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# 2019 Q4 NEWSLETTER

Cover Story:

## Economic Review of 2019

Also in this issue:

- Trend in Unit Price
- Documentation for Data Recapture
- Frequently Asked Questions

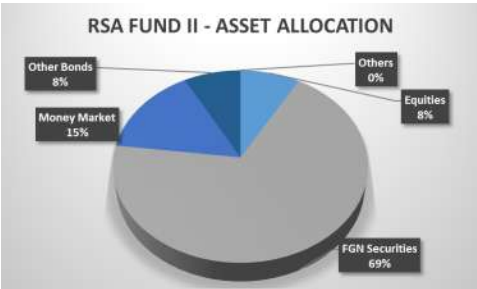
# FEATURED STORIES



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**Dear Esteemed Customer,**

Welcome to the 2019 Q4 edition of the PAL Newsletter.

It's been a great year for all of us at Pensions Alliance Limited and it won't have been possible without YOU.

Thank you so much for your consistent support over the years. In this edition of our newsletter, we have the Economic Review of 2019, the impact on the Funds and information about the ongoing Data Recapture.

We hope you find the information useful. Until next time, We remain Your PAL for Life.  
Happy Reading!



# ECONOMIC REVIEW

## Gross Domestic Product

In Q4 2019, the National Bureau of Statistics (NBS) published the Q3 2019 GDP figures, showing an expansion in economic activities both on a q/q and y/y basis. Activity levels increased by 2.28% y/y in Q3 2019. Non-oil sector growth improved to 1.85% from 1.64% reported in Q2 2019 following improvements in the agriculture and information & telecommunication sectors. Agriculture growth improved due to higher crop production, which may have resulted from a lower incidence of flooding compared to 2018 while the growth in the telecoms sector was driven by an increase in mobile subscribers during the period. The oil sector grew positively for the second consecutive quarter, up 6.49% y/y in Q3 2019. We note that the positive oil GDP growth rate in Q3 2019 was supported by increased daily average crude oil production, which printed at 2.04mbpd; its highest in more than three years. Going forward, we expect to see the full impact of the border closure on GDP numbers in the final quarter of the year with trade expected to slip further into negative territory.

## Inflation

Average inflation climbed to 11.81% in Q4'19 from 11.33% in the previous quarter with the closure of land borders in August by the Federal government being the primary driver of the spike. The effects started filtering through in October when food inflation reached an eighteen-month high of 14.09% following the reduced supply of many staple food items. The trend however continued for the rest of the quarter as food prices continued to drive inflation. Headline inflation therefore reached a twenty-month high of 11.98% in December 2019 and the outlook is for another sizeable increase in next quarter. Nonetheless, headline inflation averaged 11.39% in 2019, lower than the average inflation rate of 12.15% recorded in 2018.

The slowdown in average headline numbers in 2019 relative to 2018 levels was largely supported by high base effect.

## Crude Oil Prices

A rally in the final weeks of December drove crude oil prices to US\$68 per barrel marking a 12.5% increase for the quarter. The US and China's decision to hold-off on December tariffs and OPEC's decision to implement an additional 500,000bpd production cut were the primary drivers. The agreement which was reached between US and China in late December, is expected to be signed in January. Investors across markets including commodities have begun repricing to account for the deal's impact on economic growth. This is very important for the crude outlook as demand concerns had weighed significantly on prices. On the supply side, prices were further boosted by OPEC's decision to implement further rate cuts. Overall, crude oil prices averaged \$64/b in 2019 compared to an average of \$72/b in 2018. This was due to US-China trade spat that lasted for the most part of 2019, which weighed on global growth and by extension, reduced global demand for oil.

## FX Reserves

Nigeria's external reserve declined by 7.4% from the previous quarter to close the year at US\$38.7bn. The decline represented a US\$3.0bn drop in the country's reserves. The country's current account deficit increased in Q3 2019 indicating that imports & services were pacing exports. The trend appears to have continued in Q4 2019, as those conditions in combination with lower foreign portfolio inflows have been the major contributors for the increased pressure in the foreign exchange market. In response, the CBN has intervened regularly in the forex market, these interventions have been the major driver for the reduction in reserves.



Over the next quarter we expect pressure to persist but may be mitigated by the intention of the federal government to borrow N850bn externally from multilateral organizations and development finance institutions.

#### FI Market

Yields in the fixed income space steepened in the last quarter of the year, especially at the short end of the curve, following CBN's exclusion of non-bank financial institutions and individual investors from participating in OMO sales. Bearing in mind that there was significant OMO maturities at this time (c. N5.29tr in Q4 2019), this led to increased liquidity chasing NTB and FGN bond instruments, thus, depressing yields sharply in Q4 2019. This said, yields on the 1yr and 5yr benchmark bonds declined from Q3 2019 average of 13.30% and 14.11% to an average of 11.24% and 12.57% respectively in Q4 2019. Similarly, the 10yr and 20yr benchmark bonds fell on average by 99bps q/q and 69bps q/q to 13.22% and 13.86% respectively.

#### Equities market

Investors sentiment towards the equities market remained weak despite the cheap prices of quality names across the counter. We suspect the lack of clear-cut policies to drive growth, poor operating environment and the general weakness in the domestic macro environment adversely impacted on investor sentiment. This said, in Q4 2019, the NSEASI index stood at -2.85% q/q while our benchmark, the NSE30 gained 2.69% q/q. While we remain quite cautious of the equities market, given the absence of a clear cut policy direction, we do not rule out the possibility for an increase in the flow of funds into the equity space should the current low yield environment persist.

#### Industry News

During the quarter, the industry, led by the National Pension Commission (PenCom) continued stakeholder's engagement on the data recapture exercise to ensure that members' data are up-to-date. Furthermore, following the launch of the Micro Pensions fund in mid-2019, RSA Fund V was created to cater for informally employed and self-employed persons.

#### Content for Fund Manager's Report: Fund I 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.

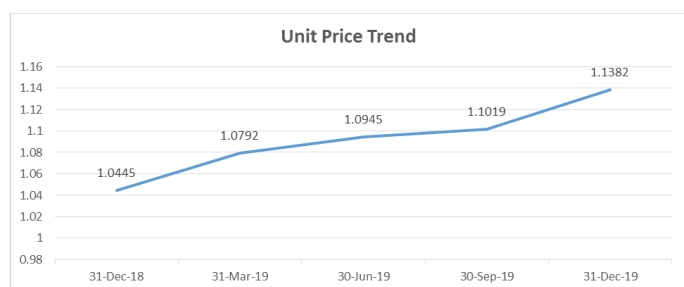
#### Investment Strategy

In line with regulatory requirements for this Fund, we plan to allocate a maximum of 10% of the Fund's assets in a combination of variable income asset (public equities, private equities and infrastructural funds). The portfolio is structured aggressive, and it is actively managed to generate positive alpha.

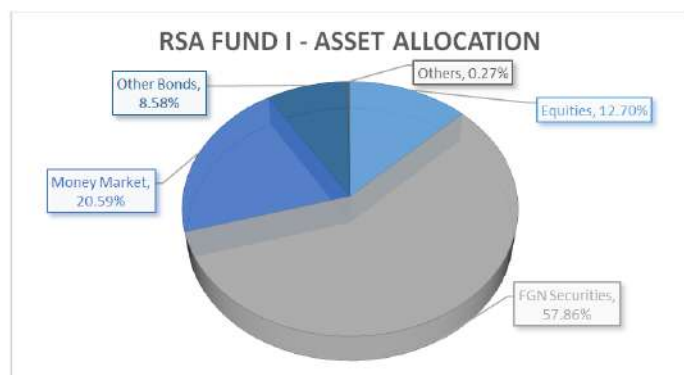


### Trend in Unit Price

This fund ended the period – 31st December 2019 with a unit price of N1.1382 implying an annual return of 8.97% for 2019. The annual return was largely a result of the depressed equities market in 2019 on the back of negative sentiments and low inflow of fresh contributions into the fund which has adversely impacted the fund. In 2020, our focus is to strengthen returns by rebalancing the fund in favor of relatively attractive fixed income securities including corporate bond investments.



### Asset Allocation



### Content for Fund manager report: Fund II 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

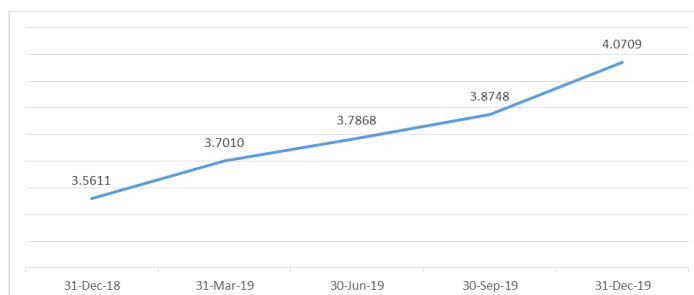
Our strategy entails maintaining a balance of reasonable risk and capital appreciation to achieve long-term capital growth and income generation. As such, a portion of the portfolio is managed actively to generate positive alpha.

### Trend in Unit Price

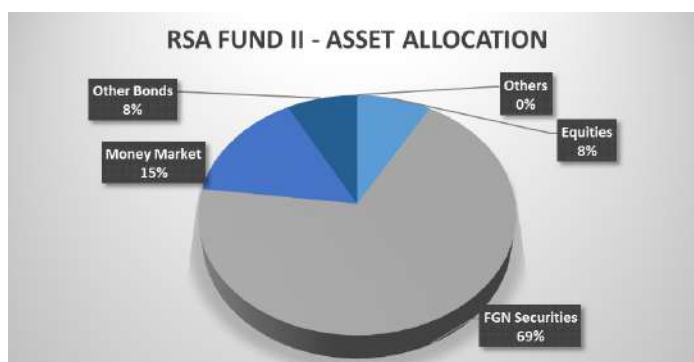
This fund ended the period – 31st December 2019 with a unit price of N4.0709 implying an annual return of 14.31% for 2019. We highlight that the fund's return in 2019 benefited from the high yield environment in the first quarter of the year. However, the decline in yields in the 2nd half of the year and depressed equity market for most of the year negatively impacted return.

Nonetheless, the low yield environment helped to boost fund returns from high Mark-to-Market (MTM) gains on the funds' fair value bond portfolio. In addition, the fund's unit price crossed the N4 per unit milestone within the period.

In 2020, our focus is to strengthen returns by investing in relatively attractive fixed income securities including corporate bond investments whilst bargain hunting stocks with strong fundamentals and exploiting capital gains from existing equity investments. We highlight that in 2019, the fund achieved the significant milestone of reaching a unit price of N4.00. This places us in the league of a few PFAs that have achieved this momentous feat.



### Asset Allocation



### Content for Fund manager report: Fund III Investment Objective

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 exposure to largely fixed income instruments with exposure to variable income instruments capped at 5% to preserve capital, ensure adequate liquidity and minimize downside volatility in fund returns.

# DOCUMENTATION FOR DATA RECAPTURE

In August 2018, the National Pension Commission released the guidelines on Data Recapture for contributors of the Contributory Pension Scheme. All Pension Administrators (PFAs) are required to obtain accurate data of all their (Active & Retired) customers.

The exercise will ensure identification and elimination of multiple registrations from data of both the PFAs and the Commission. PFAs are also expected to obtain the National Identification Numbers (NIN) of the RSA holders to ensure compliance with the National Identity Management Commission's (NIMC) minimum bio-data requirement as well as use the NIN as a unique identifier for Nigerian citizens.

Here are the required documents to take with you for the recapture exercise

## PRIVATE

Staff Identity Card or any one of the following:

- (a) National Driver's License;
- (b) Permanent Voter's Card;
- (c) International Passport.

- Birth Certificate or Declaration of Age
- National Identity Card or Enrolment Slip issued by the National Identity Management Commission (NIMC), indicating the NIN.
- Authenticated Bank Verification Number (BVN), card or any other form of BVN authentication.
- One Passport Photograph on white background

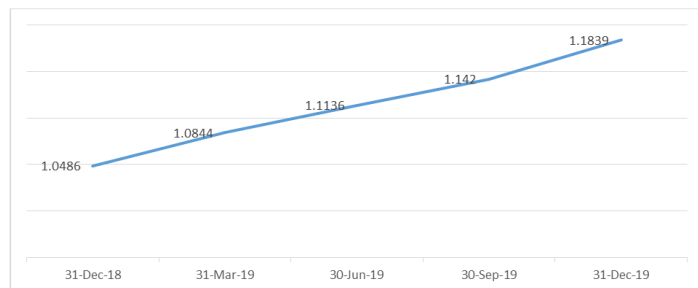
## PUBLIC

- Birth Certificate or Declaration of Age
- Staff Identity Card or any one of the following:
  - (a) National Driver's License;
  - (b) Permanent Voter's Card;
  - (c) International Passport.
- Staff file No.
- Letter of Employment
- White background passport photograph
- National Identity Card or Enrolment Slip issued by the NIMC, indicating the National Identity Number (NIN).
- Authenticated Bank Verification Number (BVN) card or any other form of BVN authentication.



### Trend in Unit Price

This fund ended the period – 31st December 2019 with a unit price of N1.1839 implying an annual return of 12.90% for 2019. We highlight that the fund's return in 2019 benefited from the high yielding environment in the first quarter of the year. However, the decline in yields in the 2nd half of the year and depressed equities market for most of the year negatively impacted return. In 2020, our focus is to strengthen returns by investing in relatively attractive fixed income securities including corporate bond investments whilst maintaining equities exposure around the 2019 closing levels.



### Asset Allocation



### Content for Fund manager report: Fund IV Investment Objective

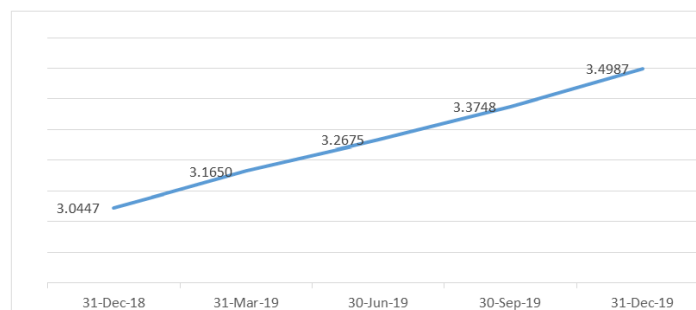
The composition of this fund consists of retired employees from the public and private sector with a low tolerance for risky investment. Hence, the key objective of the fund is to deliver return above inflation, preserve capital and to maintain adequate liquidity in the fund.

### Investment Strategy

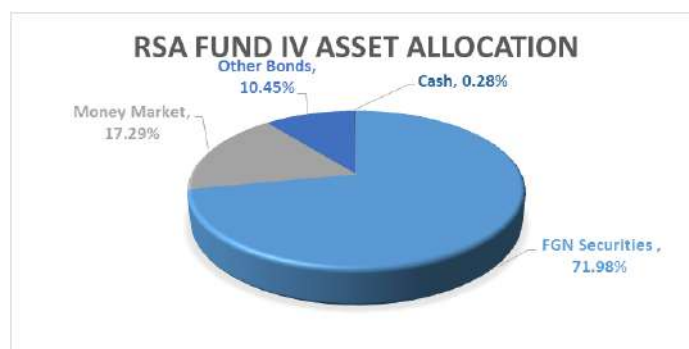
The portfolio would predominantly remain a fixed income fund. It is designed to focus on fixed income and money market assets. Nonetheless, a portion of the Fund will be invested in daily valued fixed income instruments to enhance returns and generate liquidity where necessary. Additionally, a certain 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 period – 31st December 2019 with a unit price of N3.4987 implying an annual return of 14.91% for 2019. We highlight that the fund's return in 2019 benefited from the high yield environment in the first quarter of the year. The fund was well positioned to withstand the challenge of the decline in yields in the 2nd half of the year. . In 2020, our focus is to strengthen returns by investing in relatively attractive fixed income securities including corporate bond investments.



### Asset Allocation





# FREQUENTLY ASKED QUESTIONS

## Why do I not receive SMS alerts regularly?

The SMS alert is sent to notify clients only when contributions have been received from their employer and their RSA's have been credited. If you have changed your phone number, we advise you inform us so we can update your profile on our database in order for you to continue receiving the SMS alert.

## Why do I need to have a "WILL" if I have identified my Next of Kin?

With a 'Will' the process of administering your funds to the beneficiary is made easy as it is a binding legal document by law. A 'Will' eases the stress of the beneficiary having to obtain a letter of administration from the court.



# JUST FOR LAUGHS

An angry wife calls her husband.

**Wife:** Where on earth are you?

**Husband:** Don't be so angry, dear. Remember an old antique store downtown you took me to last week?

**Wife (melting):** Yes, love.

**Husband:** The one where you pointed at a beautiful and quite expensive tiara and told me you really wanted it.

**Wife:** Of course, I do (eyes full of hope).

**Husband:** Well, then don't worry. Because I am in the car repair shop right next to it.

## #DIDYOUKNOWNIGERIA

*Nigeria's population was just 16 million in 1911. It is projected to hit 401 million by 2050, surpassing the US and becoming the 3rd largest in the world.*

