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MONTHLY MARKET REVIEW AND FORECAST

MARCH 2017

TRUSTFUND PENSIONS PLC RESEARCH

APRIL 2017

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

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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

Snapshot of the Current Economic Environment

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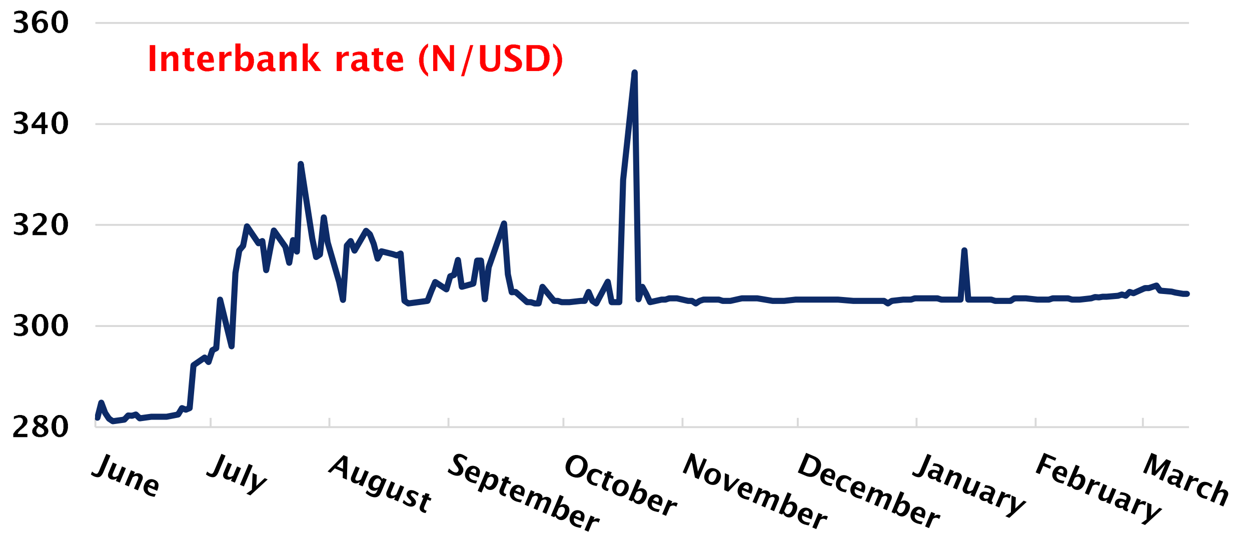
Macroeconomic Environment

- ✓ The apex monetary policy committee in its March meeting, noted the recent recovery in key macro variables but left the MPR at 14% to ease inflationary pressure.
- ✓ The CRR was also left unchanged to ensure financial stability as the banking sector was becoming less resilient due to adverse macroeconomic environment.
- ✓ Still on base effect, headline inflation slowed to 17.26% in March shedding 0.52% from the February reading of 17.78%.
- ✓ Naira appreciated by 12% on the parallel market but lost 0.28% at the interbank after closing March at N306.35/USD$.
- ✓ External reserve balance increased to $30.3bn in March on increase in global oil price and inflows from IMTOs.

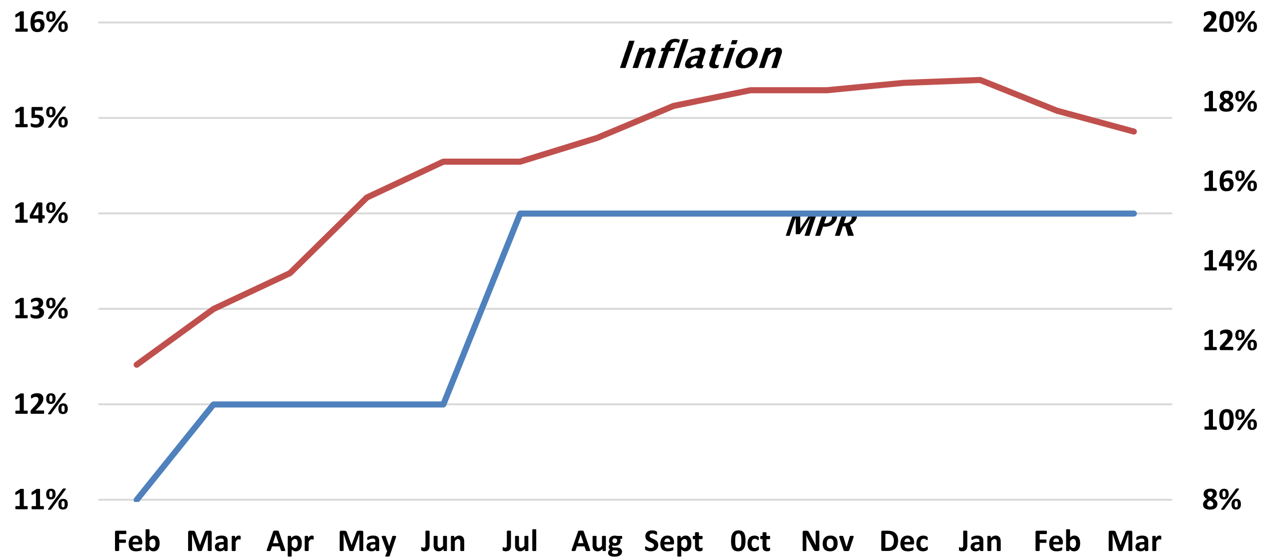
Naira/USD Exchange Rate Between Jun. 2016 & March 2017



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%



Equity Market Round-up

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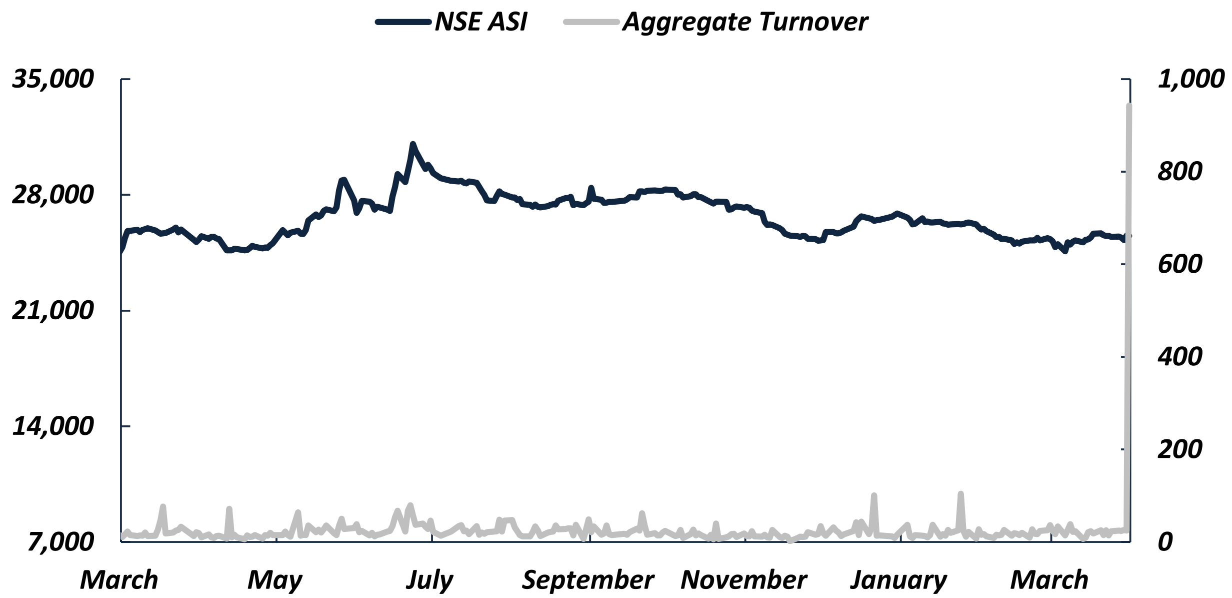
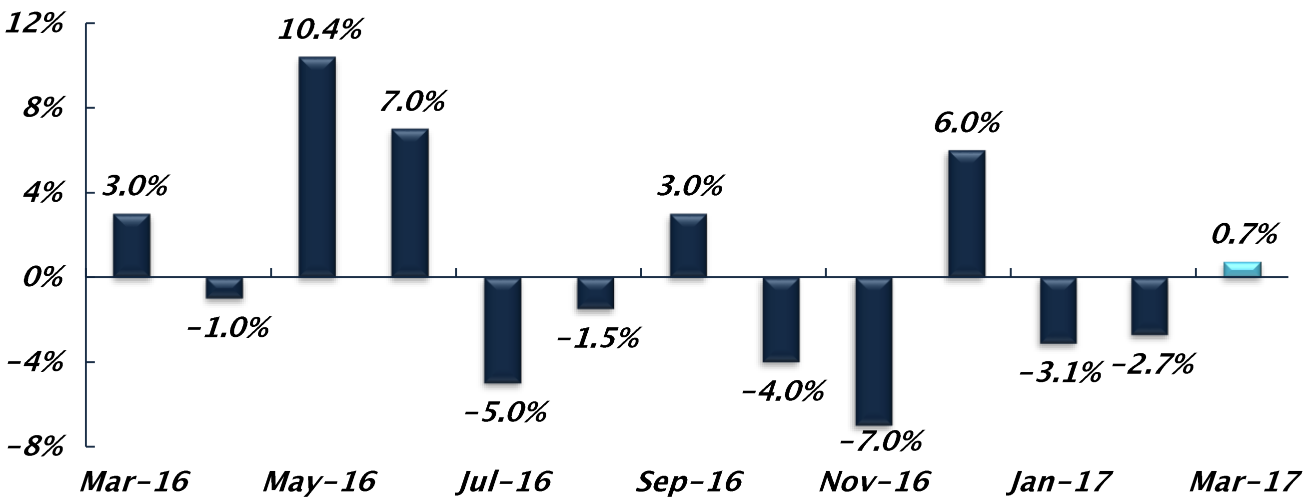
The Nigeria equity market has returned -5.05% YTD



Monthly Equity Movement



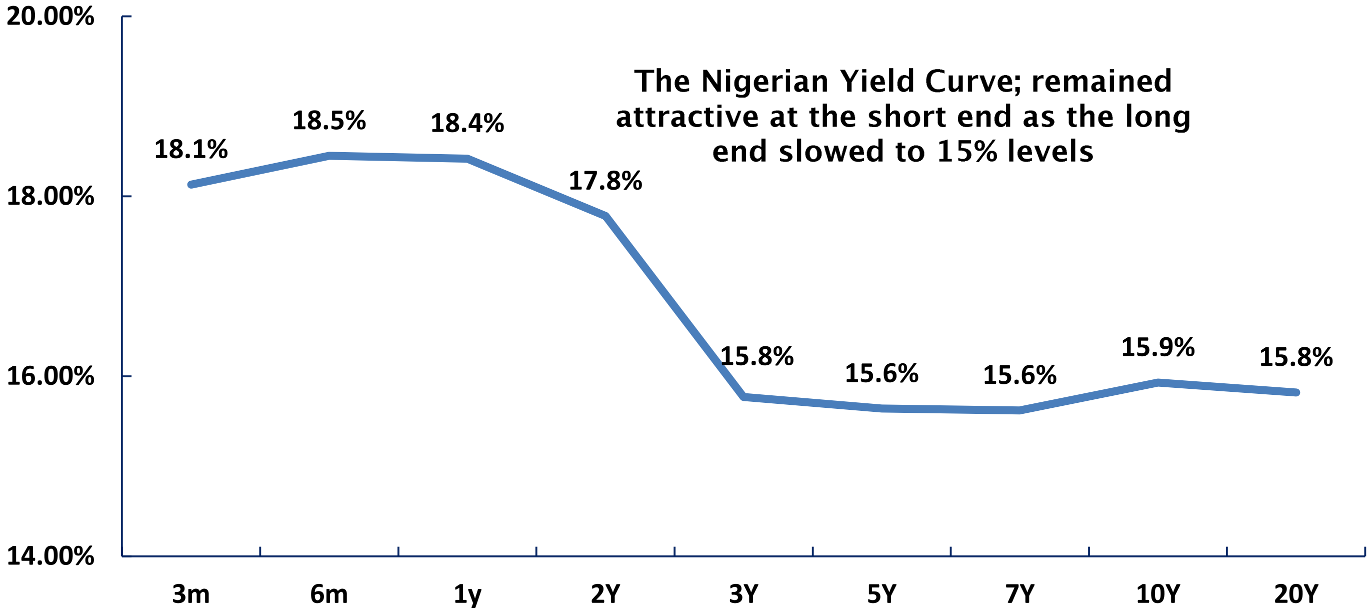
Source: Trustfund Pensions Plc Research; NSE

Equity Market Commentary

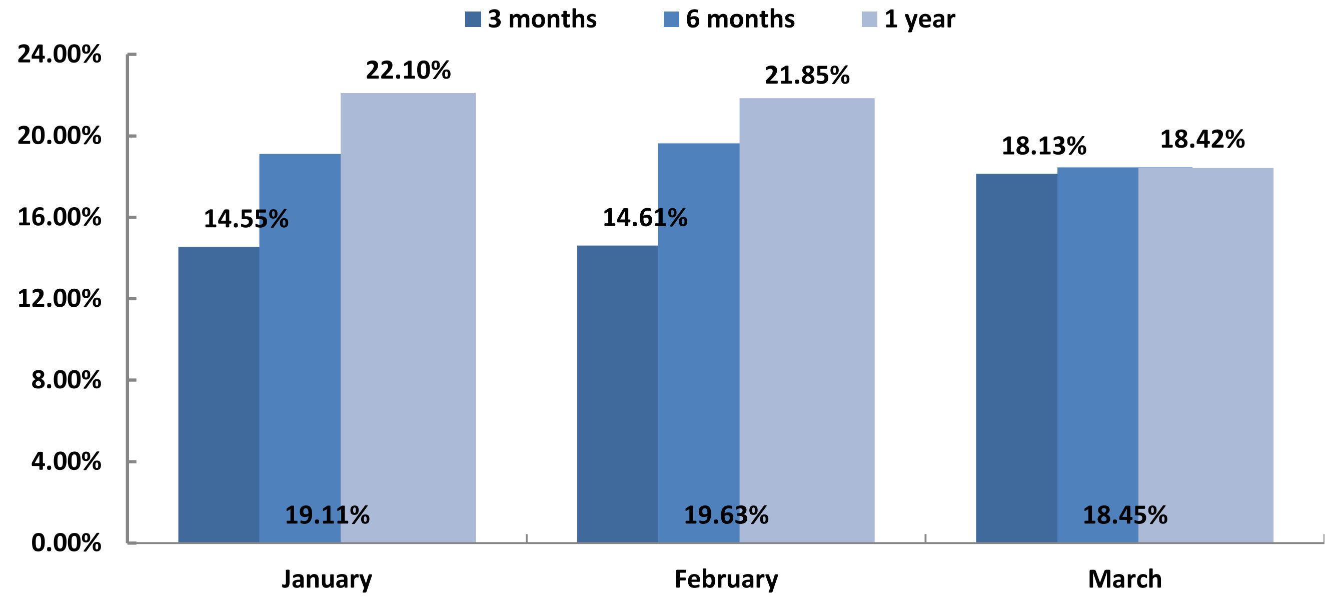
- Justifying our projection of a technical recovery in the near term, broad market sentiment improved in March leading to a 0.74% upswing in the NSE ASI. The Ytd loss slowed to -5.05%; representing major improvement over the previous month (-5.75%).
- The mild recovery in March came amidst positive domestic and external signals - significant improvement in the Naira exchange rate, the release of Nigeria's Economic Recovery and Growth Plan (NERGP), a moderation in February inflation rate (to 17.78%, from 18.72%) and increasing global oil price above the budgetary benchmark of $38pb in 2016 and $44.5pd in 2017.
- Nonetheless, Nigeria's macro-economic backdrop remains tepid, dotted by slow growth, fragmented currency market and policy variation. Thus, investors are projected to remain conservative in the near term, with little hope of broad-based and sustained recovery through the year.
- Thus, it is strategic to lock in attractive valuations, pending the implementation of the Economic recovery and Growth Plan recently released by Buhari government.
- Our top sector picks are Financials (3.9x P/E; 8.4% div yield), Services (7.3x P/E; 6.9% div yield) and Conglomerates (8.8x P/E; 7.1% div yield).

Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	0.94%	0.7%	3.9x	8.3%
HEALTHCARE	-1.10%	-49.3%	#DIV/0!	2.4%
CONSUMER GOODS	-0.17%	-14.1%	15.7x	3.7%
INDUSTRIAL GOODS	0.09%	-9.1%	14.7x	4.9%
OIL AND GAS	0.0%	-24.3%	13.5x	4.3%
CONGLOMERATES	-0.3%	-23.6%	8.7x	7.1%
SERVICES	1.1%	-24.1%	7.2x	7.0%
AGRICULTURE	0.0%	50.5%	13.0x	1.1%

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

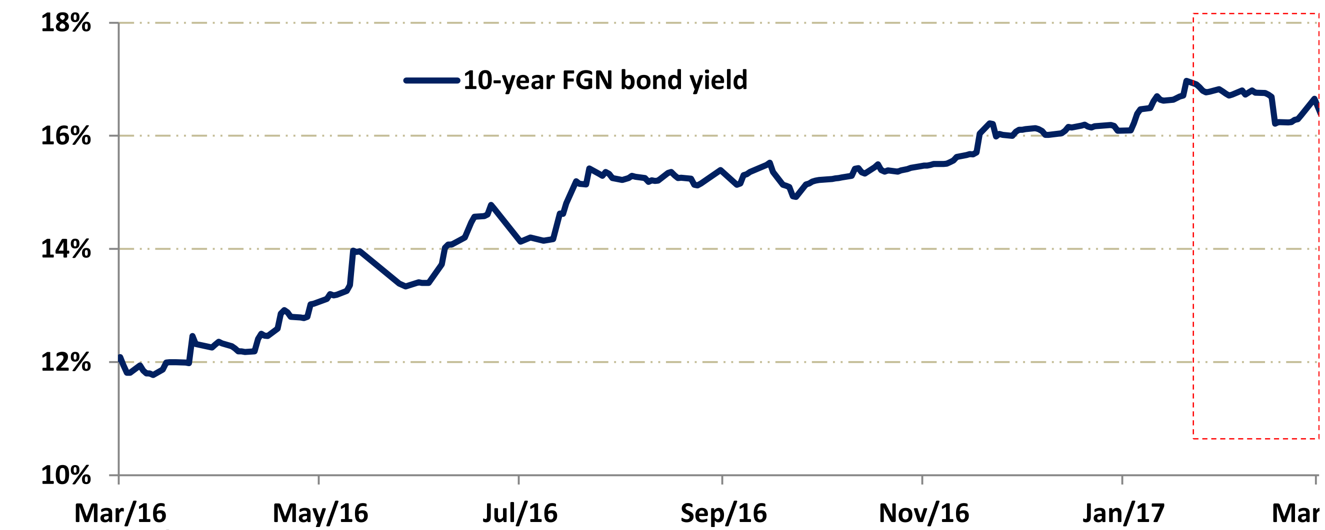


Secondary Market T-bills Rate (%)



2016 10-year Bond Yield Trend (YTD)

Accelerated inflation (now 17.3%) & increased credit risk lifted Nigeria's bond yields.
Average 10-yr bond yield closed March at 16.08%.



Source: Trustfund Pensions Plc Research; Bloomberg

- **Appetite was upbeat in the bond market as average bond yield compressed across tenors by 42bps m/m to 16.27% from 16.69% in February.**
- **Demand was strong at the mid and long segments of the spectrum as yields contracted by 55bps and 60bps respectively while the short end recorded yields expansion of 22bps.**
- **Consequently, the benchmark 7-year, 10-year and 20-year bonds closed the month at 15.62%, 15.93% and 15.82% yield respectively.**
- **Improved system liquidity spurred by matured T-bills and government budget disbursements, likewise the drop in February inflation rate from 18.72% to 17.78%, drove average T-bills yield northward by 42bps to 17.55% in March.**

Trustfund Unit Price – Riding the tide of Bearish Market

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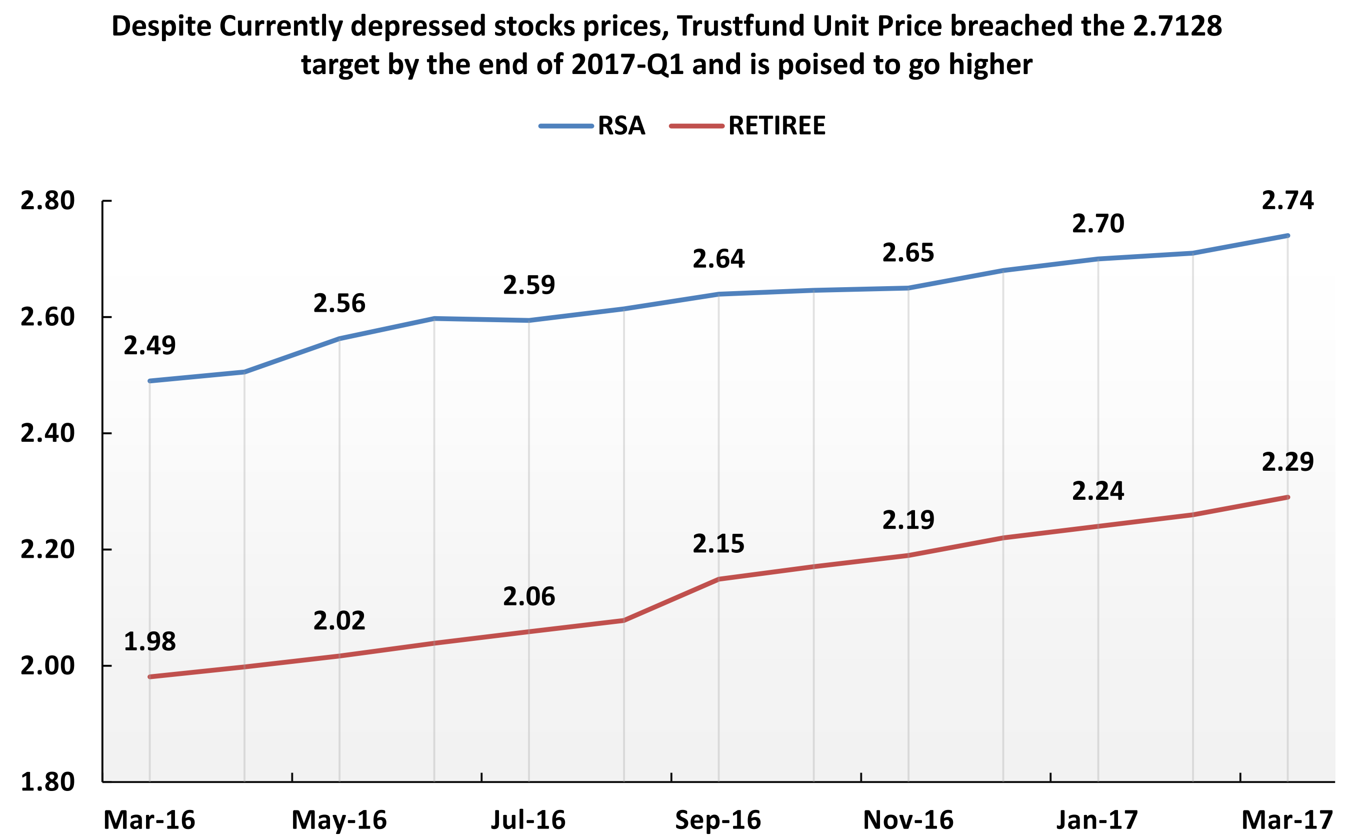
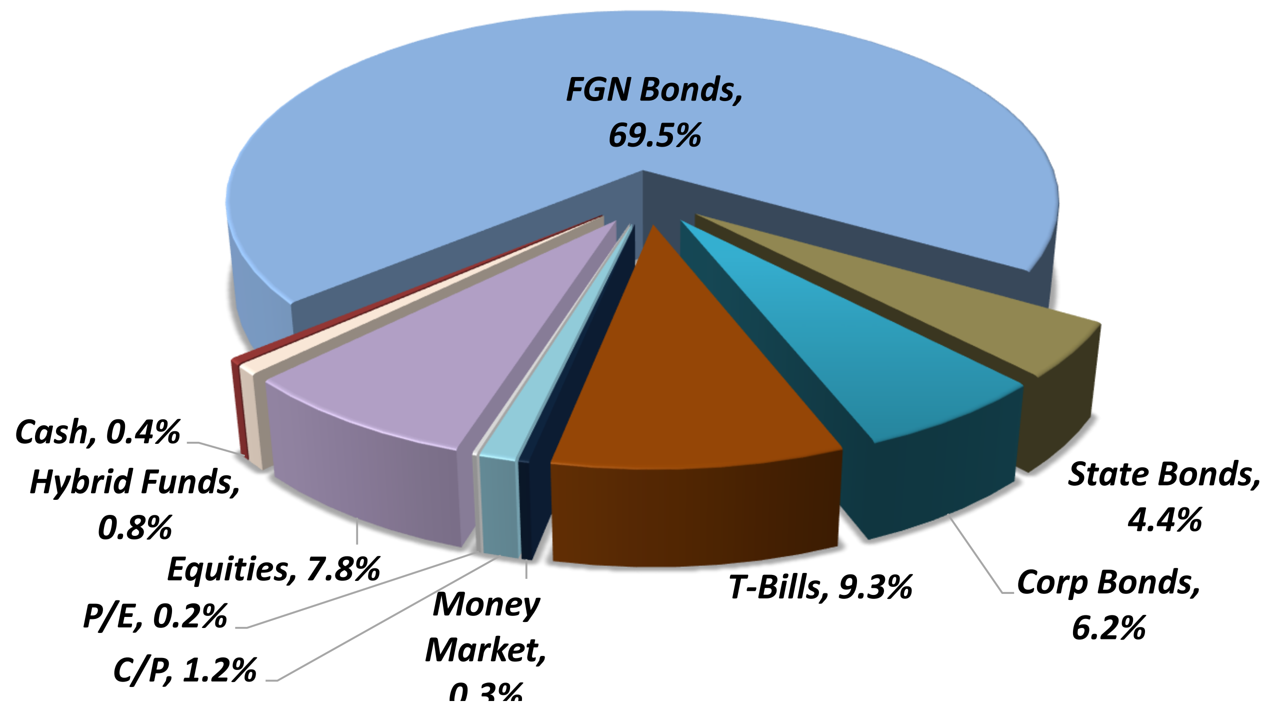


Trustfund Pensions Plc Investment Department

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 2.74 in March, 2017 representing a 12% 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, 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.