Trustfund

JULY 2017

MONTHLY MARKET REVIEW AND FORECAST

JUNE 2017

TRUSTFUND PENSIONS PLC RESEARCH

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

Global Investment Backdrop

Nigerian Macro Review

Domestic market review

Equity market outlook

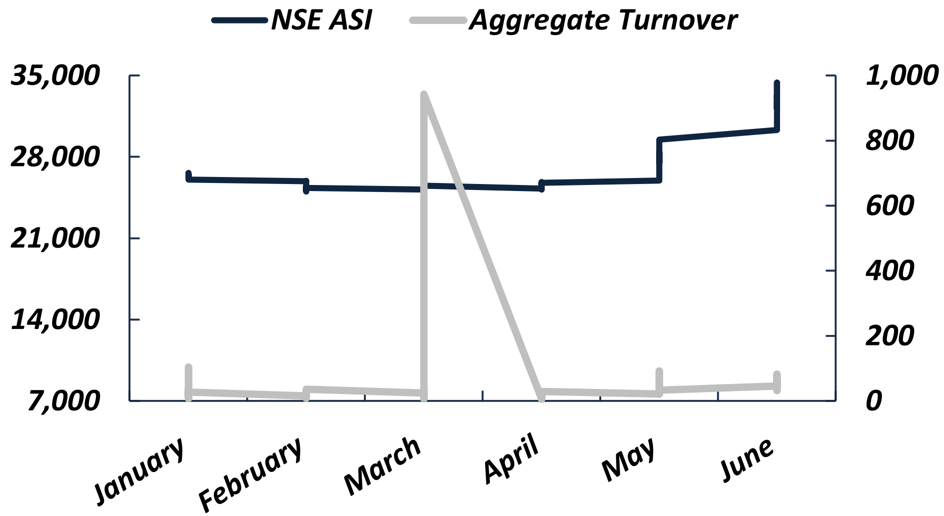
Fixed Income Markets Outlook

Private and Confidential

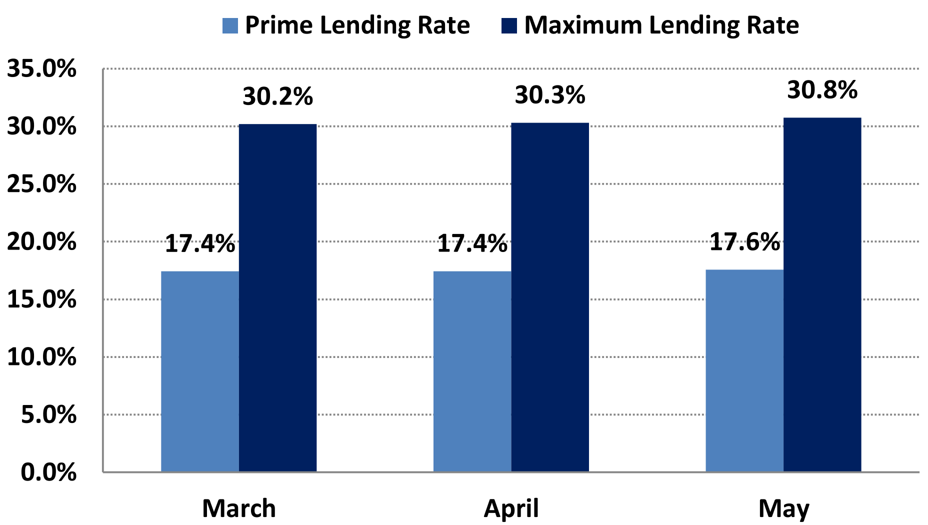
Nigerian Macro Review

Headline	May	June	%Change	Remark
Monetary Policy Rate (MPR)	14%	14%	+0.0%	The apex bank might be pleased to keep the MPR at 14% to conserve the contraction in inflationary pressure.
Cash Reserve Requirement (CRR)	22.5%/22.5%	22.5%/22.5%*	+0.0%	Previous threshold may be sustained at the July MPC meeting to aid the banks capacity to support the economic recovery process.
Inflation	16.25%	16.10%	-0.92%	Headline inflation at 16.10% in June is still reasonably high but the estimate represents 5 consecutive months of deceleration.
Exchange Rate (NGN/USD)	N305.40	N305.90	0.16%	The Naira lost 0.16% to close at N305.90/US$ at the inter-bank market while it gained 2.96% to close at N371/US$ at the parallel market.
External Reserves (USD'bn)	$30.32	$30.29	-1.94%	External reserve balance compressed by 1.94% to $30.3bn in June as the apex bank sustained intervention in the FX market.

Equity – June recorded 12.27% gain



Commercial lending rates was mildly higher for all borrowers



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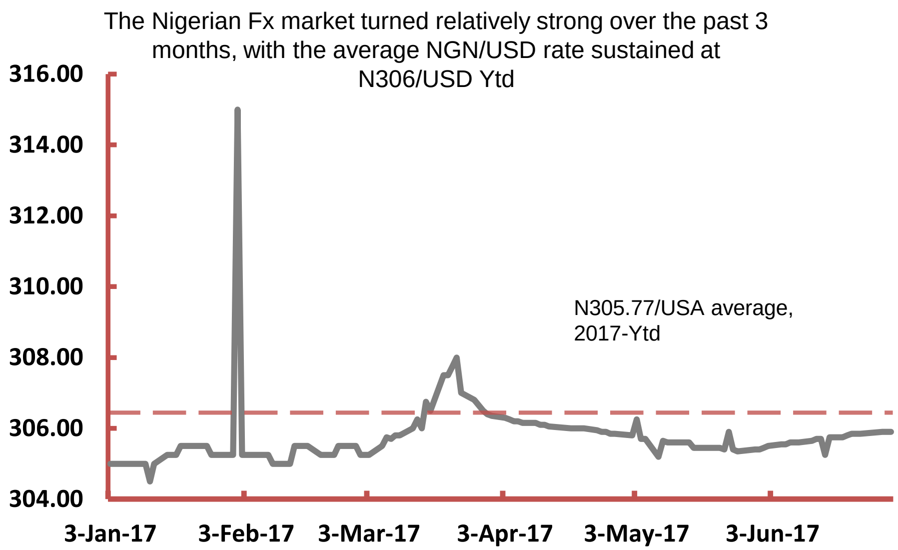
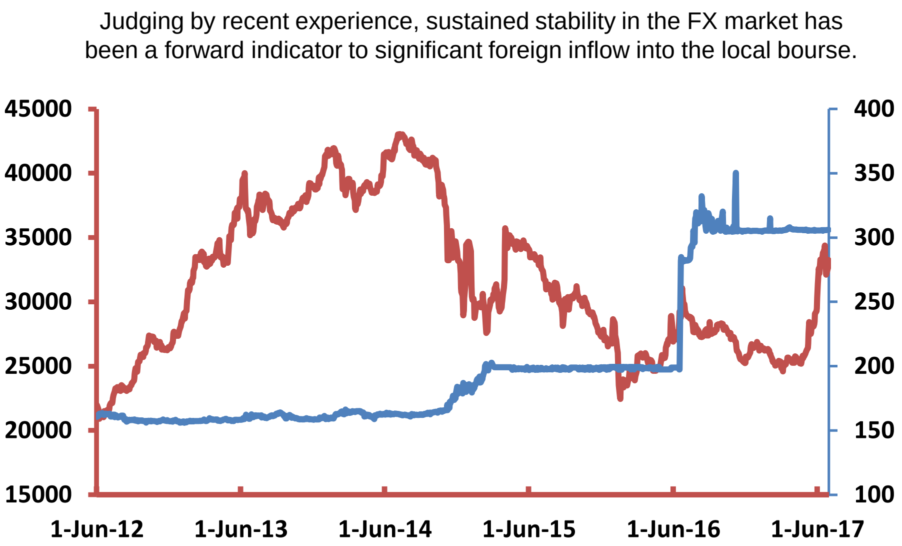
Changing FX dynamics – Reasons and Implications for the markets

The Naira has been stable within a range band Ytd, but how sustainable? And what implication are there for the market?





Why:

- **Steady increase in the Nigeria External Reserve balance following rise in crude oil price and output.**
- **Improved market confidence and reduced speculative trade against the Naira in the wake of sustained CBN intervention to shore up the Naira.**

Strategic Deductions:

- **By a-priori knowledge, sustained stability in Naira performance encourages foreign investor participation in the domestic capital market.**
- **Due to the persistently low interest rate in the Euro area and the recessed economy of South Africa, foreign investors like Nigeria, albeit remain cautious – thus explaining the preference for riskless Nigerian assets.**

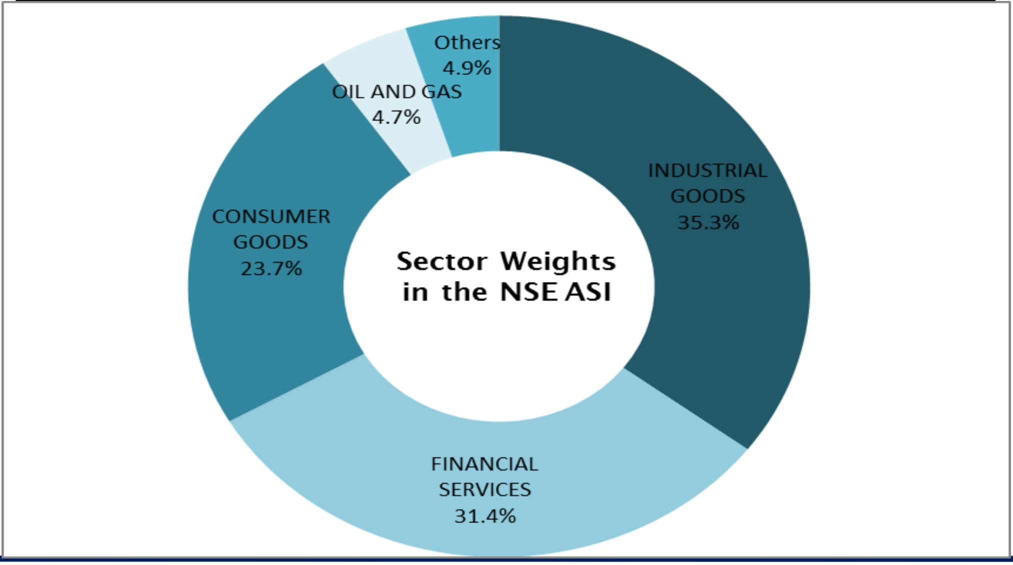
June Equity Market Round-up

Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-0.94%	45.1%	5.7x	5.6%
CONSUMER GOODS	0.50%	5.5%	19.4x	3.0%
OIL AND GAS	0.29%	-18.4%	12.1x	4.8%
INDUSTRIAL GOODS	0.05%	13.9%	18.5x	3.9%
AGRICULTURE	0.0%	87.3%	16.2x	0.9%
SERVICES	-0.4%	2.6%	8.8x	5.9%
CONSTRUCTION/REAL ESTATE	0.6%	-13.7%	8.0x	4.6%
HEALTHCARE	0.0%	-24.6%	#DIV/0!	1.6%

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

Source: Trustfund Research, NSE

Top 3 sectors take 80% of market capitalization



- *The local bourse rallied a notable 12.27% gain in June, extending positive to the third consecutive month.*
- *Gains were broad-based and driven by a mix of global and domestic catalysts. Specifically, the reduction in the financial market volatility with the achievement of a fair degree of stability in the exchange rate ; with increased expectation of foreign portfolio inflows into Nigeria's cheaply valued stocks .*
- *Other key drivers were the signing of the 2017 budget by the acting President and the release of a tapered inflation rate in May.*
- *The bullish run reflected more on the Banking and Industrial Goods stocks, with CCNN(+77.7%) ASHAKACEM (+55.3%) and STERLNBANK (+38.7%) trending higher. On the flipside OANDO(-13.6%), MOBIL (-12.2%) and UPL (-11.4%) suffered losses.*

Market Round-up : June Bonds

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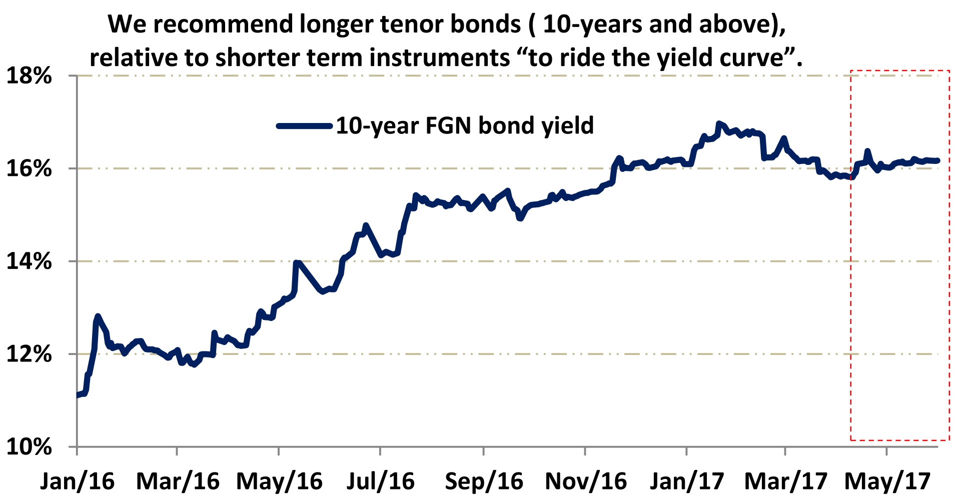
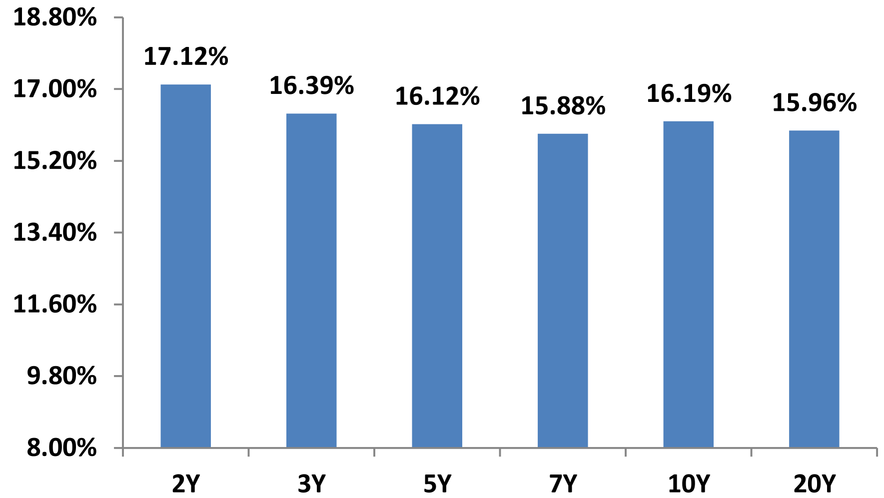
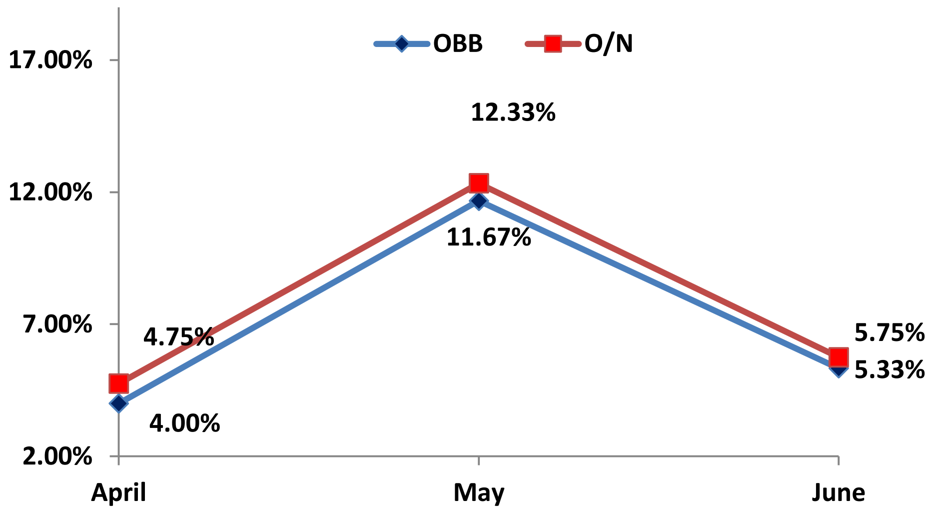
2017 Bond Yield Trend (YTD)



Secondary Market Bond Yield in June (%)

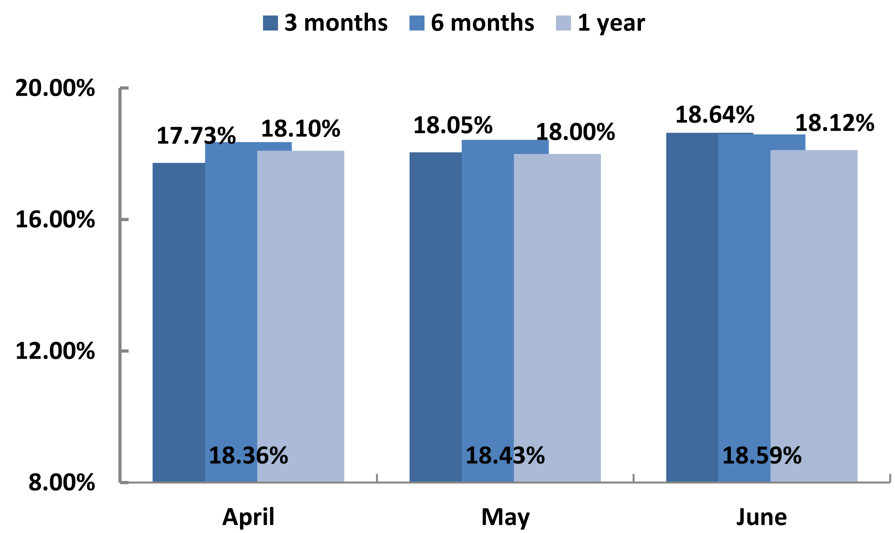


Short term Inter-Banks Placement Rates



Source: Trustfund Pensions Plc Research; fmdqotc

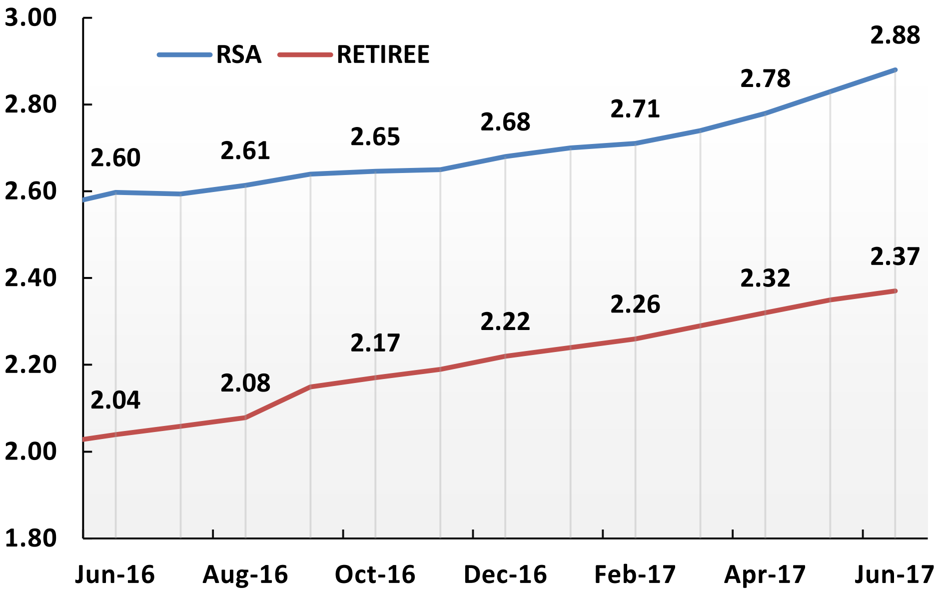
Secondary Market Treasury Bills Rates



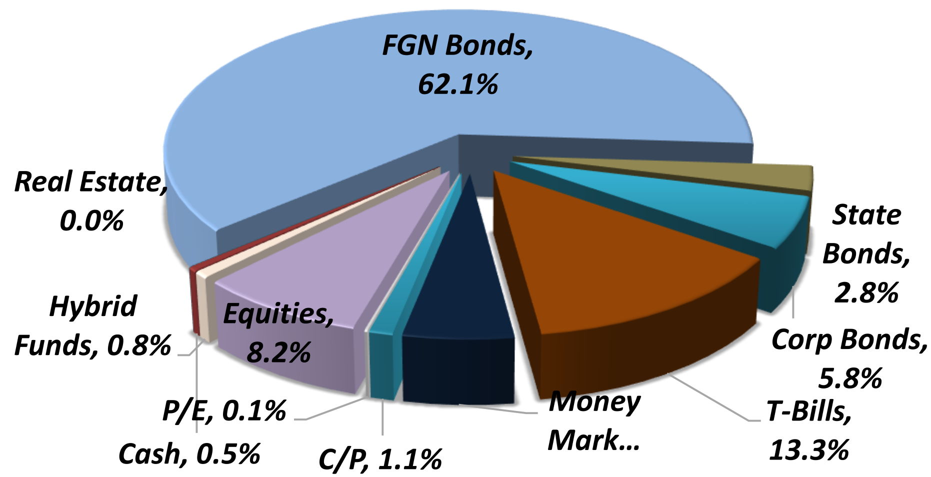
Source: Trustfund Pensions Plc Research; fmdqotc

Trustfund Unit Price – Resilient, despite market uncertainty

Following improved appetite on equities, Trustfund Unit Price outperformed projection and is expected to climb to 3.0000 by the end of 2017-Q3



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 1.75 in 2011 to 2.88 at the end of June 2017, representing a 65% total growth (11% CAGR in the last five years).
- ✓ Likewise, the Retiree fund, despite being a depleting fund, has grown at a considerable rate of 139% from N18 billion in 2012 to over N43 billion at the end of June 2017 and has returned 14.87% year-to-date.
- ✓ Of utmost important is our investment strategy which has been broadly defensive to accommodate market uncertainties.

Market Outlook

The imbalances in key macroeconomic sectors are gradually waning in response to various monetary policy as well as administrative measures by the apex bank. Of significant importance is the reduction in the financial market volatility with the achievement of a fair degree of stability in the exchange rate while the margin in rates between the two markets equally narrowed considerably. The key issue at this period revolves around strengthening the nascent stability in the macroeconomic environment in the expectation of a positive spill over to the real sector.

Equity

We expect to see more improvement in investors' appetite for equity investment in July 2017, on increased FX supply, macroeconomic stability and the return of foreign investors. In view of this, We recommend that investors maintain a medium-to-long term position in the equity market and on stocks that have strong fundamentals.

Bonds

Expectation of a drop in inflation rate, stability in the FX market, drop in liquidity due to FX funding and growing confidence in the Nigerian economy are factors that will influence yield on fixed income in the months ahead. Thus, investors should maintain a balanced portfolio in fixed income, particularly on long term bonds, to minimize reinvestment risk

Money Market

Yields on fixed income securities may trend marginally higher, except the yield on the 91- Day NTB. Hence, Investors should take advantage of the current attractive yields on one year Treasury Bills instrument as it beats inflation rate and offers trading opportunity on likely yield contraction in the near term.

We intend to take profit on some assets and redirect the proceeds to instruments at the short end of the yield curve and at an effective yield of not less than 20% in order to improve the portfolio return.