



Q3 2020 Newsletter

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Dear Esteemed Client,

Welcome to the 2020 Q3 edition of the PAL Newsletter.

The events of the past few weeks across the nation has been unprecedented. We are certain the effect has been felt by all. We trust that lives lost would not be in vain.

Thank you for your consistent support from the start of the year. In this edition of our newsletter, we have the Economic Review of 2020, its impact on Funds and enlightening information about personal financial investment.

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

Happy Reading!



Economic Review

Gross Domestic Product

Nigeria's official economic growth figures for the third quarter of this year have not been released but most analysts expect an improvement from the second quarter when the economy shrunk by 6%. The Q2'20 numbers which were released by the Nigerian Bureau of Statistics in August showed that the Nigerian Economy suffered its first contraction since the first quarter of 2017. The major drivers for the contraction were still-subdued oil prices and lower levels of economic activity resulting from nationwide shutdown efforts aimed at containing the Covid-19 pandemic. The oil sector declined 6.6%, after rising 5.1% in the first quarter, amid lower crude oil production (1.81 million barrels per day, down from 2.07 mbpd in Q1 and 2.02 mbpd a year ago). Also, the non-oil sector posted the first decline since the third quarter of 2017 (-6.1% vs 1.6%), as the pandemic hit critical activities such as transportation & storage (-49% vs 2.8% in Q1); accommodation & food services (-40.2% vs -3%); construction (-31.8% vs 1.7%) and internal trade (-16.6% vs -2.8%). On a quarterly basis, the GDP shrank 5%, following a 14.27% plunge in the preceding quarter.

Inflation

Average inflation climbed to 13.25% in Q3 2020, the highest quarterly price increase since Q4 2017, driven by upward price pressure both in the Food and Core sub-indices. Average prices on food items rose on an annualized basis by 16.05% in Q3 2020, faster than 15.08% in Q2 2020. The factors underpinning the rise in inflation include; the inadequate state of critical infrastructure, security challenges across the country, supply chain disruptions due to COVID-19 containment measures,

adverse weather conditions and the weaker exchange rate. The closure of land borders since October 2019 to curb smuggling has resulted in a sharp rise in food inflation, while the CBN's restrictive list of items have added to price pressures. In July, maize was added to the restrictive list for which importers cannot get FX from the central bank, resulting in significant maize shortages and a severe impact on the poultry sector's operations. Flooding in the north-western region of Nigeria have further contributed to rice shortages, destroying thousands of hectares of rice plantations.

Crude Oil Prices

Average crude oil prices rose by 36% q/q to \$42/barrel in Q3 2020. Global oil demand rose 3.4 mb/d month-on-month (m-o-m) in July, as coronavirus restrictions eased and summer holidays in the northern hemisphere supported a rise in transport fuel demand. Another factor supporting prices was the increased compliance from OPEC+ members. Their agreement; the September Joint Ministerial Monitoring Committee (JMMC) commended Nigeria for its improved compliance. However, a second wave of Covid-19 cases and new movement restrictions are now slowing demand growth. Going forward, the outlook for oil demand continues to be constrained by the second wave of the pandemic. Furthermore, there is long term significance in the potential for a sustained increase in production from Libya; data from the IEA shows that there is a possibility for an increase in Libya to increase its production from 0.3 mb/d currently to 0.7 mb/d in December. Libya, being outside the OPEC+ agreement, can produce at the level it wishes.

FX Reserves

Nigeria's external reserves declined marginally by 1.18% q/q to \$35.75bn as at the end of Q3 2020. This was largely as result of the decision of the apex bank to resume selling forex to Bureau de Change (BDC) operators in September. Estimates put the sales to BDCs at around US\$200 million per week. Notably data the NBS released in August, showed that Q2 capital importation plunged by 78.6% YoY to \$1.3 billion, with foreign portfolio investments (c.56.1% of total inflows) collapsing by 90.6% YoY. NBS revealed that the economy experienced its worst trade deficit (N1.8 trillion) in over a decade in the second quarter, partly underscoring the depth of Nigeria's recent currency crisis. The weakness in the trade balance reflected a 45.6% QoQ drop in exports to N2.2 trillion, which offset a 10.7% QoQ fall in imports. Consequently, in the absence of a significant recovery in crude oil prices and barring external borrowings (notably the outstanding (US\$1.5 billion from the World Bank), we expect to see further pressure on FX reserves in Q4 2020.

Equities Market

The Nigerian equities market experienced improved performance in Q3 2020. NSEASI and NSE 30 indices gained 9.61% q/q and 9.16% q/q respectively as depressed yields in the fixed income market swayed investor sentiment towards risky assets. Furthermore, the fact that fundamentally sound names were still trading at depressed levels further stimulated interest in the bourse. In Q3 2020, we expect to continue to witness the market trading at elevated levels as investors seek improved returns. We however highlight that the nation's weakened macroeconomy, slightly improved FX liquidity and the presence of speculative investors might limit significant upside in the market.

Fixed Income Market

Yields in the fixed income space declined across the curve in Q3'20 relative to Q2'20. The biggest decline was observed on the short to mid-end of the curve in the period under review. The decline was largely driven by robust system liquidity. OMO maturity in Q3'20 was significantly higher than OMO action in the same period. Furthermore, we have observed that, despite the increased liquidity in the system and investors' subscription for FGN bond instruments, actual sales have consistently been lower than DMO offer and investors subscription. As a result, this pushed excess funds to the secondary market, thus, leading to yields declining. This said, the yields on the 1yr bill as well as the 5yr and 10yr bond instruments declined on average by 118bps, 333bps and 251bps respectively to 3.18%, 6.40% and 9.80% in Q3'2020.

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 horizon and to generate extra returns for risk seeking investors.

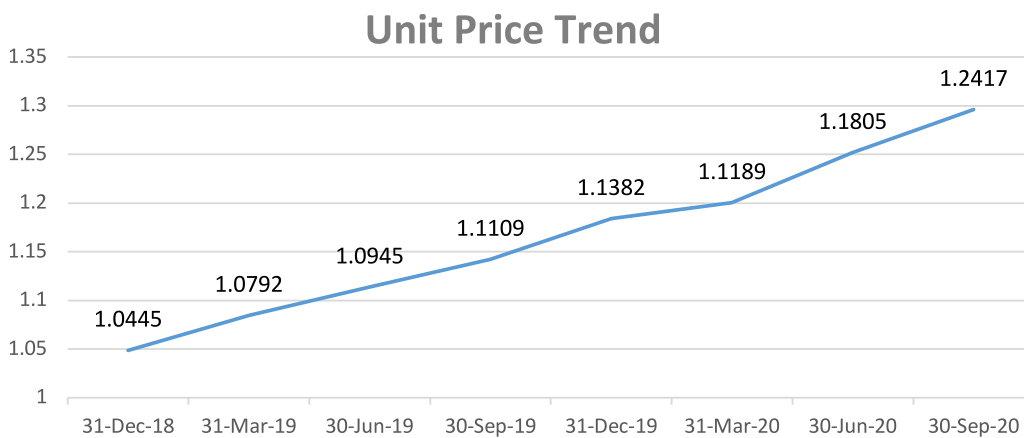
Investment Strategy

In terms of strategy for the rest of the year, we plan to increase allocation to variable income assets; especially public equities given the positive growth we expect from the equities market. The fund is structured as an aggressive portfolio and is actively managed to generate above benchmark returns.

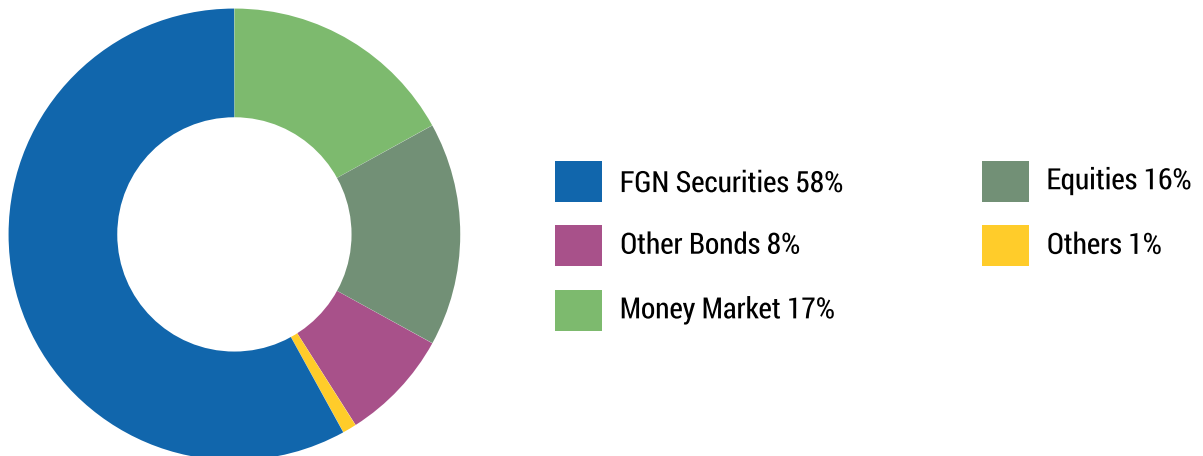
Trend in Unit Price

The fund ended the period – 30th September 2020 with a unit price of N1.2417, a 9.09% return from its closing price in December 2019. We note that the performance was as a result of the strategic shift to increase the equity allocation of the Fund. However, we note that in Q3 2020 depressed economic fundamentals coupled with accommodative monetary policies have led to lower yields for fixed income

securities which has limited the uptick from the equities performance. In Q3 2020, our focus remains to mitigate the impact of the low rate environment on returns by investing in relatively attractive fixed income securities especially corporate bond investments whilst bargain hunting stocks with strong fundamentals and exploiting possible capital gains from existing equity investments.



Asset Allocation



RSA Fund I Asset Allocation

Fund Manager's Report: Fund II

Investment Objective

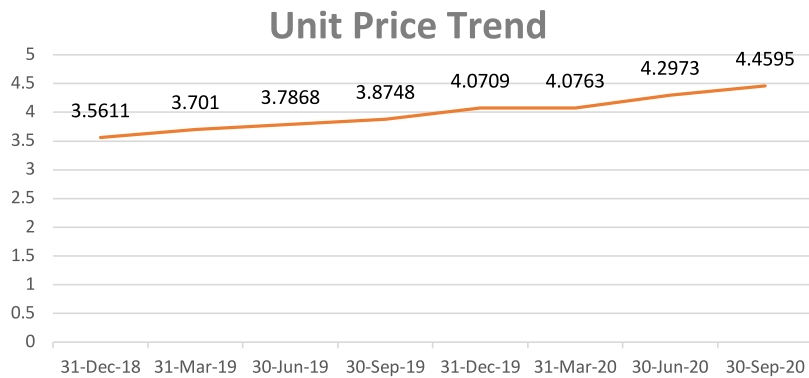
This is the default Fund for contributors aged 49 and below. The key objectives of Fund II are to achieve a positive real rate of return, ensure capital preservation and meet the liquidity requirements of members.

Investment Strategy

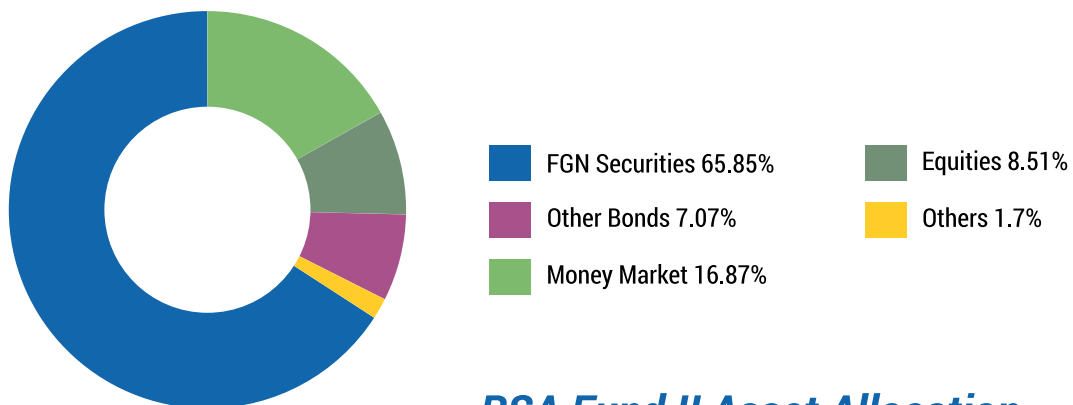
Our strategy entails maintaining a balance of reasonable risk and capital appreciation to achieve long-term capital growth and income generation. As such, a portion of the portfolio is managed actively to generate positive alpha.

Trend in Unit Price

The fund ended the period – 30th September 2020 with a unit price of N4.4595, a 9.55% return from 31st December 2019. In Q3 2020, lower rates across assets was sustained for fixed income instruments with further downward pressure from the sizeable monies in the system. However, the equities market started a reversal on its negative trend & became a key viable option for investors. In Q4 2020, our focus is to manage volatility and ensuring return is consistent on a long-term basis, by investing in relatively attractive investments, whilst capturing capital gains from our fair value portfolio across equities and fixed income securities and positioning for 2021.



Asset Allocation



RSA Fund II Asset Allocation

Fund Manager's Report: Fund III

Investment Objective

The key objectives of the RSA fund III are 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.

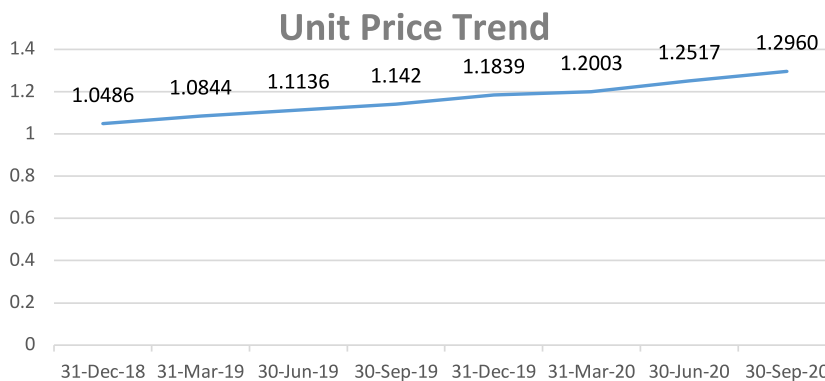
Investment Strategy

Our Strategy is to maintain a 95:5 allocation to fixed income and variable income instruments respectively; with a 3% – 5% range in variable income assets, to preserve capital, ensure adequate

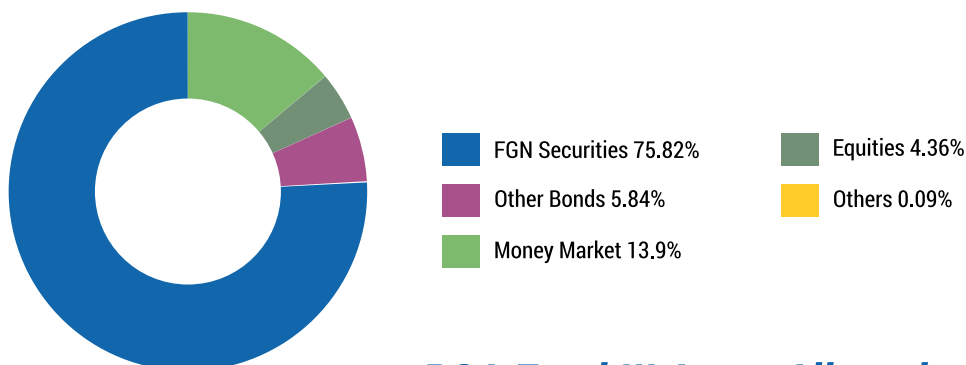
liquidity and minimize downside volatility in fund returns.

Trend in Unit Price

The fund ended the period – 30th September 2020 with a unit price of N1.2960, a 9.47% return from its closing price in December 2019. In Q3 2020, lower rates across assets was sustained for fixed income instruments with further downward pressure from the sizeable monies in the system. However, the equities market started a reversal on its negative trend & became a key viable option for investors. In Q4 2020, our focus is to manage volatility and ensuring return is consistent on a long-term basis, by investing in relatively attractive investments, whilst capturing capital gains from our fair value portfolio across equities and fixed income securities and positioning for 2021.



Asset Allocation



RSA Fund III Asset Allocation

Fund Manager's Report: Fund IV

Investment Objective

The composition of this fund is retired employees from the public and private sector with a low tolerance for risky investment. Hence, the key objectives of this fund is to deliver satisfactory returns to members with below average risk exposure and to maintain adequate liquidity in the fund.

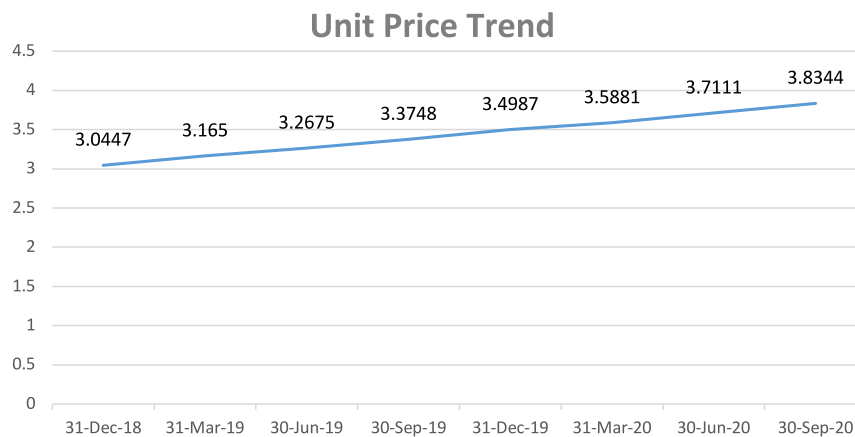
Investment Strategy

The portfolio construct ensures a maximum of 10% investment in variable income assets while other fixed income and money market assets will be managed to maintain a steady return and

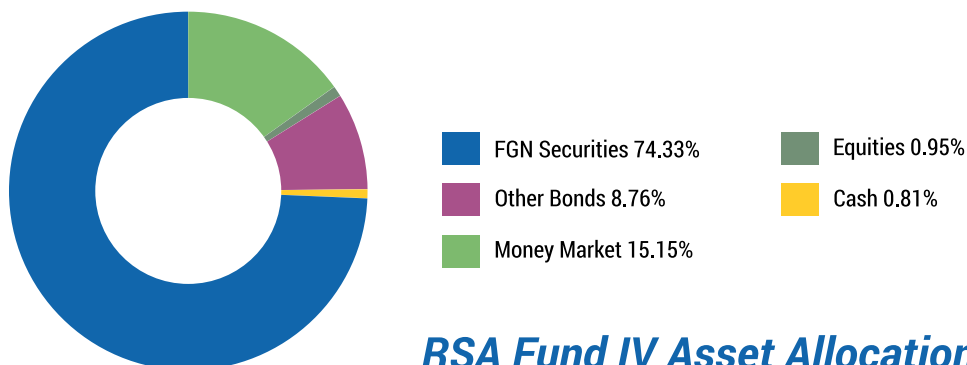
ensure liquidity in the fund. Additionally, some active management strategies will be engaged to drive positive fund performance with minimal volatility.

Trend in Unit Price

The fund ended the period – 30th September 2020 with a unit price of N3.8344, implying a 9.59% YTD return. In Q3 2020, rates on fixed income securities remained low, further pressured by huge bill maturities and relative lack of supply from the DMO. However, the equities market started a reversal on its negative trend & became a key viable option for investors. In Q4 2020, our focus is to manage volatility and to ensure consistent long-term returns, whilst capturing capital gains from our fair value portfolio across equities and fixed income securities.



Asset Allocation



RSA Fund IV Asset Allocation

Investing for the Future



An invaluable lesson learnt worldwide in 2020 is that anything can change in an instant. Situations can change, methods can change. . .lives can change. While one cannot predict what will happen in the future, there are a few things that can be done to limit risk and uncertainty physically, mentally and financially. What are these things?

Those in the medical field will probably advise you to eat right, exercise regularly and surround yourself with great people to stay fit both physically and mentally. But how do you stay fit financially? Here, we have a few tips that can help:

A great method is the diversification of your portfolio. A good practice is not to rely only on the salary you receive but also to create an establishment (small or large) that creates for you a passive income. This can be a business you've always wanted to start or an investment in start-ups with a great potential – with advice from a finance expert. Remember, you are planning for the future and you're not expecting to get rich anytime soon, so patience is required to obtain the prize.

There is a way PAL Pensions can also help you achieve your financial goals. We achieve this by providing you with more money when you retire. Imagine having an increase in retirement benefits! Wouldn't you be more confident about the future? This is exactly what the Additional Voluntary Contribution (AVC) does.

To partake of this opportunity, all you need to do is subscribe to the Additional Voluntary Contribution (AVC) initiative offered by PAL Pensions and watch your savings increase! A great perk of this initiative is that you get to pay less tax on your income!

For more information, email us at info@palpensions.com or contact us on any of our social media platforms.

If you have not subscribed to AVC initiative, now is the time!



Q1: I have just changed employment. What do I do to update my profile?

A1: Simply chat with us or notify us via email at info@palpensions.com. Alternatively, you can update this detail yourself by downloading and installing the PAL Pensions mobile app. You can also access the client login page on our website to carry out the change.

Q2: Why do I not receive SMS alert regularly?

A2: The SMS alert is sent to notify clients only when contributions have been received from their employer and their RSAs 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.



Back in secondary school, I was very poor in math. During exams, I'd get between 2% and 8%. The results used to be announced sequentially, that is from the lowest to the highest marks. So I would always be the first or second to be called out and flogged.

One day, the math results were announced and my name wasn't among the first to be called out.

The teacher got to 30%, 40%, 50%, 60% and 70%, still my paper had not been called out.

Everyone in the class kept looking at me asking, "Johnlex what's up? How did you pass this exam?"

I smiled and said ... "Well, na God o"

By the time the teacher got to 80%, I was already grinning in excitement.

When he got to 90%, he had only one paper remaining. I then asked myself, could I have scored 90% in maths? I was feeling very anxious and happy now. It was obvious my dreams and prayers have been answered.

The whole class was amazed as everyone kept looking at me. It was unbelievable.

Finally, the teacher looked up and said,

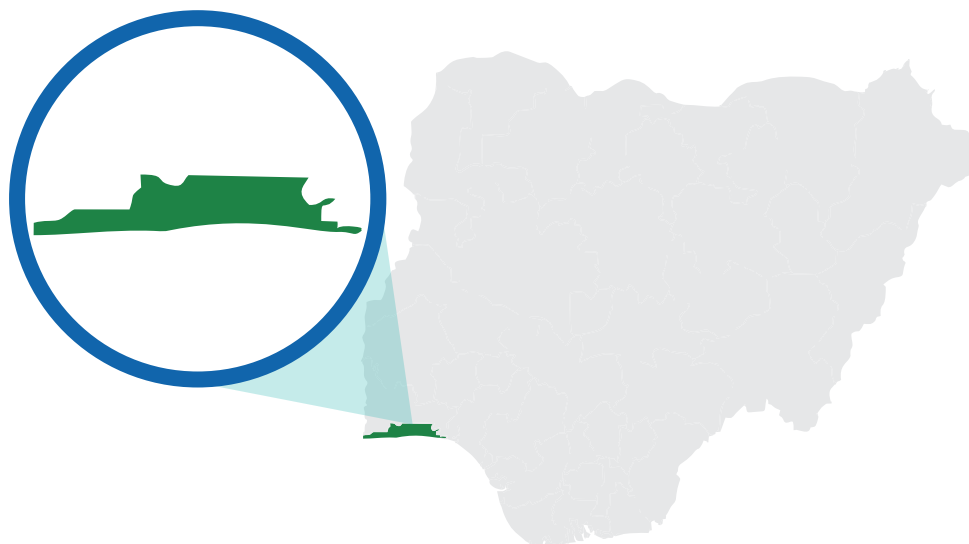
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"One idiot did not write his name on his paper and he scored 0."

I just fainted.....

#DidYouKnow Nigeria



On the night of 20 October 2020, at about 6:50 PM, members of the Nigerian Armed Forces opened fire on peaceful End SARS protesters at the Lekki toll gate in Lagos State, Nigeria. This event is recorded as the Lekki Massacre on Wikipedia – an online encyclopedia.

We are always here for you! ▼

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