



Pensions Alliance Limited

FUND PERFORMANCE

The PAL Retiree Fund was up 0.85% in August and 5.50% year to date (“YTD”). The Fund closed with a Net Asset Value of N4.015billion. During the month under review, Fund inflow and redemption stood at N218million and N145million respectively.

MARKETS AND STRATEGY

On the macro side, consensus estimate of GDP growth rate for 2010 is put at about 7.00% on the back of stable oil prices, consistent production levels, growth in non-oil sectors especially agriculture. As stated earlier, oil prices remained stable within US\$70 – US\$78/barrel with production levels at about 2.0 million barrels per day.

However, the Country’s Sovereign savings christened the “Excess Crude Account” was depleted from \$22bn to \$460m between May 2007 and August 2009 on account of distribution to the three tiers of Government. Overall, the Country’s financial position is still very strong with very low Debt to GDP ratio and reserves that can cover up to 12 months of import. We expect the Naira to remain stable relative to the US Dollar.

The Financial Markets presented a mix bag during the month under review. Bond yields were up by about 1.50% whilst the NSE All Share Index was down by 6.23%. The Money Market remained unchanged with rates hovering between 1.50% and 6.00% per annum for the typical 30day placements.

However, as a Fixed Income Fund, our interest lies with the happenings in the broad macro economy especially as they impact on GDP Growth rate, the Sovereign Fiscal Balance

Sheet, Inflation rate and Interest rates.

The Bureau of Statistics re-configured the inflation index basket which resulted in official inflation numbers increasing to 14.00% from a low of 10.00%. However, inflation dropped to 13.00% in August whilst inflation expectation is around the 10.00% -11.00% range. The Benchmark CBN Monetary Policy rate remained unchanged at 6.00% even though this does not appear to have had any serious impact on the cost of borrowing which is still between 13.00% - 15.00%.

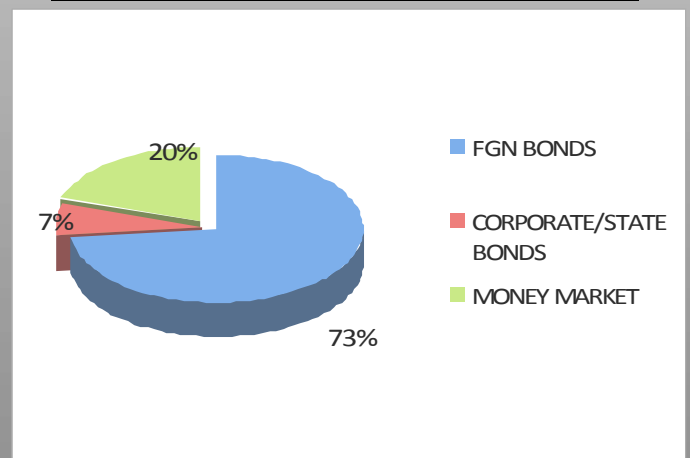
On the Fiscal side, the Debt Management Office issued Naira Denominated Sovereign Bonds of N126.46bn in the 3, 5 and 20 year tenor brackets during the month under review. We expect further issuance to assist Government finance its Budget Deficit and fund major programmes like AMCON, the 2011 election and the Power Sector reform initiative. On the back of additional issuance, consensus estimate is that yields on the 20 Year FGN Bond will trend up between 12.00% and 13.00%.

During the month under review, we increased our allocation to the Bond Market from 72.00% to 80.00%. The breakdown of the allocation is as follows: FGN (73%), State (3%) and Corporate (4%). The Sovereign Bond Market continues to present attractive yields to Investors. Yields on the Benchmark FGN 20 year Bond closed at around 11.50% up from about 7.00% in May this year. Even though this is below historical inflation figure of 13.00%, the theory is that inflation expectation which is indicative of future inflation is now down to around 10.00%. In the next four months, we will continue to invest more in the Bond market especially Sub-national and Corporate Bonds at yields of between 12.00% and 13.50%. We only invest in State Bonds with solid ISPO Backing and the Bonds issued by strong Corporations with Investment grade rating.

OUTLOOK.

As stated earlier, we anticipate more issuance of FGN, States and Corporate Bonds. As a result of very low yield in the Money market, we will essentially be using this market as a source of liquidity to the Fund at the cost of overall portfolio yield reduction. We remain optimistic of ending the year with a return of around 10.00% net of fees. Whilst this might look like a low yield it is instructive to remember that for the first half of the year, returns on most of the Fund’s permissible instrument (i.e Bonds and Money Market Securities) remain at between 2.00% and 6.00%. We however believe that increased issuance from States and Large Corporations will increase overall market yield by an additional 2.00%. Again we emphasise that being a Retiree Fund, safety, security and consistent returns is preferred to the high risk Volatile returns obtainable elsewhere.

ASSET ALLOCATION AS AT 31st AUGUST 2010



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