

MONTHLY MARKET REVIEW AND FORECAST

MAY 2017

TRUSTFUND PENSIONS PLC RESEARCH

J U N E 2 0 1 7

Nigerian Macro Review

Domestic Market Review

Equity Market Outlook

Fixed Income Market Outlook

Trustfund Unit Price – Riding the tide of Bearish Market

Market Outlook

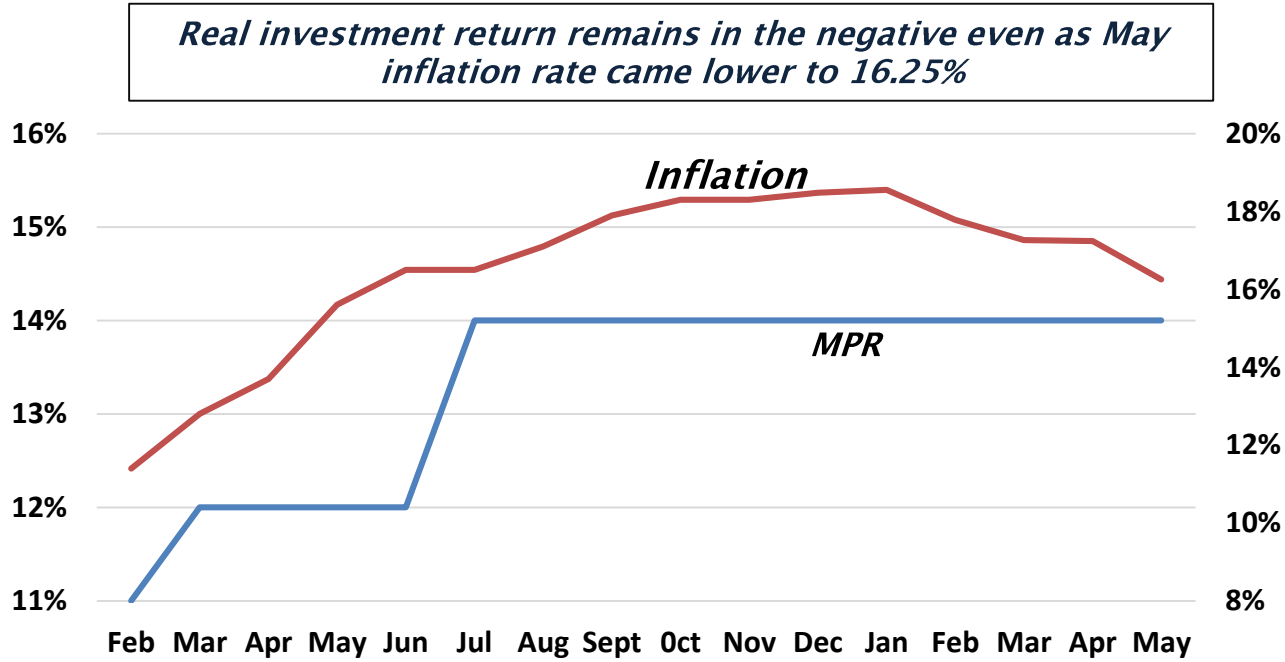
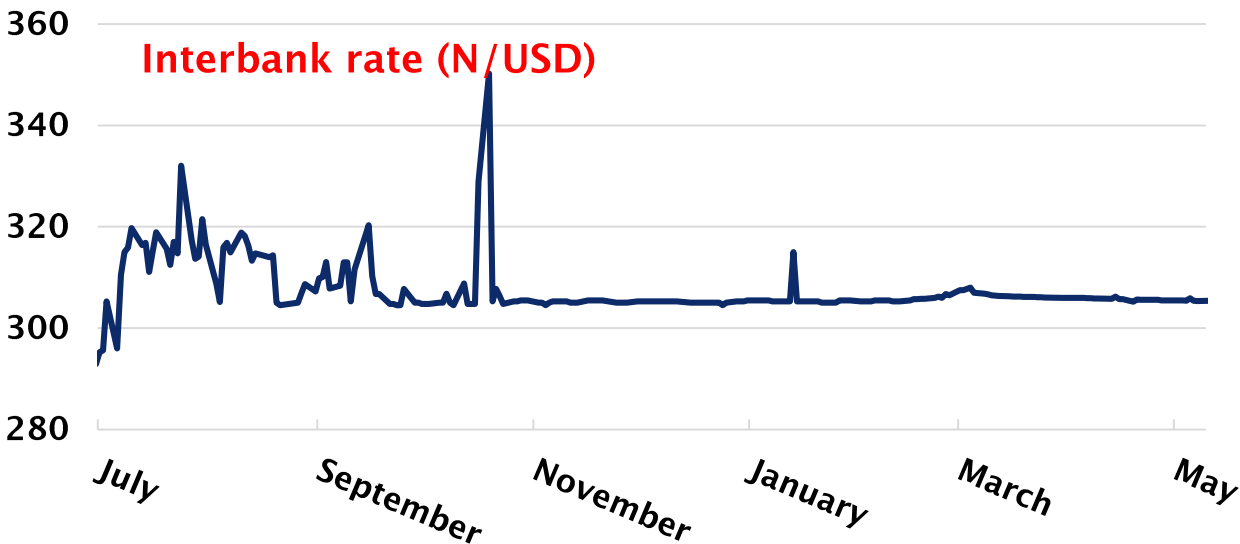
Macroeconomic Environment

- ✓ To allow the existing policies to fully achieve their intended goals and objectives, the MPR was left at 14% at the May MPC convocation.
- ✓ Previous threshold sustained on CRR to encourage the DMBs step up credit to the private sector to support economic recovery and convey a positive feedback to the financial system.
- ✓ Headline inflation moderated to 16.25% in May, largely due to the benefits of the higher base effect of May 2016.
- ✓ Naira appreciated by 0.16% and 3.54% at the interbank and the parallel markets respectively on sustained intervention in the FX market by the CBN.
- ✓ External reserve balance depreciated by 1.94% to \$30.3bn in May in defense of the Naira.

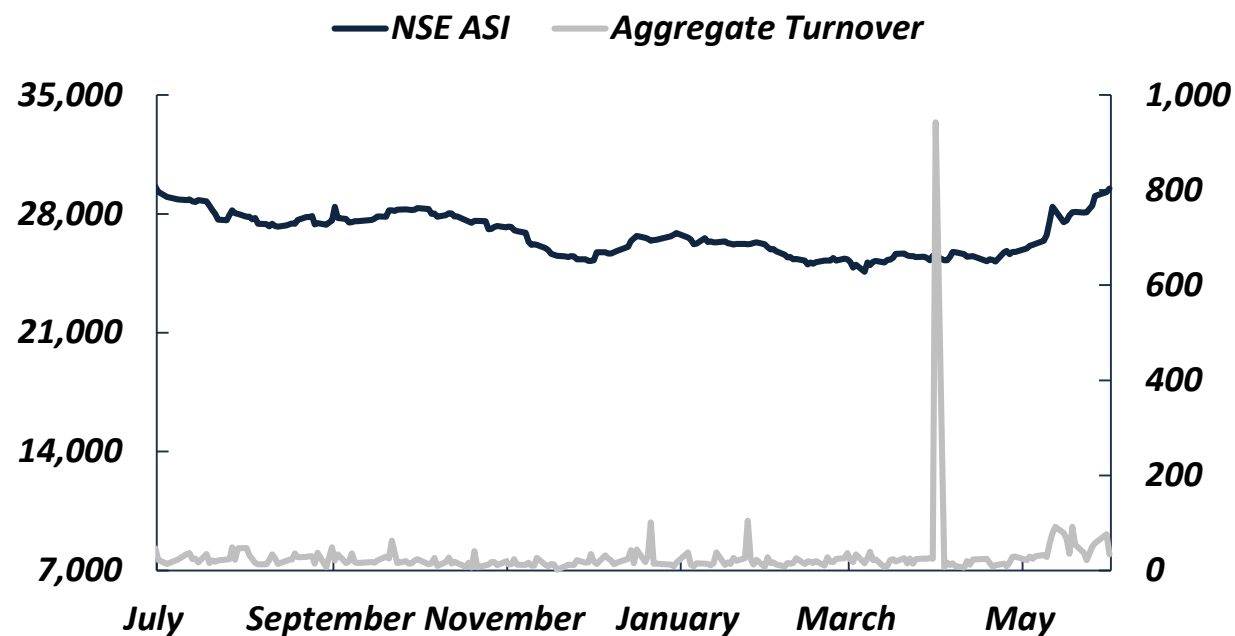
Month	MPR	PLR	Inflation	Naira Returns	90 days T-bills rate	TFP 90 days MM
Dec-16	14.0%	17.1%	18.5%	0.1%	14.0%	17.5%
Jan-17	14.0%	16.9%	18.6%	0.0%	0.0%	15.0%
Feb-17	14.0%	17.1%	17.8%	0.1%	13.8%	17.3%
Mar-17	14.0%	17.4%	17.3%	0.3%	13.6%	18.5%
Apr-17	14.0%	17.4%	17.2%	-0.2%	13.6%	18.8%
May-17	14.0%	-	16.25%	-0.2%	-	19.3%

Source: Trustfund Pensions Plc Research; Bloomberg

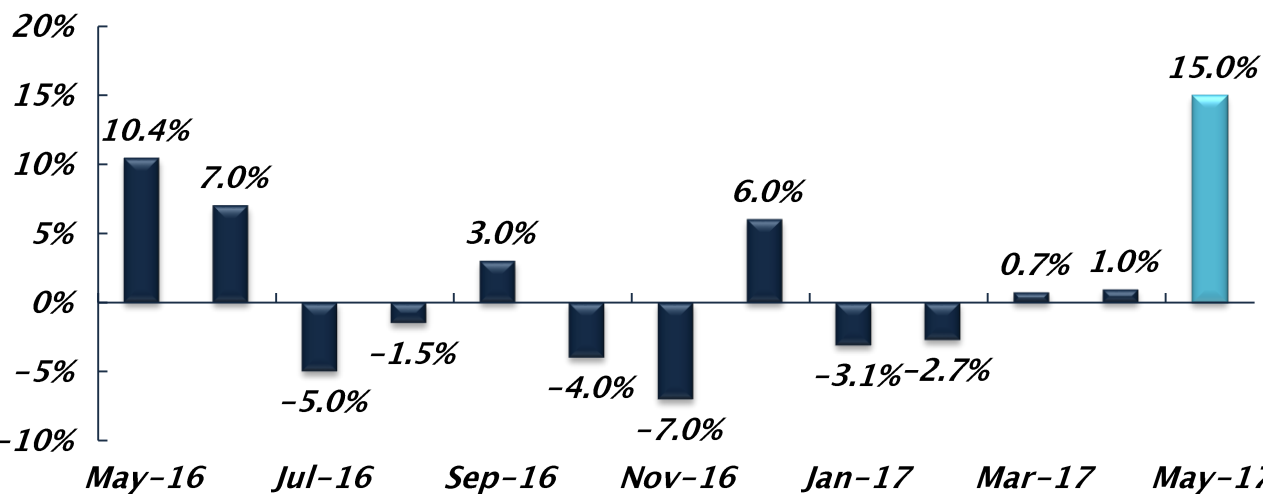
Naira/USD Exchange Rate Between July 2016 & May 2017



The Nigeria equity market has returned 10% YTD



Monthly Equity Movement



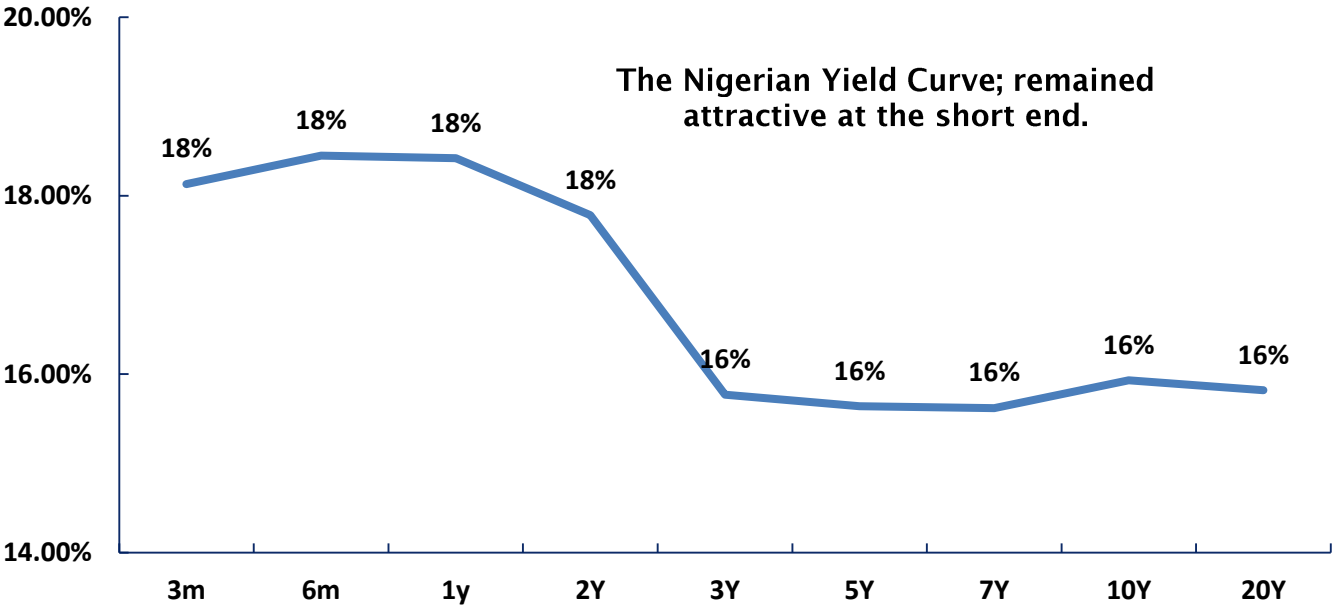
Equity Market Commentary

- Improved investor confidence in the economy and an increase in the participation of both local and foreign investors in the market, spurred a 15% gain in equities in the previous month.
- Ytd return surged to a new year high of 10% on upbeat demand across bellwether stocks and names: FBNH (+67.2%), PZ (+25.3%), NB (+21.5%), GUARANTY (+27.7%), ZENITHBANK (+27.2%) and NESTLE (+20.4%).
- The banking index rallied a huge 30% Ytd, outperforming the overall market as fund managers took positions in anticipation of positive first-half results from Nigerian companies, due out next month.
- From an active portfolio perspective, it is strategic to lock in attractive valuations, pending the arrival of the much anticipated recovery in the year.
- Our top sector picks are Financials (5.5x P/E; 5.8% div yield), Services (8.7x P/E; 6.0% div yield) and Conglomerate (10.4x P/E; 6.0% div yield).

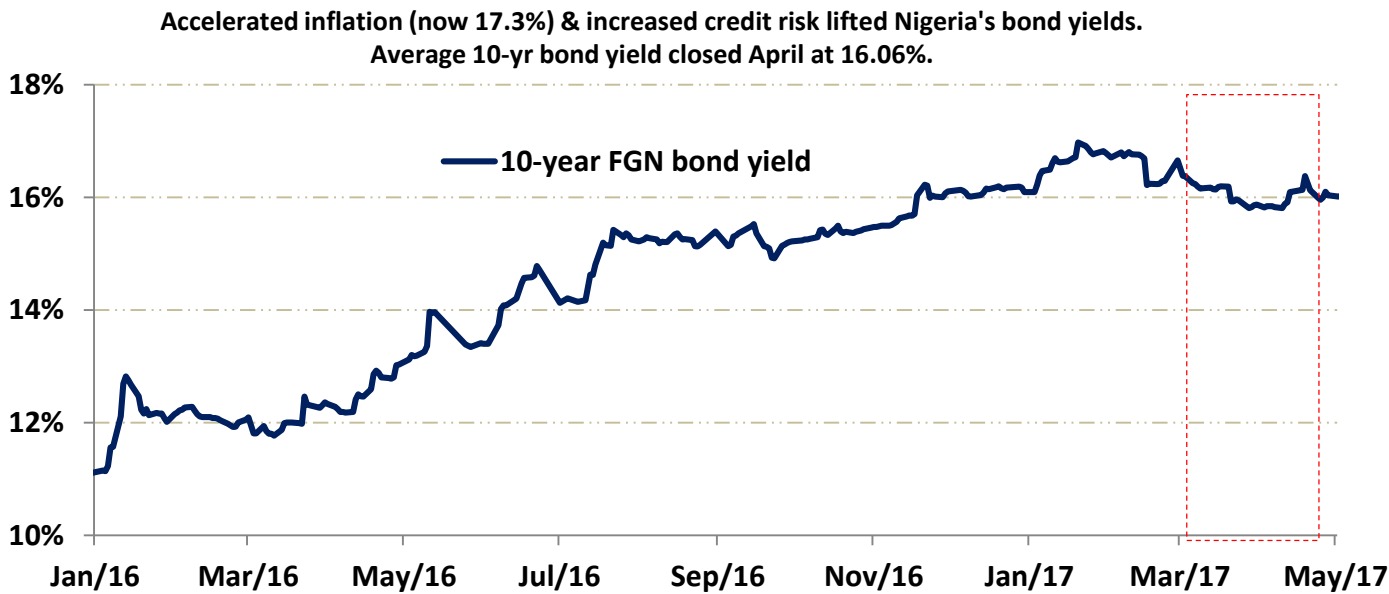
Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-2.45%	41.0%	5.5x	5.8%
CONSUMER GOODS	-0.41%	9.0%	20.0x	2.9%
INDUSTRIAL GOODS	-0.13%	13.3%	18.4x	4.0%
OIL AND GAS	-2.89%	-15.0%	13.7x	4.3%
AGRICULTURE	2.9%	95.7%	17.0x	0.9%
SERVICES	5.4%	10.8%	8.7x	6.0%
CONGLOMERATES	2.9%	-11.2%	10.4x	6.0%
HEALTHCARE	0.8%	-21.7%	#DIV/0!	1.5%

Source: Trustfund Pensions Plc Research; NSE

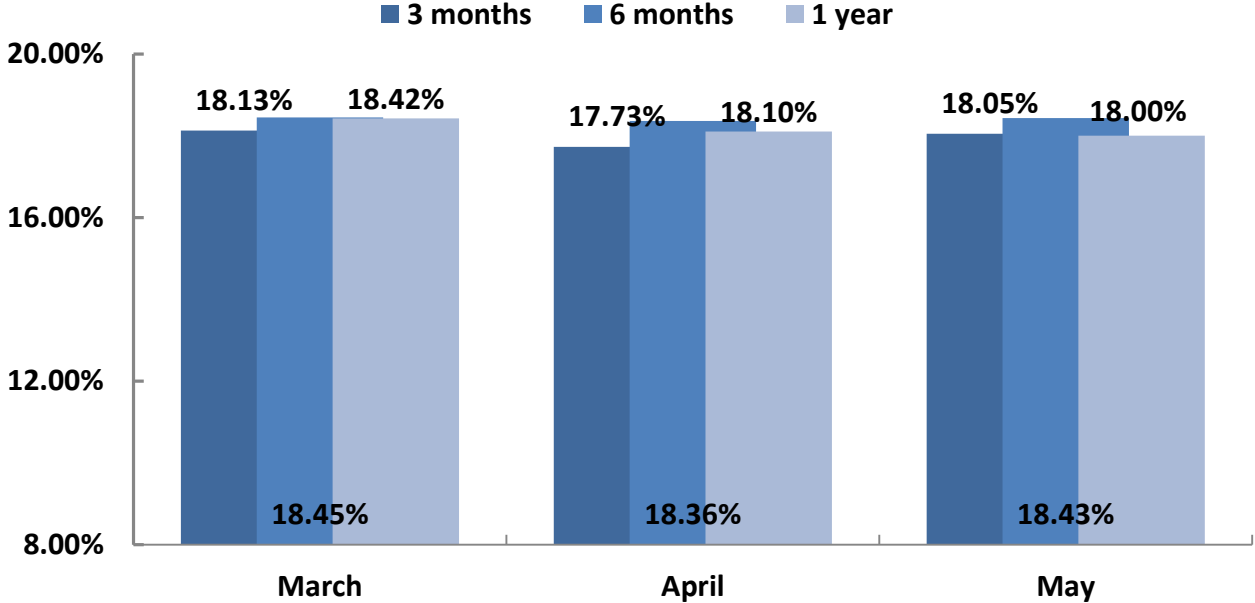
*YTD means Year-to-Date; WTD means Week-to-Date. Sector P/Es are adjusted for companies with negative trailing earnings



2016 10-year Bond Yield Trend (YTD)



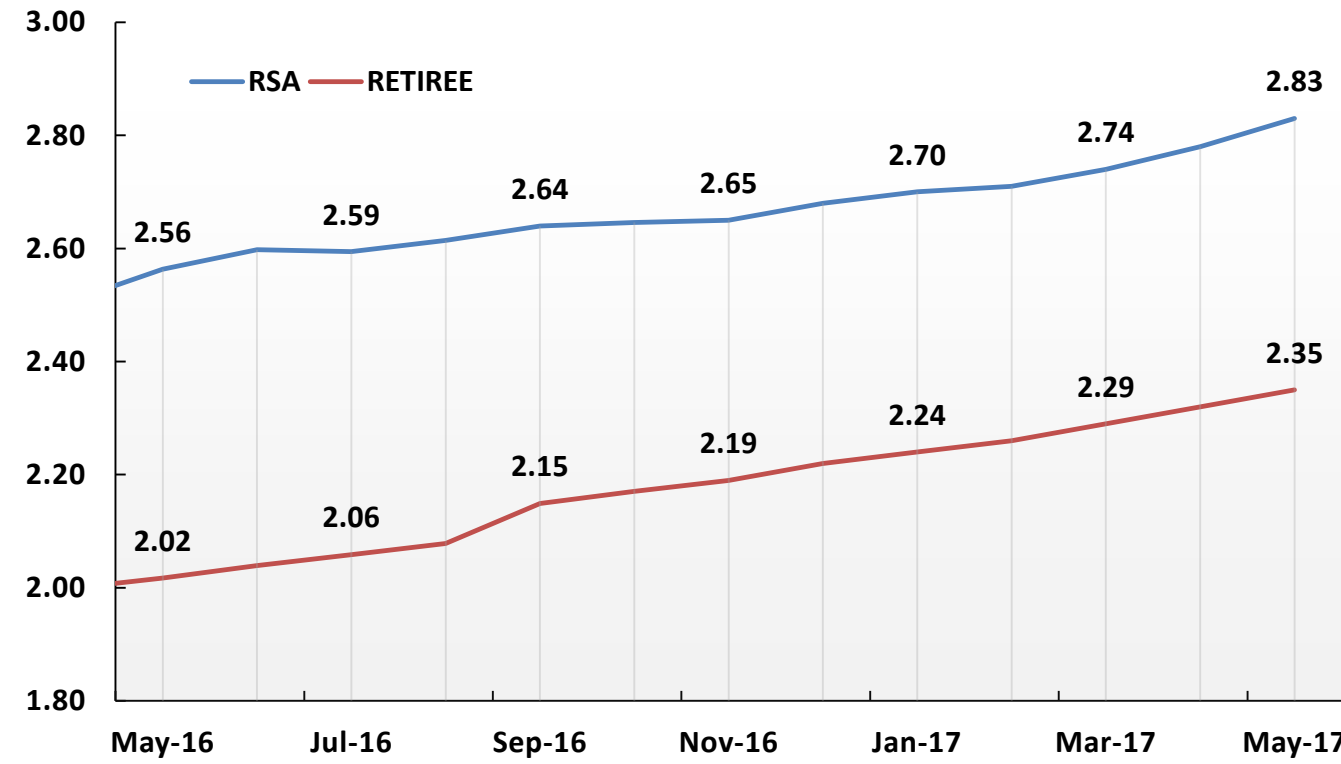
Secondary Market T-bills Rate (%)



- Average bond yield improved marginally by 11bps to 16.77%, in spite of the drop in inflation rate in the month of April, 2017 compared with March 2017.
- The key driver was the drop of liquidity in the market mainly due to foreign exchange funding and aggressive mop up by the apex bank.
- Consequently, the benchmark 7-year, 10-year and 20-year bonds closed the month at 16.01%, 16.27% and 16.01% yield respectively.
- We reiterate our attraction to long term bonds vis a vis other tradable tenors, considering the shape of the yield curve and our outlook for yield contraction in the near term.
- In the same vein, downbeat demand across the short and mid segments of the Treasury bill instruments drove average yield northward by 61bps to 20.56% as profit taking ensued on the 90-DTM and 180-DTM instruments.

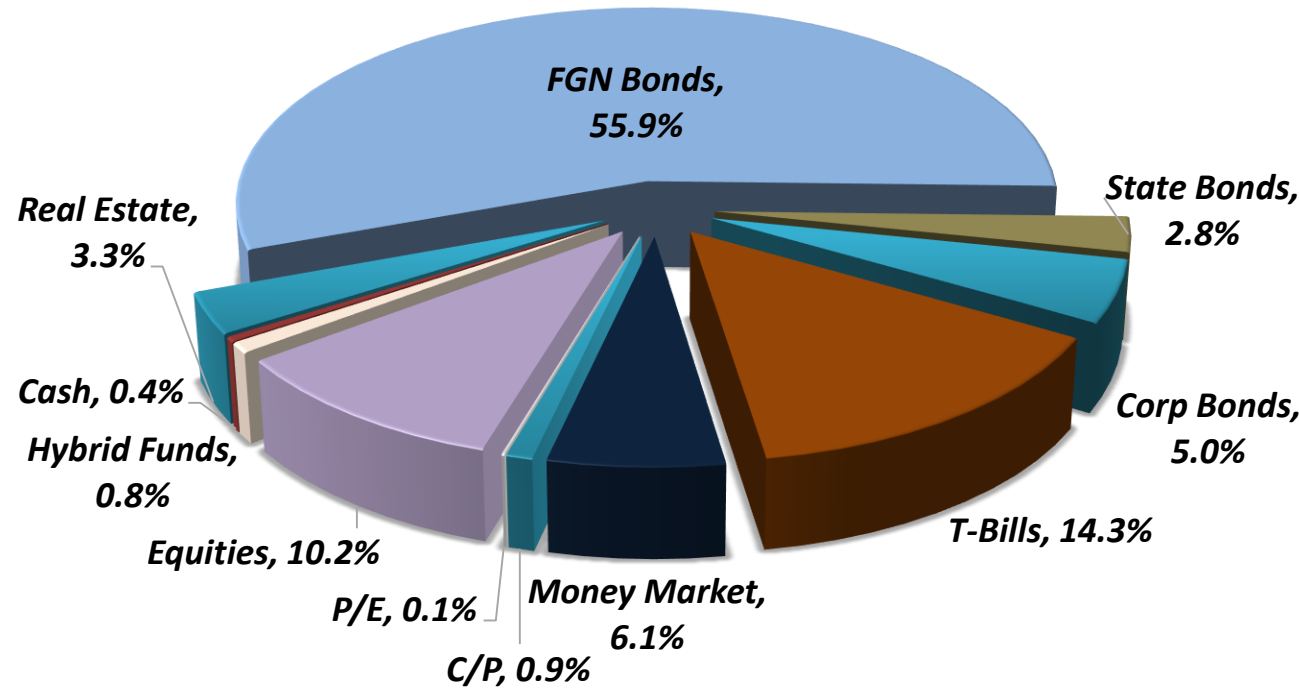
Source: Trustfund Pensions Plc Research; Bloomberg

Following improved appetite on equities, Trustfund Unit Price outperformed projection and is expected to climb to 3.0000 by the end of 2017-Q2



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 1.75 in 2011 to 2.78 at the end of May 2017, representing a 62% total growth (10% 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 May 2017 and has returned 14.64% year-to-date.
- ✓ Also worthy of note is our investment strategy which has been broadly defensive following bleak macro outlook for Nigeria on rising inflation, FX concern and currency fear.

Market Outlook

Available data and various forecasts of key economic variables as well as assessment of government initiatives, including the recently released Federal Government Economic Recovery and Growth Plan (ERGP), all point to prospects of recovery in 2017. However, timely implementation of this plan, judicious execution of the approved 2017 Budget and sustenance of the new foreign exchange implementation regime would help accelerate growth and restore confidence in the economy.

Equity

We expect to see more improvement in investors' appetite for equity investment in June 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 not less than 20% in order to improve the portfolio return.