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MONTHLY MARKET REVIEW AND FORECAST

SEPTEMBER 2017

TRUSTFUND PENSIONS PLC RESEARCH

O C T O B E R 2 0 1 7

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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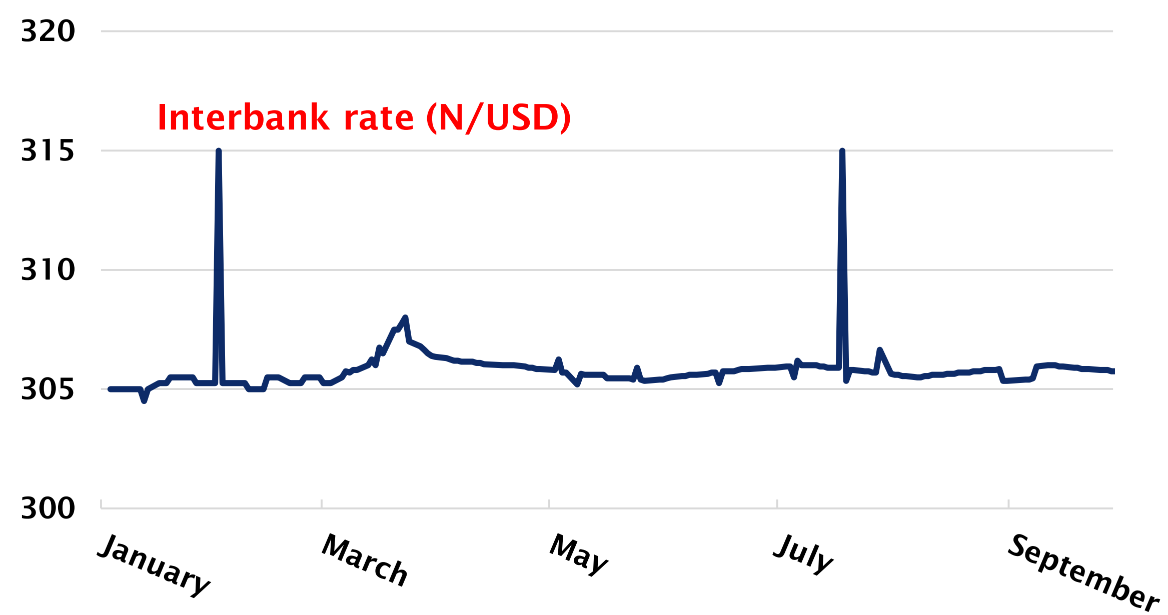
Macroeconomic Environment

- ✓ The MPC, in its September 2017 meeting, kept the MPR unchanged to ease FX rate and inflationary condition.
- ✓ Again, previous threshold sustained on CRR to support the quest to move the economy forward by extending reasonably low priced credit to the private sector.
- ✓ Inflation rate dropped to 16.01% in August 2017, from 16.05% in July 2017, representing the sixth consecutive month of decline in the headline inflation rate.
- ✓ The value of the Naira strengthened in both the inter-bank and the parallel FX markets on sustained intervention by the CBN.
- ✓ The accretion to the external reserves was boosted by improved oil production and relatively favourable crude oil price.

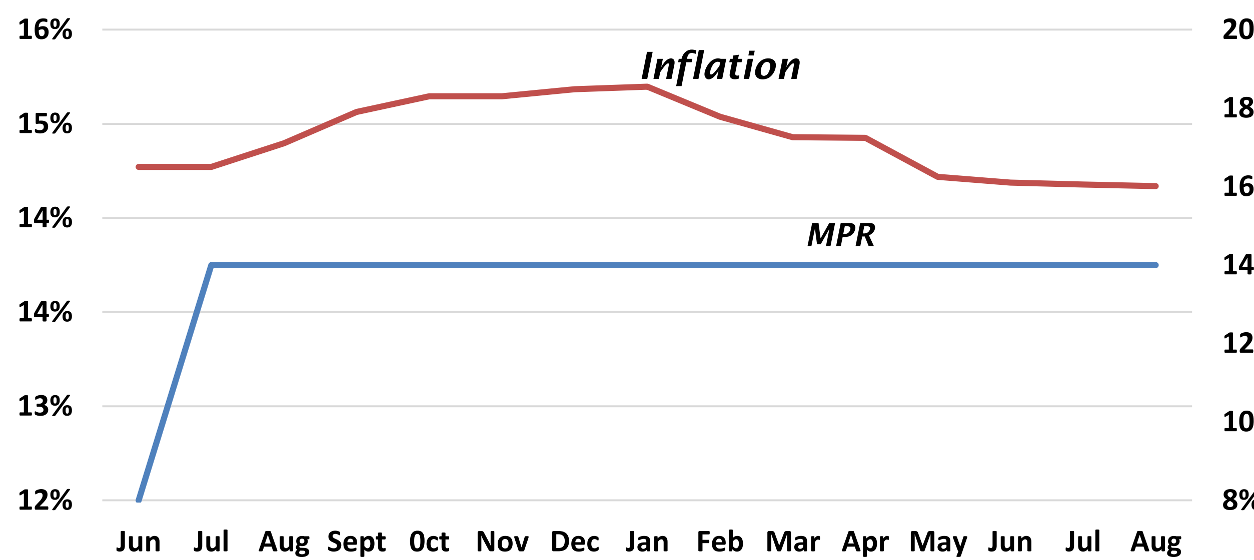
Naira/USD Exchange Rate Between Jan & Sept. 2017



Month	MPR	PLR	Inflation	Naira Returns	90 days T-bills rate	TFP 90 days MM
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%	17.6%	16.25%	-0.2%	13.5%	19.3%
Jun-17	14.0%	17.6%	16.10%	0.2%	13.5%	19.8%
Jul-17	14.0%	17.7%	16.05%	-0.1%	13.5%	19.9%
Aug-17	14.0%	-	16.01%	-0.1%	-	20.0%
Sep-17	14.0%	-	0%	0.1%	-	19.9%

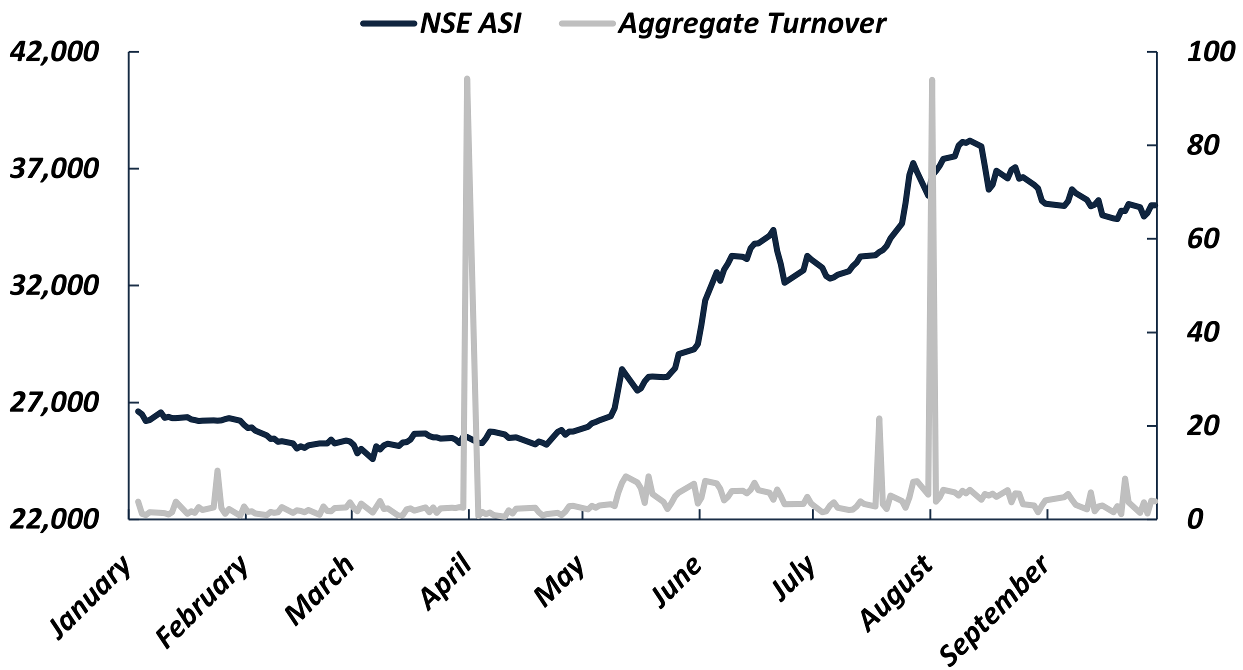
Source: Trustfund Pensions Plc Research; Bloomberg

Real investment return remains in the negative even as Aug. inflation rate came lower to 16.01%

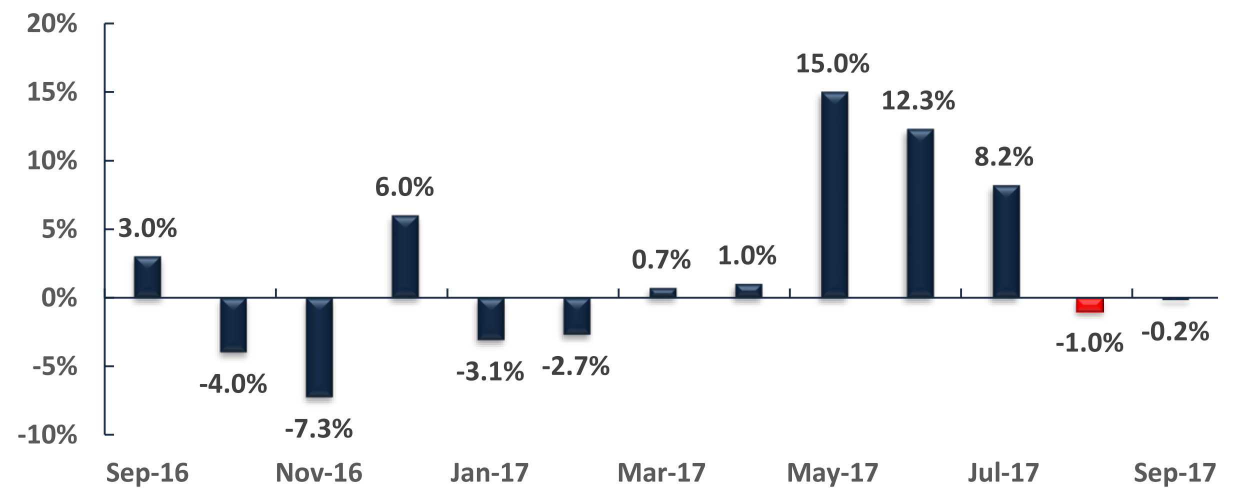


Equity Market Round-up

The Nigeria equity market has returned 31.87% YTD



Monthly Equity Movement



Source: Trustfund Pensions Plc Research; NSE

Equity Market Commentary

- The Nigerian Equity market sustained the bearish performance in September, as reflected in the 18bps pullback in the composite equity index for the month.
- While we noted relatively improved foreign portfolio inflows into Nigerian stocks, domestic investors resumed selective bargain hunting, particularly within the Financial Service sector
- Consequently, the 0.18% downtrend in September marked a mild improvement compared to the 0.94% loss recorded in August
- The Banking and the Pension indices paced the Year-to-date gains, at +60.46% and +50.81% YTD returns, respectively. This reflected a sharp contrast to the Oil & Gas sector that led the Year-to-date depreciation (-10.19% YTD).
- The Financial services basket remained the most under-priced sector (6.1x P/E) in September, followed by the Conglomerates sector (8.6x P/E). Conversely, the Consumer Goods sector remained the most fundamentally pricey (23.3x P/E).
- Overall, the Nigerian bourse has gained 31.87% Ytd, thereby explaining the 33.39% YTD return on stocks in our Flagship portfolio (RSA), as at the close of September.

Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-1.72%	54.1%	6.0x	5.2%
CONSUMER GOODS	1.04%	30.1%	24.0x	2.4%
OIL AND GAS	-0.71%	-23.9%	10.4x	5.6%
AGRICULTURE	-2.52%	86.5%	16.1x	0.9%
INDUSTRIAL GOODS	0.0%	15.2%	18.7x	3.9%
CONSTRUCTION/REAL ESTATE	0.1%	-15.5%	7.6x	4.9%
HEALTHCARE	0.7%	-19.7%	-	1.5%
SERVICES	-0.1%	0.2%	8.6x	5.4%

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

Market – Fixed Income; *Average long term yield now at 16% levels*

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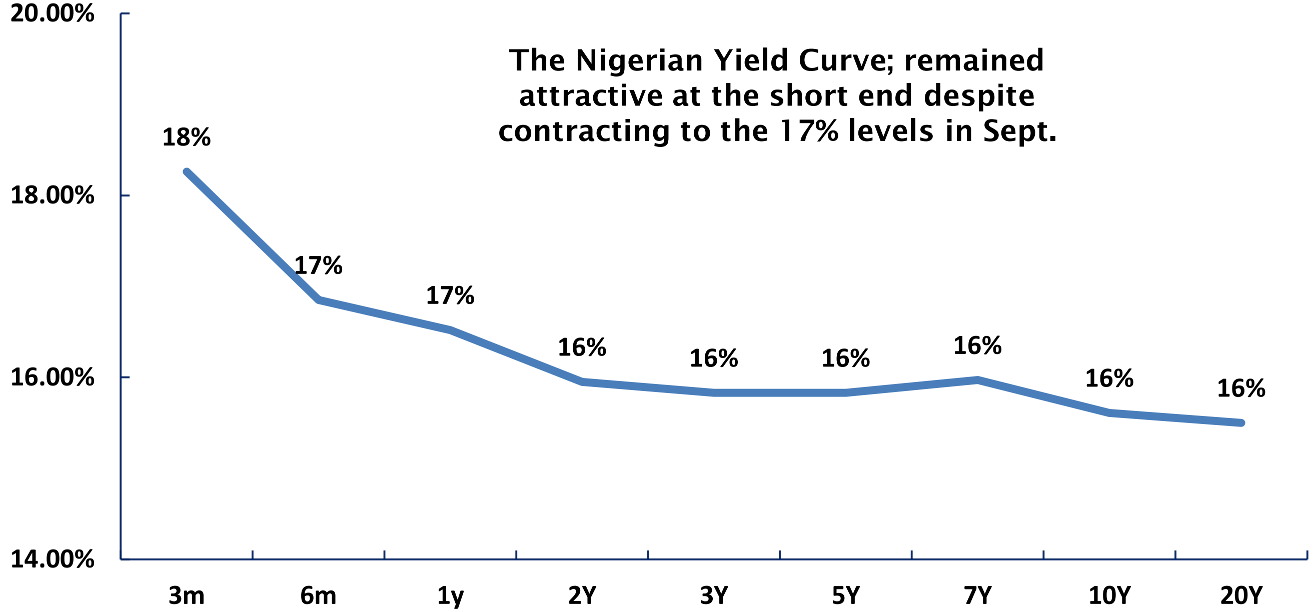
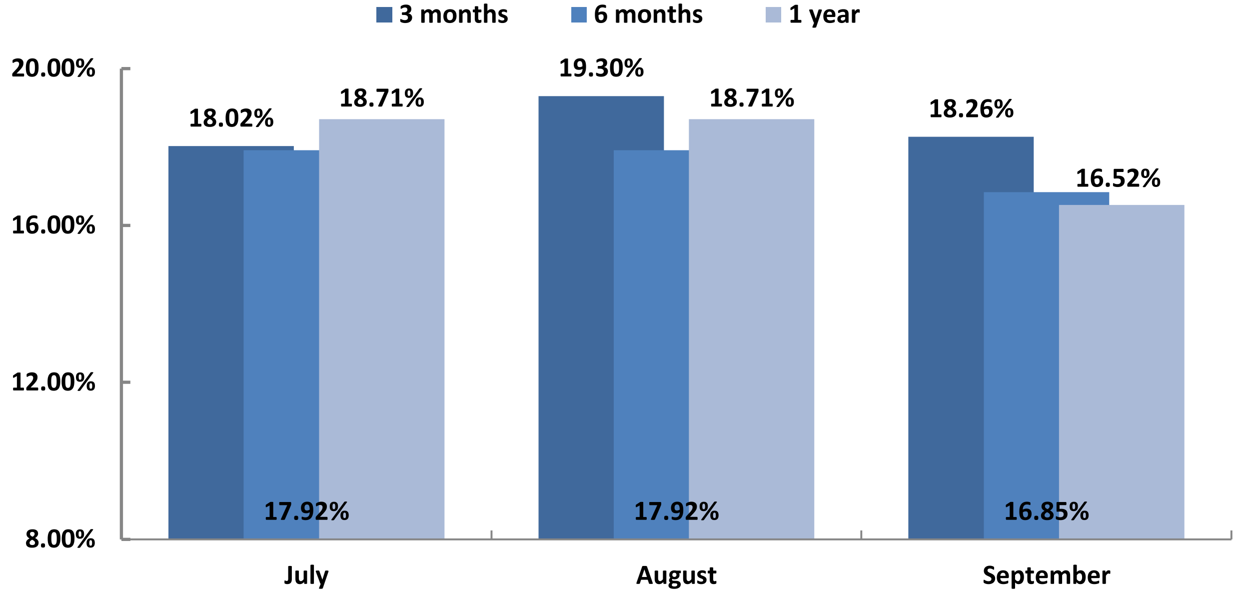
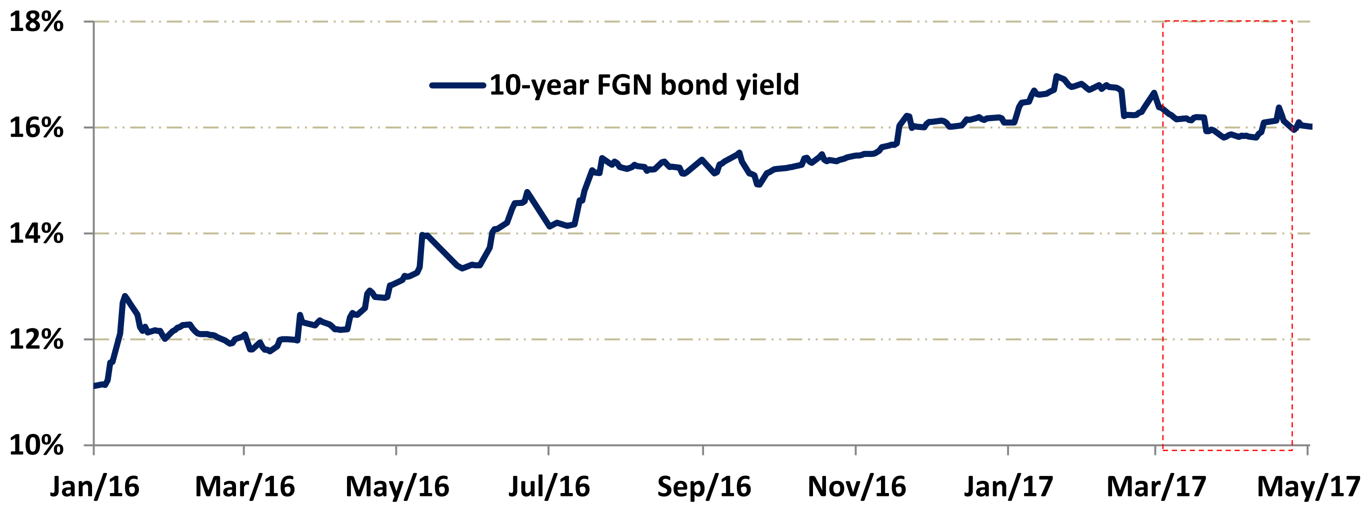


Secondary Market T-bills Rate (%)



2016 10-year Bond Yield Trend (YTD)

Accelerated inflation (now 16.01%) & increased credit risk lifted Nigeria's bond yields. Average 10-yr bond yield closed August at 16.76%.



Source: Trustfund Pensions Plc Research; Bloomberg

- **Broadly reflecting bullish investor sentiment, average bond yield slowed by 92bps in September to close the month at 16.09%. An indication of improvement in investor appetite for bonds, amid the expectation of likely further downtrend in yield levels.**
- **Similarly, average Treasury bills rate closed the month at 17.41%, a notable downswing, relative to the August threshold (18.44%).**
- **The benchmark 1-year bond recorded the greatest appreciation in yield for the month (+167bps). The generic 5-year,10 -year and 20-year instruments posted 16.76%, 16.65% and 16.78% yields respectively**
- **In view of the less attractive entry point into stocks, we anticipate sustained demand for bonds, which implies marginal depreciation in yields level in the month ahead.**

Trustfund Unit Price – Riding impressive stock Market Return

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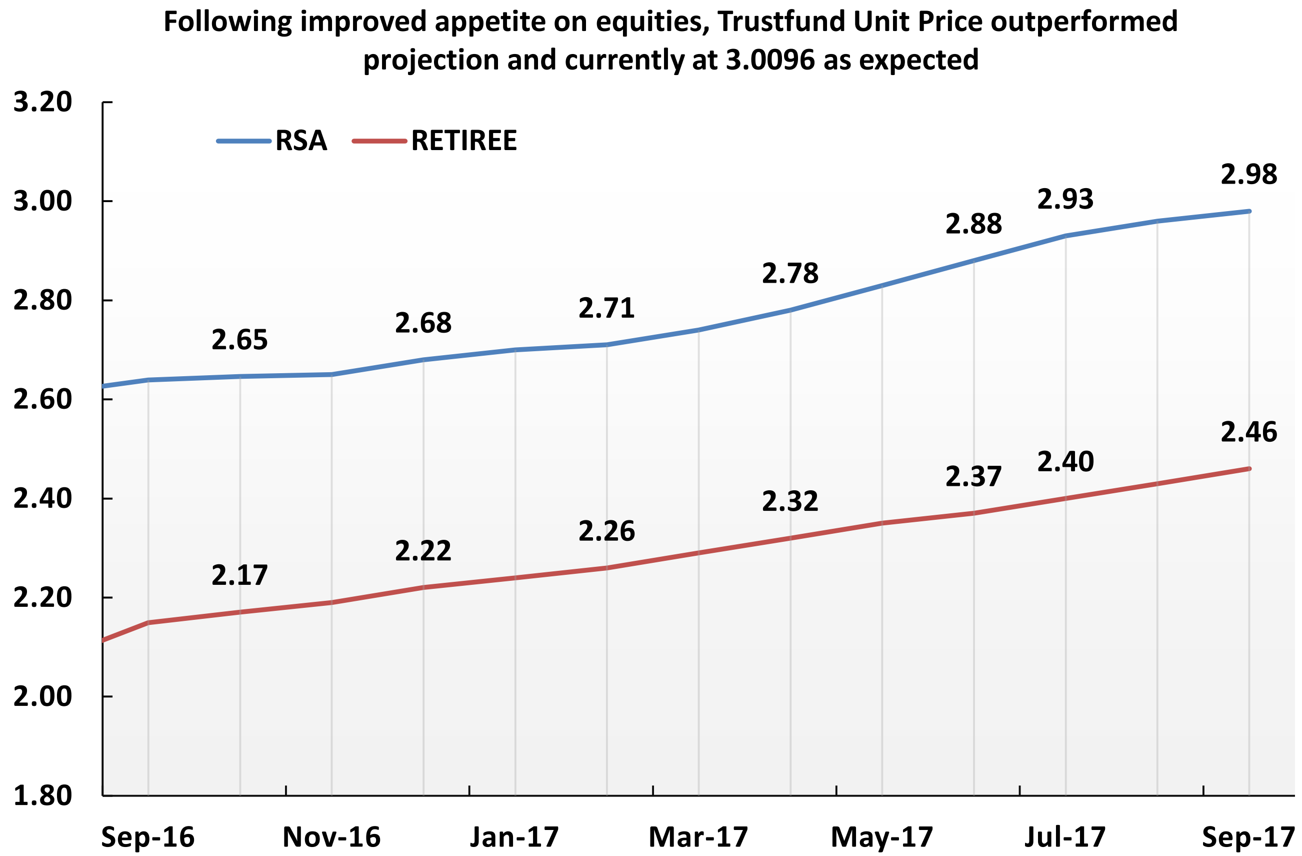
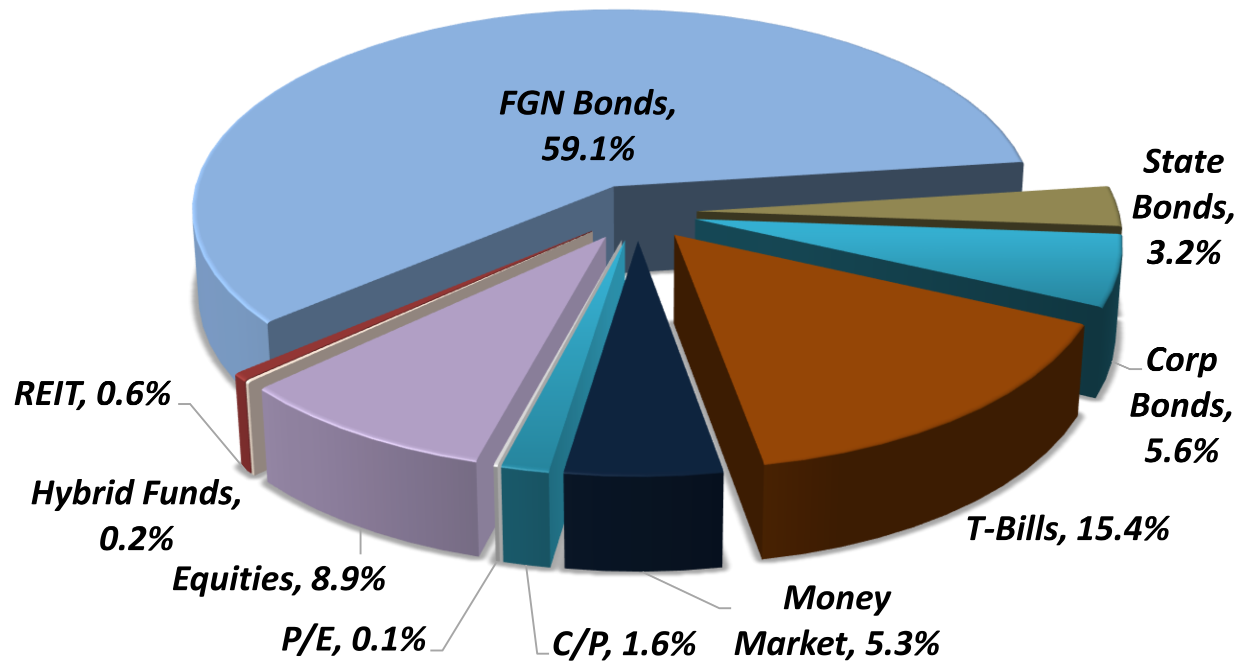


Trustfund Pensions Plc Investment Department

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*

- ✓ Our accounting unit sustained the northward journey in September lifted by the impressive growth of the RSA fund and appreciation in the value of stocks contained in the portfolio.
- ✓ On a CAGR of 10% in the last five year, our NAV jumped from 1.75 in 2011 to 2.98 at the end of Sept. 2017, representing a 62% total growth
- ✓ Likewise, the Retiree fund, despite being a depleting fund, has grown considerably by 21% from N37 billion in 2016 to over N44 billion at the end of Sept 2017 and has returned 15.13% year-to-date.
- ✓ Overall, we will maintain our overweight Fixed Income position to defend the portfolio yet further and improve return on still attractive yield environment while accommodating market uncertainties.

Income Report (Projected/Actual)

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	YTD Income (N'm) as at 30 Sep 2017				Return on Investment
	Projected	Actual	Variance	% Achieved	
RSA	33,759.00	33,687.59	(71.41)	100%	15.54
Retiree	4,316.22	4,509.65	193.43	104%	15.13
NNPC	1,080.00	2,045.19	965.19	189%	23.09
Custody	352.53	321.82	(30.71)	91%	13.49
Diamond	3,344.22	6,452.60	3,108.38	193%	17.04
UBA	1,217.97	2,880.04	1,662.07	236%	18.96
In House	51.75	27.45	(24.30)	53%	13.25
UBA CDBS	18.72	17.21	(1.51)	92%	14.06
Niger	24.03	24.70	0.67	103%	1.30
Jigawa	-	107.82	107.82	0%	19.97
Total	44,164.44	50,074.10	5,909.66		

- Our investment income grew by 8.2% to N50.1 billion at the end of Sept., 2017 from N46.3 billion at the end of August, beating projection by 13% across all portfolios.
- This was largely driven by the positive return on equities following improved appetite on stocks on positive FX market and clearer macroeconomic picture.
- We expect the Nigeria equity market to close the year positive and further support the impressive return on investment on our leading portfolios. Hence we see NAV sustained above the 3.0000 levels by 2017 year end.

Market Outlook

Available data and forecast of key macroeconomic variables indicate a relatively positive outlook, predicated on existing policy initiatives including the ERGP. Other potential drivers of economic recovery are; the expected increase in government revenue arising from favourable crude oil prices, stable output, and general improvements in the non-oil sector, especially, agriculture, industry and construction. The intervention by the CBN in the real sector is expected to continue to yield positive results in terms of output and lower consumer prices.

Equity

In our view, the Nigerian equity market index should return to the green territory in October, thanks to anticipated "early bird" positions amidst the 2017Q3 earnings releases.In view of this, We recommend that we maintain a medium-to-long term position in the equity market and on stocks that have strong fundamentals.

Bonds

Tapering inflation and prospect for monetary loosening suggest a tighter outlook for yields in October. Overall, we maintain a positive outlook, particularly for long term strategic value plays. Thus, we should maintain a balanced portfolio in fixed income, particularly on higher than 16% coupon instruments to improve return and portfolio marketability.

Money Market

Yields on fixed income securities may trend marginally lower, hence, we 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 will take profit on some assets where need be and redirect the proceeds to instruments at the short end of the yield curve and at an effective yield of not less than 18% in order to improve the portfolio return.