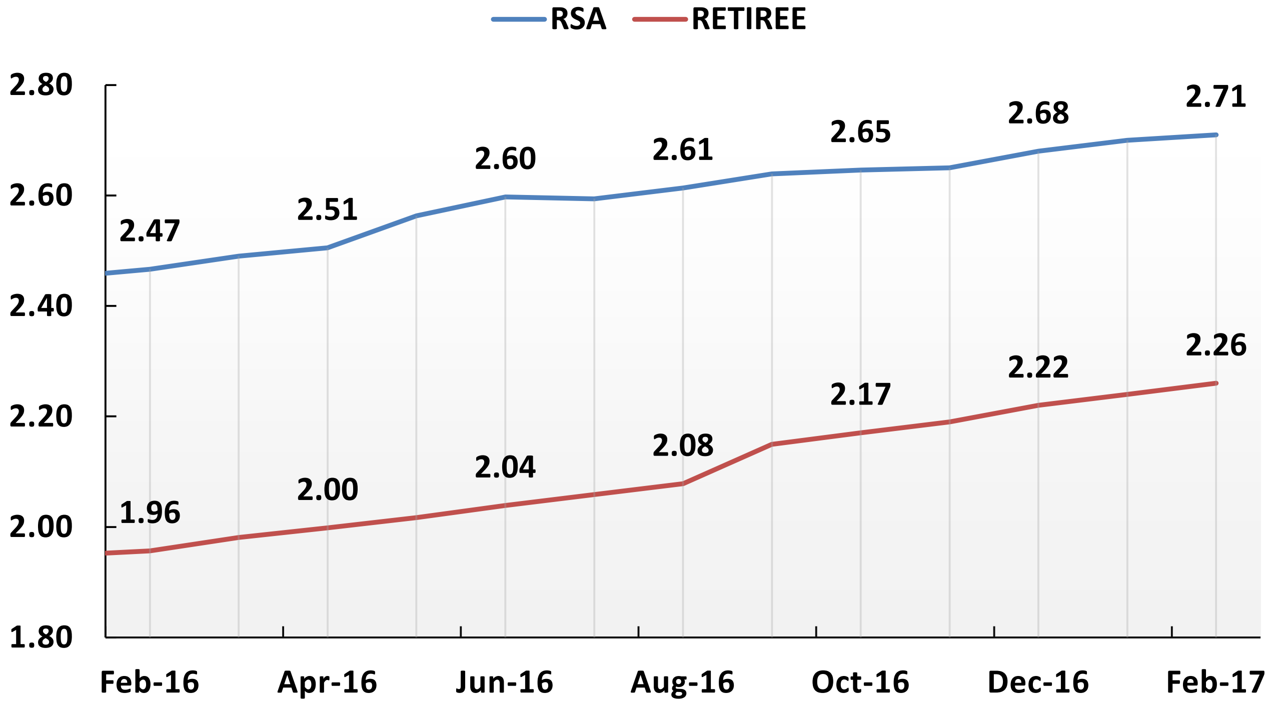
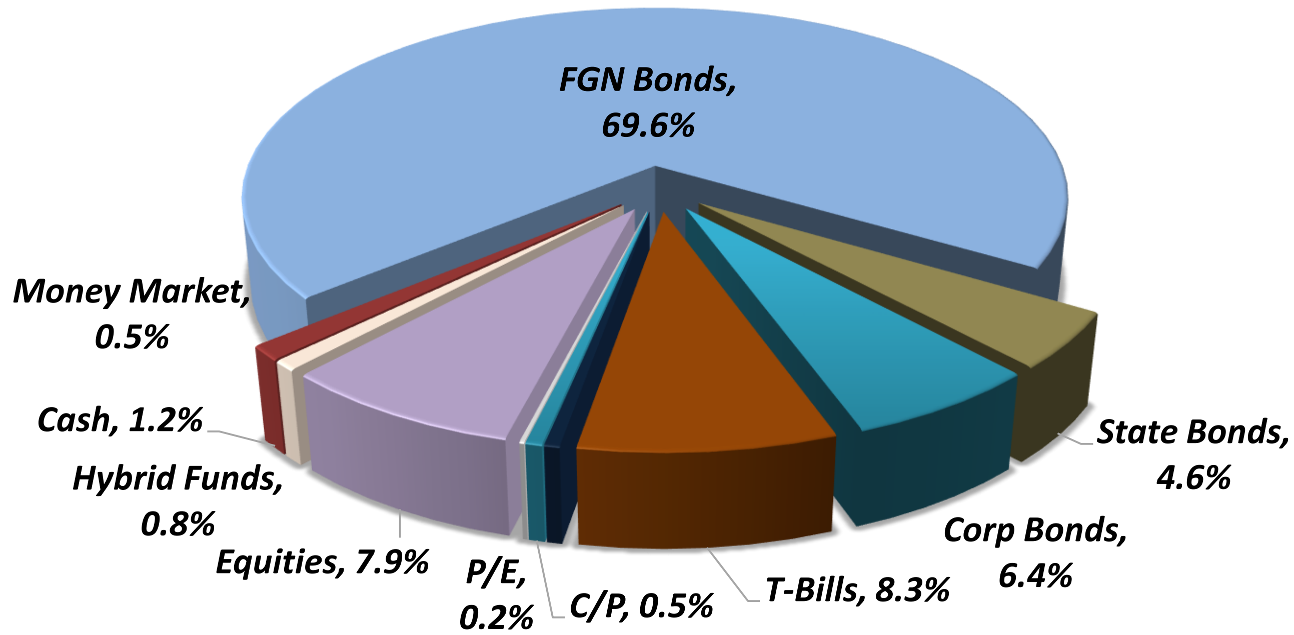
Despite Currently depressed stocks prices, Trustfund Unit Price breached the 2.7128 target by the end of 2017-Q1 and is poised to go higher



Trustfund Pensions Plc Investment Department

Summary of Asset Allocation



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 2.47 in January 2016 to 2.71 in February, 2017 representing a 10% total growth (9% CAGR in the last five years).
- We expect broad investor sentiment to improve by the end of Q2, even as unstable Crude Oil price and pressured Naira remain major concerns for investors.
- Thus, the 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.

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Economic optimism stemming from the modified FX system, tapered February inflation rate and government economic recovery plan could play host to modest equity rally in the near term. Nonetheless the Nigerian financial market will remain volatile and tend bearish 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 lull in trading activity reflects investor apathy following prolonged slack in market performance and lack of foreign participation. In view of “rock bottom” prices, investors should reconsider long positions in the “Dividend Knights” toward the end of March.

Bonds

We see bond yield crystalizes at 15% level in the near term. With average yield at 16.61%, 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 18.57% T-bills remains more attractive than interbank placements which closed February 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.