

Fund Manager's Report: Fund I

Gross Domestic Product

Q2 2018 GDP grew 1.50% y/y lower than the 1.95% y/y growth recorded in Q1 2018. Growth was largely due to expansion in the non-oil sector which grew by 2.05% y/y. However, the oil sector GDP declined 3.95% y/y. We expect growth to remain positive through the rest of the year.

Inflation

In August, the inflation reading came in at 11.23% as the higher base from the previous year wore off. This is the first year-on-year rise in headline inflation in eighteen months, following consecutive disinflation since 2017. On a month-on-month basis, the headline index rose by 1.05% m/m in August down 0.08% from the previous month. We expect inflationary pressures (such as the recent flooding, election spending and the possible accelerated implementation of the 2018 budget) to filter into year-on-year readings for the rest of the year.

Crude Oil Prices

Crude oil prices have appreciated by over 20% year-to-date with prices averaging \$72.54 in the period. Towards the end of the third quarter however, oil prices rose above \$80 as OPEC & its allies signaled less urgency to boost output despite pressure from the U.S. We expect oil prices to remain close to current levels for the rest of the year as US sanctions on Iran commence in November.

FX Reserves

At the end of Q3 2018, foreign exchange reserves stood at \$44.31bn, a \$6.06bn increase (c. +14%) from its level at the beginning of the year. However, we note that in the third quarter, the reserves declined by \$3.48bn to current levels due to capital outflows by foreign portfolio investors. Nonetheless, we believe that at current levels, the CBN still has the ability to defend the currency.

FI market

In the third quarter, yields largely expanded across the curve by c.140bps on average. The 365-day bill yield rose 115bps, while the 5-yr yield rose 158bps and the 7-yr yield inched 138bps higher. The expansion in yields can be attributed to sell pressure as foreign investors exited their holdings in the period due to the perceived increased risk in emerging markets, as well as the additional political risk premium required.

Equities market

As at the end of Q3 2018, the equities market had declined 14.32% year-to-date; reflective of foreign portfolio outflows. Specifically, the stock market declined 14.40% in the third quarter alone as news of CBN sanctions on MTN and some Nigerian Banks negatively impacted investor sentiment. We expect the market to remain weak as we approach the 2019 elections.

Investment Objective

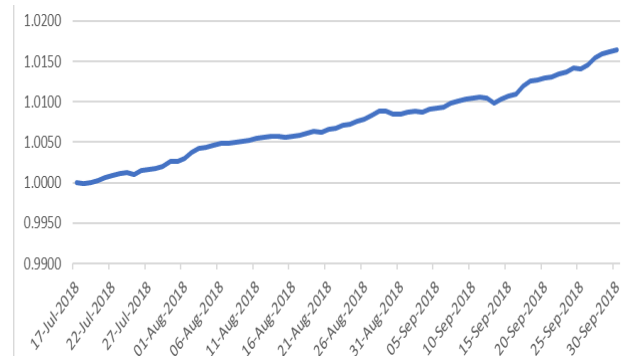
The Fund is the ideal portfolio for relatively young contributors aged 49 and below who are willing and able to bear investment risk. The main objective of the Fund is to achieve a positive real rate of return over a medium to long term and to generate extra return for risk seeking investors.

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.

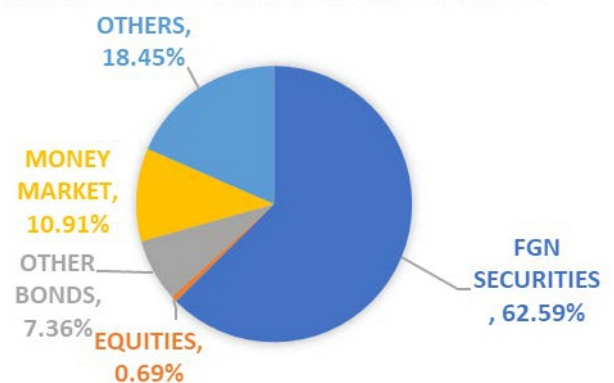
Trend in Unit Price

This Fund commenced on 17th of July at N1.00 and closed 30 September 2018 at N1.0165, implying an actual return of 1.65% over its short period of existence (76 days).



Asset Allocation

RSA FUND I ASSET ALLOCATION



Industry News

These are exciting times as the National Pension Commission released the guidelines for the Micro Pension Plan during the quarter. As such, employees of organizations with less than three employees as well as self-employed persons can now participate in the Contributory Pension Scheme. Please contact us at www.palpensions.com for more details.

Fund Manager's Report: Fund II

Gross Domestic Product

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Investment Objective

This is the default Fund for contributors aged 49 and below. The key objectives of Fund II is 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.

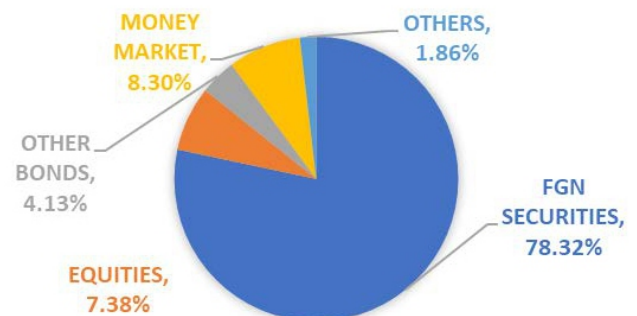
Trend in Unit Price

Following the commencement of the multi-fund regime, two new Funds were created out of this Fund (which prior to now was known as the PAL Value Fund). This fund ended the quarter with a unit price of N3.4687 implying an actual return of 0.74% in Q3 2018 compared to 2.62% in Q2 2018. Wide swings in asset prices (equities & bonds) were largely responsible for the lower returns seen in Q3 2018. Barring any unforeseen circumstances, we expect to see some recovery in the last quarter of the year.



Asset Allocation

RSA FUND II ASSET ALLOCATION



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Fund Manager's Report: Fund III

Gross Domestic Product

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Investment Objective

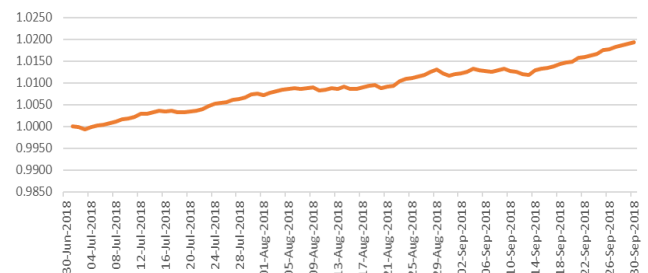
The key objectives of the RSA fund III is to provide real and satisfactory returns to members with very minimal to moderate exposure to risk. The RSA fund III is a conservative fund for contributors who are approaching retirement age (age 50 and above) who typically have low tolerance for risk, short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

Investment Strategy

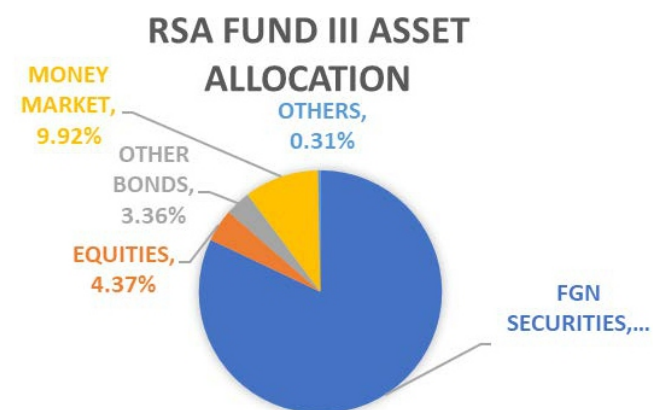
Our Strategy is to maintain a 95:5 allocation to fixed income and variable income instruments respectively to preserve capital, ensure adequate liquidity and minimize downside volatility in fund returns.

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 and ended the quarter with a unit of N1.0193, implying a return of 1.93% in Q3 2018.



Asset Allocation



Industry News

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Fund Manager's Report: Fund IV

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Investment Objective

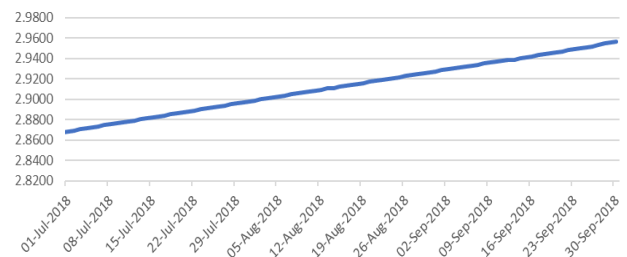
The composition of this fund consists of retired employees from the public and private sector with a low tolerance for risky investment. Hence, the key objective of the fund is to deliver return above inflation, preserve capital and to maintain adequate liquidity in the fund.

Investment Strategy

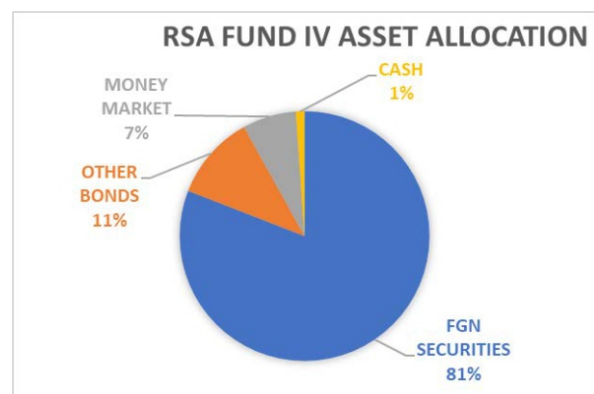
Whilst noting that the current regulation on investment allows us to invest 5% of the Fund assets in variable income securities (e.g. equities), we shall focus on fixed income and money market assets in the short term, to preserve capital and create enough liquidity in the fund. Additionally, a certain portion of the portfolio will be actively managed to help drive fund performance with minimal impact of volatility.

Trend in Unit Price

This Fund was called the Retiree Fund prior to the commencement of the multi-fund fund regime in July. The Fund ended the quarter with a unit price of N2.9570, implying a return of 3.11% in Q3 2018 compared to 3.31% in Q2 2018. The slight drop in return in Q3 2018 was due to the repricing of matured high yield assets from 2017 at relatively lower rates.



Asset Allocation



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