PAL pensions

PENSIONS ALLIANCE LIMITED®

Review of the Nigerian Economy Q2 2018

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Dear Esteemed Customer,

It is amazing how time flies' past, the first quarter of the year is already gone. Wow! Against all odds, it been a positive year thus far, and we are confident that the momentum will be sustained all through the year.

In our last edition, we discussed the economic realities of the country from the past year, as well as, our outlook for the first quarter of this year. As a nation, we appear to be on the right track. We are gradually finding our way out of the shores of recession we sailed into last year.

In this edition, we give a review of the Nigerian economy in the first quarter, updates on our fund performance. We have also included information on the other exciting things we have been up to as a company. We are certain you will find this an interesting read.

As is our culture, we welcome your suggestions and contributions on how best we can meet your expectations.

Kindly reach us on 01-2776900 or send an email to info@palpensions.com

Do enjoy your read.

Review of the Nigerian Economy (Q2 2018)

Crude oil prices

Crude oil price appreciated from an average price of US$71.76/pb in April 2018 to US$75.67/pb on average in June 2018 due tocontinued compliance among OPEC members and some non-OPEC countries in curtailing global oil production and stronger growth in global oil consumption. However, more recently, oil prices have declined following the agreement by OPEC and its allies to ease production limits by adding 600,000 to 700,000 barrels a day of crude to the market over the next six months to make up for production disruptions in Iran and Venezuela.

On oil production, the federal government's mollification of militants in the Niger Delta appears to be yielding fruit with no reports of pipeline vandalization in the first half of the year. Oil production remained largely stable in the first half of the year, averaging 1.77m b/d (OPEC cap at 1.8m).
We expect the relative calm in the Niger Delta to persist through the second half of the year as the government maintains its modus operandi in the region.

Forex Reserves

Nigeria's forex reserves increased by **US$1.53bn** from **US$46.26bn** at end of March 2018 to US$47.79bn as at the end of June 2018. The accretion in reserves was likely on the back elevated crude oil receipts following the uptick in oil prices and domestic production during the period.

As at June 2018, the reserves provided cover for 14 months of imports and payments. We note that foreign portfolio investors have also provided some support with foreign portfolio flows totaling about US$6.7bn in the first half of the year (H2 2017: US$7.4bn).

Inflation

In line with our expectations, the disinflationary patterns continued in Q2 2018 with headline inflation averaging 12.05%[1] compared to 16.53% in Q2 2017. Largely reflective of base effects, CPI readings slowed to 11.61% in May (the lowest level in over two years).

Monthly inflation however rose to 1.09% (+25bps m/m), rising above 1% for the first time in nine months. In May, core inflation slowed to 10.71% y/y, down from 11.18% y/y at the end of March 2018 on the back of lingering base effects from electricity and fuel price hikes in the previous year.

Furthermore, food inflation slowed further to 13.45% y/y (vs. 16.08% at the end of March 2018) given continued stability in FX and improved food production with monthly readings averaging 1.12%[1] in Q2 2018 down from 2.19% in Q2 2017. Despite the moderation in food inflation, ongoing clashes in agrarian communities in Benue and Taraba state pose significant upside risk to food inflation.

Monetary Policy

Despite strong declines in inflation since year-start, the MPC voted to leave monetary policy unchanged at its two meetings in April and May 2018.

Consequently, the monetary policy rate (MPR) was maintained at 14% with the asymmetric corridor at +200 and -500 basis points around the MPR. The Cash Reserve Requirement (CRR) and Liquidity Ratio (LR) were also retained at 22.50% and 30% respectively.

According to the CBN governor, the decision to maintain status quo was largely due to expectations for higher system liquidity in H2 2018 (due to pre-election spending and the governments expansionary fiscal policies) which could push inflation up and concerns that a rate cut might trigger the outflow of portfolio funds.

Stock market

The All Share Index (NSE ASI) declined -7.77% in the second quarter as bearish market sentiments driven by large sell off of emerging market equities continued to drag market performance. Year-to-date performance of the benchmark index at the end of H2 2018 stood at 0.09%.

Aiding bearish sentiments have been the marked decline in foreign portfolio inflows and increased outflow of funds from the equities market in the period despite the strong rally in global crude oil prices. This we believe is as a result of the recent hike in the US Fed rate and foreign investors taking an increasingly cautious stance as the 2019 general elections draw nearer. We believe the continued sell off in the equities market presents a good entry opportunity for investors.

Fixed Income Market

Yields increased 200bps - 400bps (mom) at the long end largely as a result of increased sell off by foreign portfolio investors moving away from the “risker” emerging markets to chase higher interest rates in the U.S.

We highlight that yield contractions were relatively more significant at the shorter end of the curve with the 364-day note contracting by 512bps compared to the 46bps average contraction in the short to medium term bonds. On the other hand, the 20-year bond yield expanded by 152bps to 13.90% as at end of June 2018.

We expect yields to remain close to current levels as we head towards the elections. Consequently, we anticipate a pick-up in yields towards the end of the year as increased political risks likely fuels a sell-off in the fixed income market by off-shore investors.

We note however, that a faster than anticipated rise in inflation readings in the US could lead to an earlier than expected sell-off of Nigerian fixed income assets.

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from
US$46.26bn
at end of March 2018

The New Multiple Fund Structure (Part 2)

Introduction

The New Multi-Fund Structure has finally commenced on 1stJuly, 2018 as earlier stated in our third quarter newsletter of 2017. The two-fund system operated by Pension Fund Administrators where Retirement Savings Account was invested under RSA Active Fund (Active Contributors only) and Retiree Fund (for retirees only) has paved way for the New Multi-Fund Structure with four types of funds (Fund I, II, III, and IV).

The aim is to align the age and risk profile of RSA holders by dividing the RSA Fund into three Fund types while retaining the single Retiree fund.

What are the different Fund Types?

- Fund I – This is an optional fund meant for contributors aged 49 and below. Contributors must write formally to opt for this Fund.
- Fund II– This is the default fund for contributors aged 49 and below.
- Fund III–This is the default fund for contributors aged 50 and above.
- Fund IV– This is the Retiree Fund. (For Retirees only)

Benefits of the New Multi-Fund Structure

To achieve optimum returns for contributors by aligning the portfolios with their individual.

Increase safety of pension fund investment by diversification of pension fund portfolios.

Increase investment in Alternatives Assets.

Provide greater choice and control to contributors.

How it Works and Your Choice Clients

All RSA holders have been grouped to different funds type accordingly to their age as earlier stated.

All retirees will remain in Fund IV while client in the usual RSA Active Fund have been classified into Fund II and III.

However, clients in Fund III can move to Fund II and clients in Fund II can also move to Fund I. Contributors that wish to move to a new Fund shall do so in accordance with Section 7.3 of the Regulation on Investment of Pension Fund Assets dealing with Active Choices.

RSA holders shall be required to indicate their choice in writing to the PFA. The PFA shall thereafter transfer/buy into the indicated Fund at the opening value of an Accounting Unit of the Fund on the date of transfer.

A Contributor may migrate from one Fund to another a maximum of twice in a calendar year. The first transfer in a calendar year shall be at no cost to the contributor, while any subsequent transfer in the same calendar year shall be at a flat rate of N1,000.00.

Conclusion

The choice to move from one fund to another should be based on clients understanding of the various risk and returns associated with the intending fund type he/she is wants.

For more enquiries visit our website for details on the Multi- Fund Structure or talk to any of our relationship managers.

FREQUENTLY ASKED QUESTIONS

PENSION CONTRIBUTION ON MY PAY SLIP IS DIFFERENT FROM THAT ON THE STATEMENT FROM MY PFA?

Your RSA is credited with contributions as received from your employer.

If you are a Federal Government employee, the National Pension Commission (PENCOM) remits on your behalf and has advised that such complaints be directed to them for verification and correction through Pension Desk Officer (PDO).

Private sector employees should revert to the company HR/Accounts department for verification of contributions.

JUST FOR LAUGHS

The Interview

Employer: How long did you work during your last job?

Candidate: 30 years

Employer: What's your age?

Candidate: 20 Years

Employer: You are 20 and have 30 years experience. How is that possible

Candidate: Overtime:

Culled from the internet

#DIDYOUKNOWNIGERIA

Nigeria boasts in being the most suitable habitat for the world's largest diversity of the kost colorful creatures – the butterflies.

It is widely believed that the areas surrounding Calabar, Cross River State in the Southern part of the country harbors the world's largest diversity of butterflies.

Thank you for reading......PAL Pensions; Your Pal For Life!