



# 2019 Q4 Newsletter

# Fund Manager's Report: Fund I

## Gross Domestic Product

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## Inflation

In November, headline inflation report came in at 11.28%, 2bps higher than the prior period - Oct 2018 at 11.26%, as the base effects from the previous year wane. On a month-on-month basis, the headline index rose by 0.80% m/m in November up from 0.74% from the previous month. Food inflation increased to 13.30% (vs 13.28% in October), while core inflation decreased marginally to 9.78% (vs 9.88% in October). In 2019, we expect inflationary pressures to be driven by elections spending, minimum wage increase, likely removal of fuel subsidy and possible increase in electricity tariffs to reflect in year-on-year figures for the rest of the year.

## Crude Oil Prices

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## FX Reserves

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## FI Market

During the quarter, the 365-day bill yield rose 200bps to 17.6%, driven by CBN's frequent OMO issuances. Consequently, inverting the yield curve rapidly, while the 5-yr yield and 10-yr yield closed 95bps and 76bps higher respectively as at December 2018. As the general elections approach, we expect yields to remain high and gradually trend north, given the increased hawkish stance of the CBN to curb increased portfolio outflows. In 2019, we expect yields to moderate post elections as the foreign investors return to the market.

## Equities Market

The NSEASI index performance stood at -17.81% as at 31st Dec 2018. For Q4 2018, the index performance declined at a slower pace by -3.91% for the quarter, driven by year end portfolio management activities (vs -13.65% for Q3 2018). We expect the market to remain bearish as we approach the 2019 elections. However, we expect a recovery from Q2 when political headwinds subside.

## Investment Objective

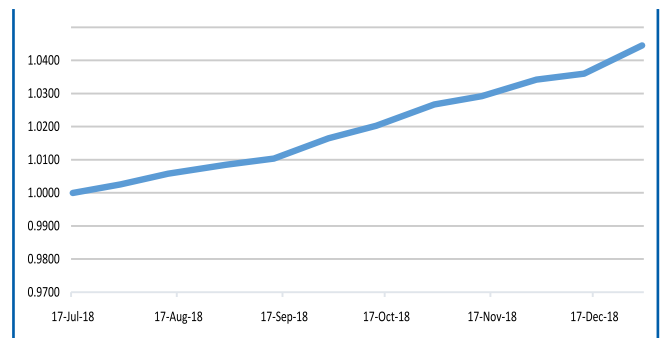
The Fund is the ideal portfolio for relatively young contributors aged 49 and below who are willing and able to bear investment risk. The main objective of the Fund is to achieve a positive real rate of return over a medium to long term and to generate extra return for risk seeking investors.

## Investment Strategy

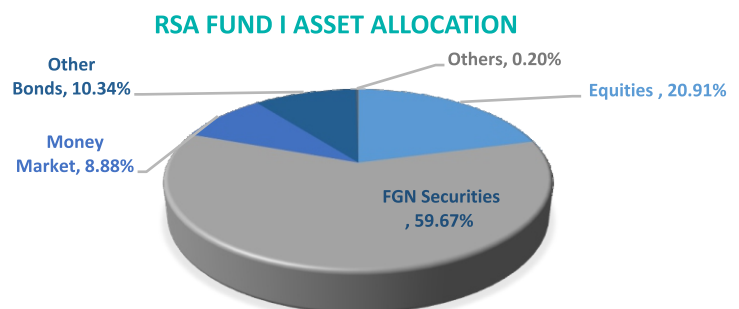
In line with regulatory requirements for this Fund, we plan to hold approximately 20% of the Fund's assets in a combination of variable income asset (public equities, private equities and infrastructural funds). This portfolio will be aggressively managed to generate positive alpha.

## Trend in Unit Price

This Fund commenced on 17<sup>th</sup> of July at N1.00 and closed 31<sup>st</sup> December 2018 at N1.0445, implying a return of 4.45% (please note that this is a 6-months return - from inception in July 2018). The fund's return was recorded in the top three (3) in the industry.



## Asset Allocation



## Industry News

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# Fund Manager's Report: Fund II

## Gross Domestic Product

The Nigerian economy's Q3 2018 GDP grew by 1.81% y/y, higher than the 1.50% y/y growth recorded in Q2 2018. For the second consecutive quarter, growth was largely due to expansion in the non-oil sector which grew by 2.32% y/y. However, the oil sector GDP contracted 2.91% y/y. We expect growth to accelerate further in Q4 2018 and full year estimated GDP growth at 1.9%. For 2019, IMF has projected GDP growth rate to print at 2.2% for Nigeria.

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## Equities Market

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## Investment Objective

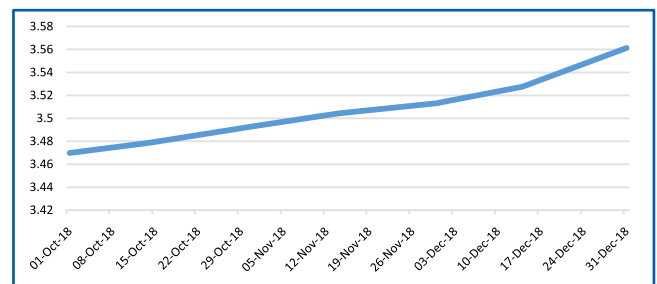
This is the default Fund for contributors aged 49 and below. The key objectives of Fund II are to achieve a positive real rate of return, ensure capital preservation and meet the liquidity requirements of members.

## Investment Strategy

Our strategy entails maintaining a balance of reasonable risk and capital appreciation to achieve long-term capital growth and income generation. As such, a portion of the portfolio is managed actively to generate positive alpha.

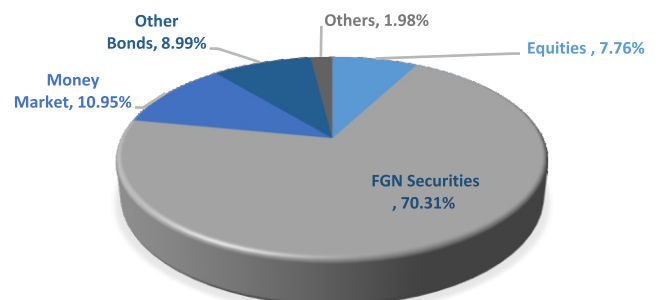
## Trend in Unit Price

This fund ended the quarter with a unit price of N3.5612 implying a return of 2.66% in Q4 2018 vs 0.74% in Q3 2018. In FY2018, in spite of the volatility in yields and returns for both fixed income and equity instruments, the fund was able to record full year return at 9.86%.



## Asset Allocation

### RSA FUND II ASSET ALLOCATION



## Industry News

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# Fund Manager's Report: Fund III

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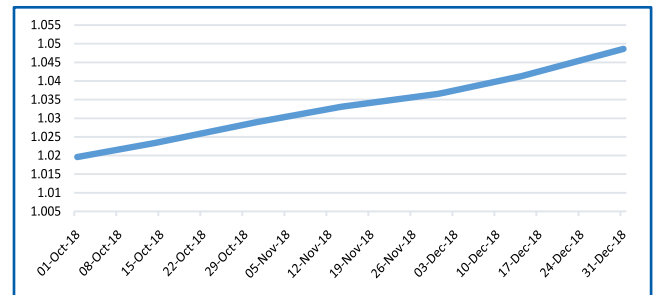
The key objectives of the RSA fund III is to provide real and satisfactory returns to members with very minimal to moderate exposure to risk. The RSA fund III is a conservative fund for contributors who are approaching retirement age (age 50 and above) who typically have low tolerance for risk, short time horizon and high liquidity requirement.

## Investment Strategy

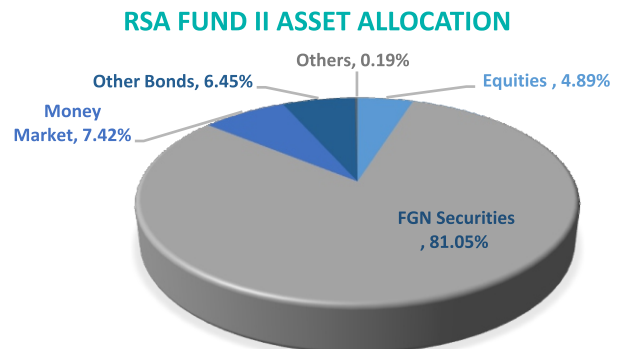
Our Strategy is to maintain a 95:5 allocation to fixed income and variable income instruments respectively to preserve capital, ensure adequate liquidity and minimize downside volatility in fund returns.

## Trend in Unit Price

Following the commencement of the multi-fund regime, the Fund commenced with a unit price of N1.00 on July 1, 2018, growing by 2.87% for Q4 2018 compared to 1.93% in Q3 2018. The fund recorded a 4.86% (please note that this is a 6-months return - from inception in July 2018) return for FY2018.



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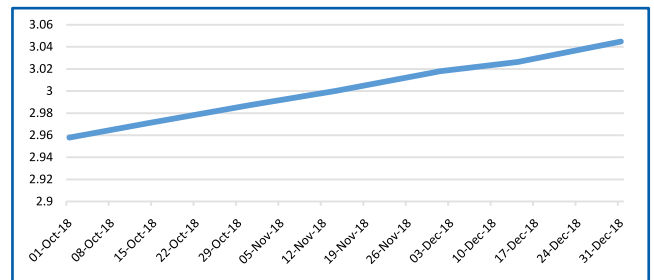
The composition of this fund consists of retired employees from the public and private sector with a low tolerance for risky investment. Hence, the key objective of the fund is to deliver return above inflation, preserve capital and to maintain adequate liquidity in the fund.

## Investment Strategy

The portfolio construct will be designed not to exceed the 5% maximum investment in quoted equities while other fixed income and money market assets will be utilized to create enough liquidity in the fund. Additionally, a certain portion of the portfolio will be actively managed to help drive fund performance with minimal impact of volatility.

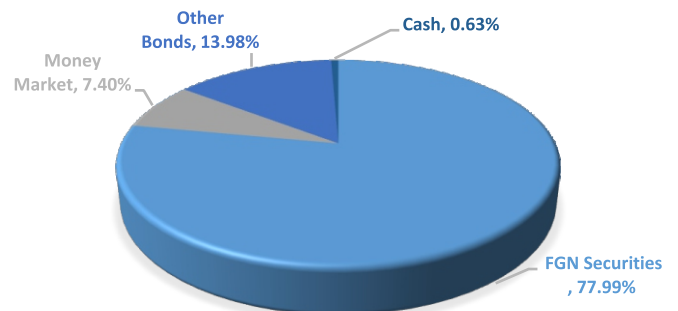
## Trend in Unit Price

This fund ended the quarter with a unit price of N3.0447 implying a return of 2.97% in Q4 2018 compared to 3.11% in Q3 2018. The full year return for the fund was recorded at 13.67%.



## Asset Allocation

### RSA FUND II ASSET ALLOCATION



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## ■ Highlights of Nigerian Pension Industry in 2018



### Introduction

The pension industry has undergone multiple operational changes during the year from the new multi-fund structure to changes in the administration of Voluntary Contribution. In this bulletin, we will take you through the highlights of the industry in 2018.

### Pension Enhancement for Exiting Retirees on Programmed Withdrawal

The year started with good news for retirees with the introduction of pension enhancement for exiting retirees under programmed withdrawal where the National Pension Commission (PenCom) advised Pension Fund Administrators to re-compute the new monthly pension using the current age of eligible retirees and their RSA as at 31 December 2016 excluding voluntary contributions (VC) and other criteria provided by PenCom. The is to ensure that there is periodic pension enhancement for retirees on Programmed Withdrawal by using the surpluses generated from return on investment. The first set of pension enhancement was for retirees who retired between July 2007 and December 2014 using their RSA balances as at December 2016 as the basis. The Commission is currently working on the next set of retirees.

### Micro Pension Plan

During the year, PenCom introduced Micro Pension Plan (MPP). MPP is an arrangement where self-employed and persons operating in the informal sector can participate in the Contributory Pension Scheme. A prospective Micro Pension Contributor shall be required to open a Retirement Savings Account (RSA) by completing a registration form with a PFA of his/her choice. Micro Pension Contributor can make contributions daily, weekly monthly or as may be convenient to them provided that the contributions will be made each year. The amount of contribution shall be dependent on the Contributor's pension aspiration and financial capacity.

Contributions shall be made by cash deposit, electronically, through any payment instrument/platform or financial service

agents approved by Central Bank of Nigeria. Contributions under the Micro Pension Plan shall be invested in line with the Regulation on Investment of Pension Fund Assets issued by National Pension Commission.

Every contribution shall be split into two comprising 40% for contingent withdrawal and 60% for retirements benefits. Contributors are eligible to access the portion of his/her contribution available for contingent withdrawal 3 months after making initial contribution. The time frame for payment shall not exceed 2 working days. Contributors may withdraw the total balance of the Contingent portion of his/her RSA and may transfer part or all his outstanding balance on Contingent portion to his retirement benefits option.

### New Multi-Fund Structure

In July, the Multi-Funds structure for RSA funds otherwise known as Life-circle Investment was introduced. The main objective is to; achieve optimum returns for contributors by aligning their pension savings with their individual risk/return profiles, provide investment portfolios choices to contributors and enhance safety of pension assets through adequate portfolio diversification. The Multi-fund Structure increases the number of funds from the traditional RSA and Retiree to a four-fund structure called Fund I, II, III and IV.

**Fund I:** For contributors that are 49 years and below (by choice),

**Fund II:** The default Fund for all active Contributors that are 49 years and below.

**Fund III:** Default Fund strictly for Active Contributors that are 50 years and above.

**Fund IV:** Retirees Fund.

RSA holders can move from Fund II to Fund I and from Fund III to Fund II depending on their choice and age.

### Guidelines on Additional Voluntary Contributions

The Pension Reform Act (PRA) 2014 allows employees to make, Voluntary Contributions into their Retirement Savings Account (RSA), in addition to their mandatory pension contributions, with the sole aim of enhancing their retirement benefits. The main objectives of the guidelines are to establish uniform set of rules for the operation of Voluntary Contributions and eligibility criteria for participation in Voluntary Contributions. The major change to the operation of Voluntary contribution for contributors, the voluntary contributions shall be divided into two: 50% shall be contingent, available for withdrawal and 50% fixed for pension shall only be utilized at date of retirement to augment pension. All Voluntary Contributions made by the active or mandatory contributors shall be retained in the RSA for a minimum of 2 years before access.

### Conclusion

In the year 2019, we expect full implementation of the Micro Pension Plan and Data Re-capture exercise among others. The National Pension Commission is committed to ensuring effective regulation and supervision of the Nigerian Pension Industry to ensure that benefits are paid as and when due. We at PAL Pension, will continue to update you on regulatory updates and development in the industry in the year 2019 and deliver retirement benefit with ease.

For more updates in the industry during the year 2018, you can visit our website on [www.palpensions.com](http://www.palpensions.com) or National Pension Commission's website on [www.pencom.gov.ng](http://www.pencom.gov.ng)