FUND MANAGER'S NEWSLETTER FOR THE MONTH ENDED AUGUST 31st, 2023

1.0 MACROECONOMICS

A flurry of events and macroeconomic publications were out there during the month of August 2023, both on the Global and Domestic scene. Notable global event was the much touted BRICS' nations gathering in South Africa and the invitation extended to five other nations that included; Saudi Arabia, Iran, Argentina, Ethiopia, Egypt, and the United Arab Emirates– into the block, the admission of these nations shall be effective 1st January 2024, and the agreement by top member nations to facilitate some trades amongst them in Yuan as against USD. This is likely to have an impact on the global trade order in the coming months.

On the Domestic scene, the July 2023 Headline inflation numbers jumped by 1.29% to 24.08% while, the Q2 2023 GDP numbers came in slightly higher printing a 2.51% growth, a slight increase from the 2.31% in Q1'23 but down from the 3.54% growth recorded in Q2'22. The sluggish economic growth and faster rising inflation shall continue to provide macroeconomic policy challenges to both monetary and fiscal authorities in the near term.

1. PORTFOLIO PERFORMANCE:

2.1 Funds Performance

Overall performance in the Equities market remained decent. However, this was driven by few tickers predominantly in the Consumer Goods sector during the reporting period. On the other hand, Available-for-Sale (AFS) bond portfolio struggled during the same period as Bond yields rose as Inflation metric continued to tick higher as highlighted above. These developments resulted in different performances on our various funds in comparison with the previous month's outcome. Specifically, while Funds I and II did better than the previous month's performance, Funds III and IV were slightly below what they did in July 2023.The Month-on-month (MoM) return on our RSA Funds I, II, III and IV came in at 2.203%, 1.535%, 1.150% and 0.947%, as against the previous month's return of 1.930%, 1.484%, 1.154% and 0.951%, respectively.

2.2 Equities

Although most large cap Consumer Goods stokcs posted significant foreign exchange losses, the announcement of the Merger between Dangote Sugar and NASCON coupled with the impressive run in Transcorp PLC were largely responsible for the big move observed on the Nigerian bourse during the reporting period. Furthermore, given our outlook on the Equities market, we added Equities exposure to our Fund IV during the reporting period.

Meanwhile, the NGX ASI advanced 3.44 % in the month of August 2023, while the NGX Pension Index (our benchmark) advanced 2.86%. The Equities portion of our RSA Funds (which mirror the NGX Pension Index) recorded returns of 7.79%, 4.59% and 5.28% on RSA Funds I, II & III respectively as against prior month's returns of 16.35%, 16.28% and 15.23% on RSA Funds I, II, & III respectively). The Fund IV exposure to Equities asset class gained 9.88% during the period.

2.3 Fixed Deposit

The level of system liquidity shrunk by 49.6% MoM to print at N360.9 billion owing to the resumption of OMO activities (N150.0 billion worth of papers issued) by the CBN and Primary Market Auction (PMA) issuances of about N437 billion coupled with some CRR debits by the CBN. These kept yields at elevated levels within the period.

Conversely, at the last NTB auction, the FG offered bills worth N303.22 billion across the 3M (N9.96 billion), 6M (N10.21 billion), and 1yr (N283.04 billion) tenors. Demand pared down relative to the last auction although still very healthy, as subscription levels came in at N1,543.16 billion, translating to a bid to offer of 5.1x, versus 5.4x previously. Consequently, the stop rates across the three tenors, 91-day , 182-days and 364-days closed higher by 19bps, 210bps and 417bps to print at 5.19%, 8.00%, and 13.97% respectively. The average yields on our new Fixed Deposit placements came in at 12.61%, 13.84%, 13.04% and 13.01% as against the prior month's return of 16.49%, 16.49%, 16.49% and 16.47% on RSA Funds I, II, III and IV respectively. The benchmark, 90-day NITTY, averaged 3.02% over the same period.

2.3.2 FGN Bonds

The Average FGN Bond benchmark yield moved higher by 94bps to pringt at 14.43%, at the end of August 2023. While the average AFS Bond benchmark prices declined by 3.8% over the reporting period, impacting negatively on the AFS Bond portfolio of the funds.

At the monthly FGN Bond auction, the Debt Management Office (DMO) reopened the FGN 2029, FGN 2033, FGN 2038 and FGN 2053 maturities. Notably, the stop rates on all four maturities; printed higher at; 13.90% (previously 12.50%), 15.00% (previously 13.60%), 15.20% (previously 14.10%), and 15.90% (previously 14.30%) on the FGN 2029, FGN 2033, FGN 2038, and FGN 2053 maturities respectively. Across tenors, the bid to cover ratio stood at 0.1x, 0.1x, 0.6x and 2.71x for the FGN 2029, FGN 2033, FGN 2038 and FGN 2053 respectively. Meanwhile, the average yield on new Bond purchases across RSA Funds I, II, III & IV came in at 15.41%, 15.10%, 15.61% and 15.31% as against the prior months' yield of 14.11%, 14.00%, 14.14% and 14.12% respectively.

3.0 OUTLOOK

All eyes will be fixed on the US Fed as investors continue to bet that the largest economy is on the verge of pausing on interest rate hikes given the recent decline in inflation metric, although the figures remain higher than the 2% inflation target. The outcome of the next FOMC meeting is likely to have an impact on the direction of interest rate and exchange rates across geographies as monetary authorities seek to maintain stability in their various domestic economies.

After the report of Morgan Stanley that depicts that the nation's net foreign exchange reserves is c. US$3.5 billion, the response of the CBN and fiscal authorities at resolving the lingering foreign exchange scarcity in the domestic economy will determine how macroeconomic variables turnout, and how domestic financial markets perform in the near term.

3.1 Equities

Some H1'23 audited accounts of some banks are yet to be published. These are expected to still have an impact on the the banking sector specifically in the near term. Meanwhile, the impact of foreign exchange movement in the economy is still weighing on the performance of the Non finanacial sector, given the huge foreign exchange losses booked at the end of H1'23. How the domestic currency moves and the level of availablilty of foreign currency in the near term is likely to impact this sector in the coming months. In the face of structural reforms being implemented, the outcome of Q2'23 GDP figures was not as horrible as anticipated given the big move in PMS prices and the harmonization of foreign exchange rate that led to a significant devaluation of the domestic currency. However, how the CBN put up structures around the foreign exchange regime to ensure availability will go a long way to define how this asset class performs in the near term.

3.2 Fixed Income

With the Headline Inflation still rising, we expect the long end of the yield curve to remain anchored around the 16% mark. We expect the yield curve to continue to hover between inversion and normalcy as we expect 1-year T-bill rates to remain volatile spiking as high as where OMO yields are and downshifting to lower levels depending on the level of liquidity in the financial system, as the CBN continues to implement irregular Loan-to-Deposit (LDR) and Cash Reserve Ratio debits to control system liquidity.

3.3 Alternative Investments

Although the level of activities on this asset class remains low, we have observed more funds managers showing their interest in raising capital on this asset class . On the back of this development, we remain optimistic that we are likely to witness increased activities on this asset class in the coming months, as the overall structure of the economy is expected to record a shift that will have an impact on the future expected returns across each asset class.

Table 1: Nigerian Equities Market Return Vs. Equity Portfolio Return						
Period	**NGX ASI**	**NGX Pension**	**Fund I**	**Fund II**	**Fund III**	**Fund IV**
August 2023	3.44%	2.86%	10.30%	6.37%	5.05%	9.88%
July 2023	5.53%	5.62%	7.79%	4.59%	5.28%	N/A
June 2023	9.32%	16.14%	16.35%	16.28%	15.23%	N/A
May 2023	6.42%	17.54%	17.23%	18.27%	16.86%	N/A
April 2023	-4.47%	-0.80%	0.01%	-0.32%	-0.26%	N/A

Sources: Bloomberg and FCMB Pensions

Table 2: Money Market Return against Benchmark					
Period	**90-Days Nibor**	**Fund I**	**Fund II**	**Fund III**	**Fund IV**
August 2023	12.72%	13.22%	13.50%	13.14%	12.87%
July 2023	9.83%	12.61%	13.84%	13.04%	13.01%
June 2023	12.38%	16.49%	16.49%	16.49%	16.47%
May 2023	13.78%-	13.21%	13.51%	13.61%	13.37%
April 2023	15.49%	14.01%	16.20%	14.60%	15.55%

Sources: Bloomberg, FMDQ and FCMB Pensions

Table 3: Treasury bills Return Against Benchmark						
Period	**Av. 90days NITTY**	**Av. 180days NITTY**	**Fund I**	**Fund II**	**Fund III**	**Fund IV**
August 2023	5.03%	7.07%	NA	NA	NA	NA
July 2023	3.02%	4.28%	NA	NA	NA	NA
June 2023	4.30%	5.55%	NA	NA	NA	NA
May 31st 2023	5.05%	6.25%	NA	NA	NA	NA
April 2023	6.18%	8.19%	NA	NA	NA	NA

Sources: Bloomberg, FMDQ and FCMB Pensions

Table 4: Bond Returns Against Benchmark					
Period	**FMDQ FGN Bond Index (Av. Yield)**	**Fund I**	**Fund II**	**Fund III**	**Fund IV**
August 2023	14.43%	15.23%	15.45%	15.50%	15.47%
July 2023	13.49%	14.11%	14.00%	14.14%	14.12%
June 2023	14.00%	15.41%	15.10%	15.18%	15.31%
May 2023	14.30%	15.73%	15.74%	15.67%	15.74%
April 2023	14.28%	15.5940%	15.5942%	15.5944%	15.5942%

Table 5: Portfolio Structure as at August 31st 2023

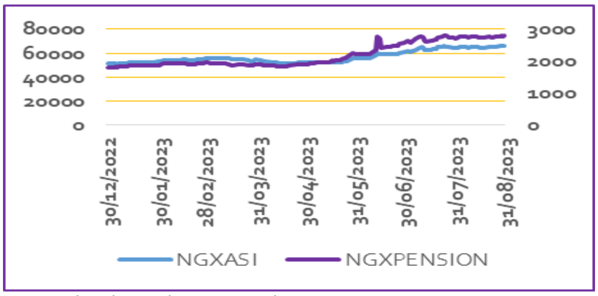
Securities	**Fund I**	**Fund II**	**Fund III**	**Fund IV**
Cash	3.25%	0.10%	0.27%	0.27%
Commercial Paper	9.80%	4.28%	5.88%	7.40%
Corporate Bonds	12.22%	11.96%	12.85%	16.16%
Ordinary Shares	15.47%	13.34%	5.38%	0.87%
Federal Government Securities	50.26%	61.23%	67.33%	69.25%
Hybrid Funds	0.00%	0.44%	0.12%	0.00%
Private Equity	0.00%	0.56%	0.00%	0.00%
Infrastructure Fund	0.38%	2.29%	0.00%	0.00%
Treasury Bills	0.00%	0.00%	0.00%	0.00%
Money Market-Banks	6.57%	2.46%	4.88%	3.28%
Real Estate Investment Trust-	0.00%	0.00	0.00%	0.00%
State Government Securities	0.66%	2.21%	2.11%	1.88%
SupraNationl Securities	1.11%	0.29%	0.27%	0.29%
Promissory Notes	0.29%	0.83%	0.92%	0.61%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Source: FCMB Pensions

Table 6: Month on Month Returns on Funds				
PERIOD	**FUND 1**	**FUND 2**	**FUND 3**	**FUND 4**
August 2023	2.20%	1.54%	1.15%	0.95%
July 2023	1.93%	1.48%	1.15%	0.95%
June 2023	2.98%	2.42%	1.58%	1.04%
May 2023	2.83%	2.57%	1.54%	0.93%
April 2023	0.80%	0.81%	0.88%	0.95%

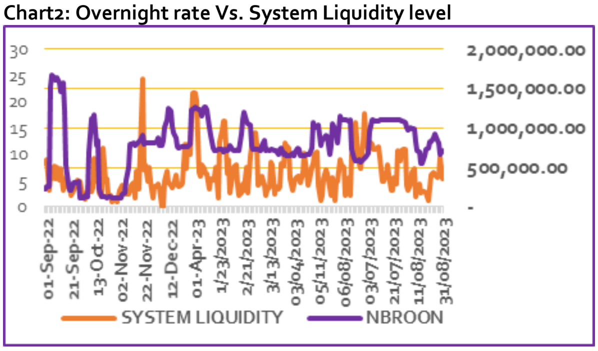
Source: FCMB Pensions

Chart 1: Price Trend of the NGX ASI & NGX Pension Index



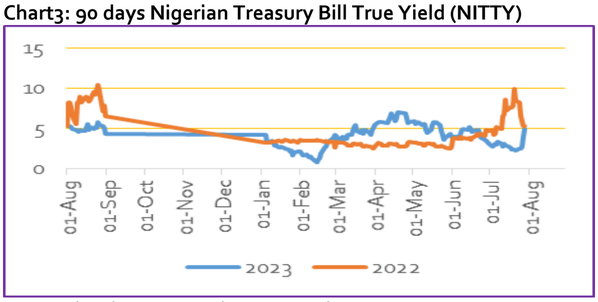
Sources: Bloomberg and FCMB Research

Chart2: Overnight rate Vs. System Liquidity level



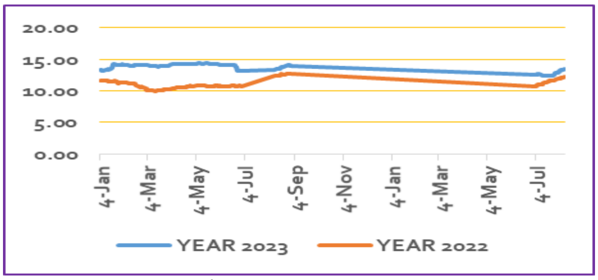
Sources: Bloomberg, FMDQ and FCMB Research

Chart3: 90 days Nigerian Treasury Bill True Yield (NITTY)



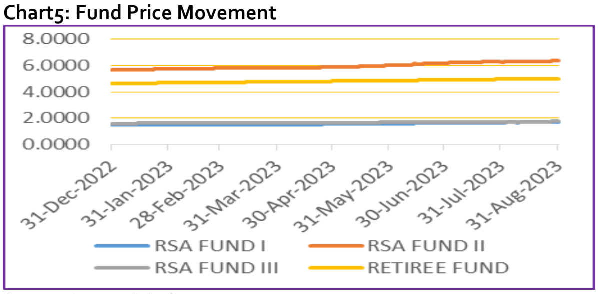
Sources: Bloomberg, FMDQ and FCMB Research

Chart4: Average FGN Bond Yield Movement



Source: FMDQ, FCMB Research

Chart5: Fund Price Movement



Source: FCMBPENSIONS