Trustfund

MONTHLY MARKET REVIEW AND FORECAST

JULY 2017

TRUSTFUND PENSIONS LTD RESEARCH

AUGUST 2017

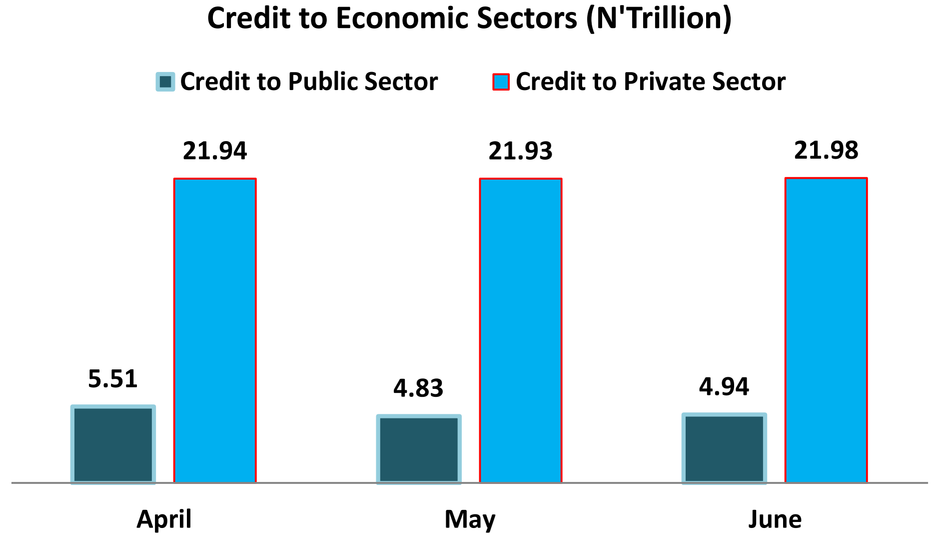
MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

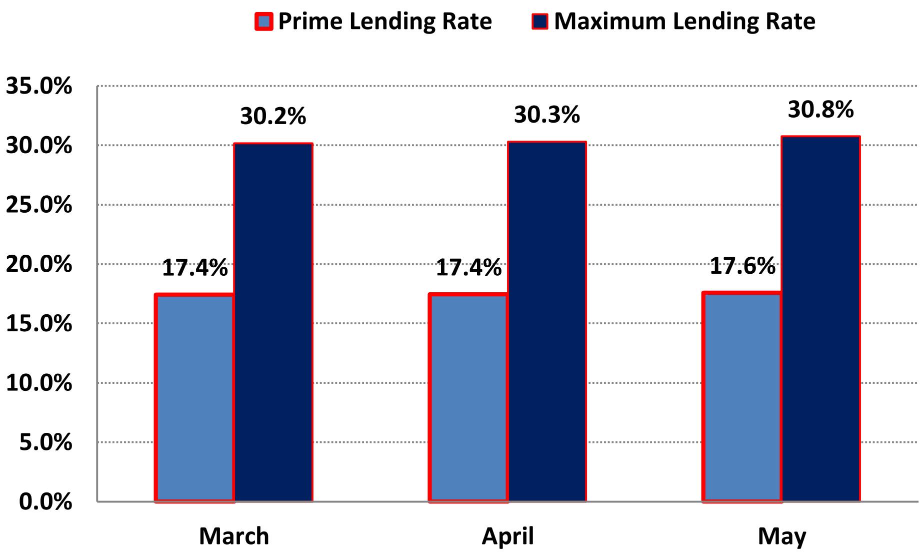
Nigerian Macro Review

Headline	June	July	%Change	Remark
Monetary Policy Rate (MPR)	14%	14%	+0.0%	MPR sustained at 14% in July and may remain unchanged pending inflation rate convergence to around 14% levels.
Cash Reserve Requirement (CRR)	22.5%/22.5%	22.5%/22.5%*	+0.0%	Previous threshold sustained on CRR to encourage the DMBs step up credit to the private sector and convey a positive view of the financial system.
Inflation	16.10%	0.0%	0.0%	Headline inflation rate moderated to 16.10% in June, largely due to the benefits of the higher base effect of 2016.
Exchange Rate (NGN/USD)	N305.90	N305.65	-0.15%	Naira appreciated by 0.08% and 1.08% at the interbank and the parallel markets respectively on sustained intervention in the FX market by the CBN.
External Reserves (USD'bn)	$30.3	$30.8	1.65%	External reserve balance appreciated by 1.65% to $30.8bn in July on increased oil output and portfolio inflow.

Credit to private sector increased mildly by 0.2% to 21.98% in June



Commercial lending rates was mildly higher for all borrowers



Market Round-up: July Equities

Equities gained 8.23% in July on extended gyration.

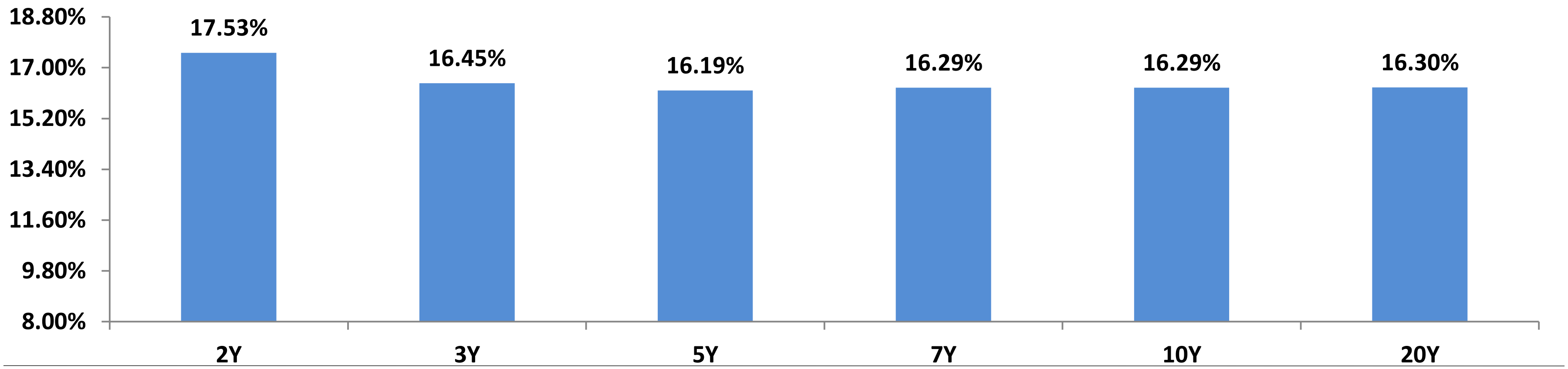
- The Nigeria equities market extended it rally to the 5th consecutive months after it closed July at 8.23% on brighter macroeconomic picture and improving participation from foreign investors.
- Ytd return remained attractive at 33%, riding impressive 2017Q2 corporate results, particularly by the banks and some Industrial and Consumer Goods firms.
- Market cap scaled the N12 trillion level in July, reaching an over 2 year high of N12.2 trillion with the lead index sustained above the 35,000 mark.
- The banking index rallied a huge 68.74% Ytd, outperforming the overall market and accounting for the 74.18% and 42% equity returns recorded in our NNPC and SCHEME portfolios while the RSA portfolio (34.37% return) benefited from the positive performance from the Industrial Goods counters.
- Hence, from an active portfolio perspective, it is strategic for PFAs to lock in attractive valuations, pending the the commencement of the multi-fund structure, which requires a minimum of 7.5% exposure to equity instruments.
- Our top sector picks are Financials (6.0x P/E; 5.3% div yield), Services (8.7x P/E; 5.7% div yield) and Construction/Real Estate (8.8x P/E; 4.2% div yield).

Bond Market Round-up

……… *Mix sentiment permeates the bond market*

- Average bond yield shed a modest 0.02% to 16.69% in July as maturity draws near on the AUG 2017 and MAR 2019 instruments; both of which accounted for the yield dip.
- Selloff was however intensified on the benchmark maturity instruments as yields increased by 24bps, 26bps and 24bps to 16.29% apiece on the 7-year and 10-year maturity instruments and 16.30% on the 20-year instrument.
- Activities on the Treasury bill market mirrored those of the bond market as yields compressed across tenors by an average of 37bps to 17.53%. The key driver, however, remained the preference for short term maturity instruments on attractive yields and liquidity need.
- We will continue to strategically lock-in gains especially on longer duration instrument as it offers opportunity to lock-in higher yield over a longer time horizon and are preferred for improved portfolio return given the current high yield environment. We maintain a conscious outlook on bond yields in the near term.

Secondary Market Bond Yields sustained above the 16% levels in July



Source: Trustfund Pensions Plc Research; fmdqotc

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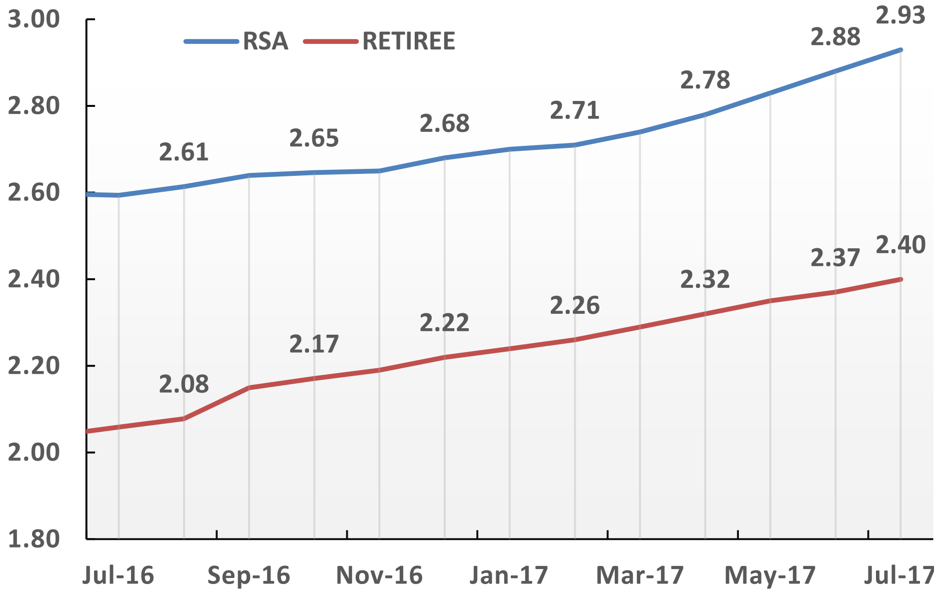
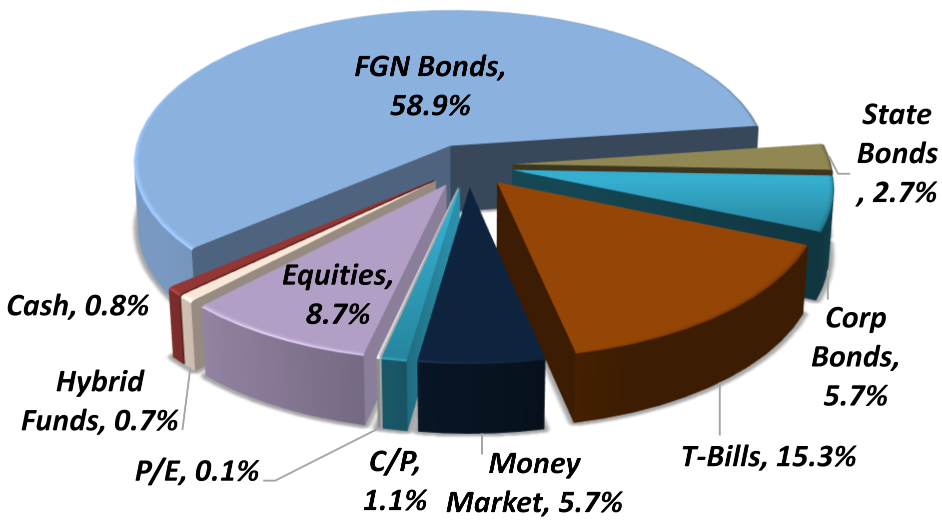
Trustfund Unit Price – Riding impressive stocks returns

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 2.93 at the end of July 2017, representing a 67% total growth (11% CAGR in the last five years) and has returned 15.86% Ytd.
- ✓ 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 July 2017 and has returned 15.14% 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 policies 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 August 2017, on increased FX supply, macroeconomic stability and the return of foreign investors. 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

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, 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 higher, except the yield on the 91- Day NTB. 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 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.