2019 Q3 NEWS LETTER

PAL pensions
PENSIONS ALLIANCE LIMITED®

Dear Esteemed Customer,
Welcome to the 2019 Q3 edition of the PAL Newsletter. This quarter has been very eventful and busy for us as a company, industry and nation.

Our erstwhile Managing Director, Mrs. Morohunke Bammeke, concluded her term with effect from 3rd October 2019. Mr. Godwin Onoro, Executive Director of Finance and Operations since 2013, has been appointed as Acting Managing Director to steer the affairs of the company, until a new substantive Managing Director is announced.

The change in leadership will not affect our regular business processes or operations, and we remain committed to delivering competitive returns on your retirement savings, while ensuring that you 'retire with a smile'.
Happy Reading!

Content for Fund manager report: Fund I

Gross Domestic Product

In Q3 2019, the National Bureau of Statistics (NBS) published the Q2 2019 GDP figures, which showed a return to growth in the Oil sector whereas growth in the Non-Oil sector came in at its lowest level since Q1 2018. The Oil sector grew by 5.15% y/y in Q2 2019 after four consecutive quarters of negative growth.

We opine the growth recorded in the Oil sector may have been largely due to lower production levels in Q2 2018, as average daily crude oil production printed at 1.98mbpd in Q2 2019, higher than the 1.84mbpd average crude oil production in the corresponding period in 2018 but lower than the 1.99mbpd recorded in Q1 2019. In the Non-Oil sector space, we saw slower growth in Q2 2019 both on a q/q and y/y basis.

The Non-Oil sector grew by 1.64% y/y in Q2 2019 compared to a growth of 2.05% y/y and 2.47% y/y in Q2 2018 and Q1 2019 respectively. The y/y growth recorded was supported by Agriculture and Services while Trade and Manufacturing numbers came in disappointing.
Inflation

Average inflation in Q3 2019 continued to moderate, declining by 25bps q/q to 11.05%. Since June 2019, we have observed sustained deceleration in headline numbers, largely supported by slower rise in Food prices which has complemented the continued moderation in the Core sub-index that has been noticed since the start of the year.

In July and August 2019, price increases in the food sub-index moderated by 17bps y/y and 22bps y/y to 13.39% and 13.17% respectively. Similarly, we saw moderation in food prices on a m/m basis. We attribute the cooling in Food prices to the ushering in of the green harvest season since mid-May 2019. This may have improved the supply of food crops, hence leading to a decline in food prices.

Furthermore, weak consumer spending, a reflection of the largely uninspiring macroeconomic environment, may have also been a part contributor to the reduction in food prices. With regards to the Core sub-index, relative stability in PMS prices and exchange rate continued to support price moderation in this index. In July and August 2019, the Core sub-index declined by 4bps y/y and 12bps y/y to 8.80% and 8.68% respectively. Consequently, July and August headline numbers printed at 11.08% and 11.02% respectively, the lowest level since January 2016.

Crude Oil Prices

In Q3 2019, crude oil prices declined by 8.67% from its closing price of US$66.55/pb as at 28th June 2019 to US$60.78/pb, having peaked year to date at US$74.57/pb sometimes in April 2019. However, average crude oil prices printed at US$62.03/pb in Q3 2019 compared to an average of US$68.47/pb in Q2 2019.

The moderation in average crude oil prices during the quarter may be attributed to the deterioration in the global economy, which has casted a gloomy outlook on global crude oil demand, hence hurting prices. Although the attack on Saudi Arabia's crude oil facility on the 14th of September 2019 provided short term support for crude oil prices, the facility was restored sooner than anticipated with investors turning their searchlight on what the US-China trade meeting scheduled to hold in October would turn out like.

FX Reserves

We have started to see significant pressures on the nation's FX reserves as the CBN ramps up its intervention in the FX space amidst significant OMO maturities and possible FX outflow from FPIs.

On a q/q basis, the FX reserves dipped by 7.14% to $41.85bn, its biggest quarterly loss in recent times as well as a turnaround from the 1.44% q/q and 3.04% q/q gains it posted in Q2 2019 and Q1 2019 respectively. Compared to Q2 2019, foreign portfolio inflow dipped by about 45% in Q3 2019 to $2.27bn, as investors globally exercise caution with regards to investments in frontier and emerging markets like Nigeria.

This combined with FX outflow as reflected in the pressure on the Naira in the IEFX window which depreciated to an average of N362.13 in Q3 2019 from an average of N360.60 in Q2 2019 mounted downward pressures on reserves.

FI market

In Q3 2019, yields in the fixed income space was bullish along the curve with bearish tilt at the very short end and the very long end of the curve. While the yields on the 1yr, 5yr and 10yr benchmark bonds fell by 35bps q/q, 26bps q/q and 30bps q/q respectively to 13.30%, 14.11% and 14.21% the yield on the 20yr benchmark bond increased by 41bps q/q to 14.54%. However, we note that we have started to see some bearish trend since late August 2019 through to September 2019 as significant OMO maturities and the possibility for FPI outflow coupled with the increasingly unpredictability in crude oil prices necessitates the CBN to adopt tightened monetary stance to defend the Naira against major currencies of the world.

Equities market

Investor 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 may have adversely impacted on investor sentiment.

This said, in Q3 2019, the NSEASI index stood at -7.80% q/q whilst our benchmark, the NSE30 stood at -8.66% q/q. We expect the equities market to remain volatile going forward in the absence of fiscal policy direction.

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.

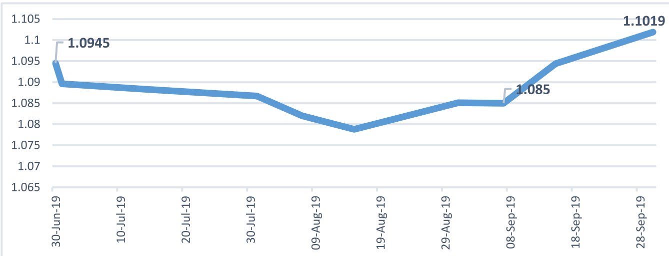
Investment Strategy

In line with regulatory requirements for this Fund, we plan to hold between 7.5% – 10% proportion 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.

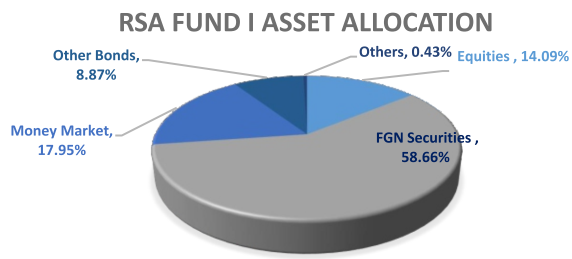
Trend in Unit Price

This fund ended the period - 30th Sept 2019 with a unit price of N1.1019 implying a return of 5.50% (Annualized return of 7.41%) as at Q3 2019.

The return year to date has been relatively low, largely as a result of negative sentiments in the equities market and low inflows of fresh contributions into the fund which has adversely impacted the fund. In Q4 2019, our focus is to strengthen returns by investing in high yielding fixed income securities including corporate bond investments whilst capturing pockets of capital gains from our equity investments.



Asset Allocation



Industry News

During the quarter, the National Pension Commission (PenCom) released a draft regulation on Life annuity for retirees. It is a joint regulation with NAICOM and we expect this to change the dynamics of the relationship between the Insurance and Pension administration industries.

This regulation is targeted at retirees and will include new modalities on movement of funds upon retirement to annuity. We expect PenCom to finalize and release the document in the coming months.

Content for Fund manager report: Fund II

Gross Domestic Product

In Q3 2019, the National Bureau of Statistics (NBS) published the Q2 2019 GDP figures, which showed a return to growth in the Oil sector whereas growth in the Non-Oil sector came in at its lowest level since Q1 2018. The Oil sector grew by 5.15% y/y in Q2 2019 after four consecutive quarters of negative growth.

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FI market

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Investor 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 may have adversely impacted on investor sentiment.

This said, in Q3 2019, the NSEASI index stood at -7.80% q/q whilst our benchmark, the NSE30 stood at -8.66% q/q. We expect the equities market to remain volatile going forward in the absence of fiscal policy direction.

Investment Objective

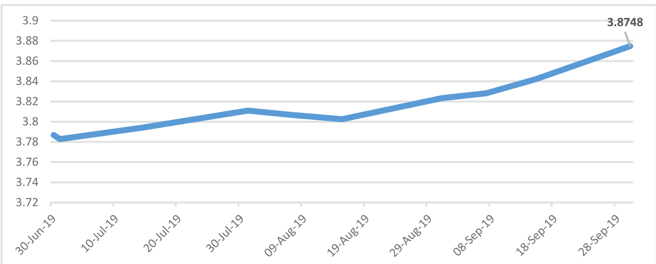
This is the default Fund for contributors aged 49 and below. The key objectives of Fund II are to achieve a positive real rate of return, ensure capital preservation and meet the liquidity requirements of members.

Investment Strategy

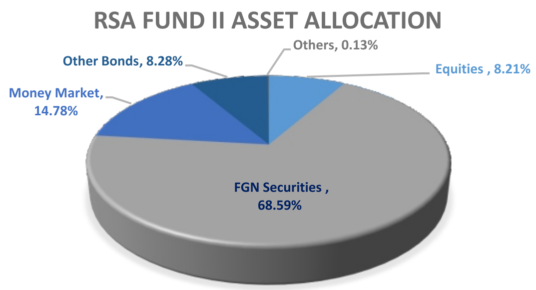
Our strategy entails maintaining a balance of reasonable risk and capital appreciation to achieve long-term capital growth and income generation. As such, a portion of the portfolio is managed actively to generate positive alpha.

Trend in Unit Price

This fund ended the period - 30th Sept 2019 with a unit price of N3.8748 implying a return of 8.81% (Annualized return of 11.95%) as at Q3 2019. Despite economic and capital markets headwinds, the fund has retained its ranking amongst the top five performing funds in the industry. In Q4 2019, our focus is to strengthen returns by investing in high yielding fixed income securities, including, corporate bond investments, whilst capturing pockets of capital gains from our equity investments.



Asset Allocation



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Content for Fund manager report: Fund III

Gross Domestic Product

In Q3 2019, the National Bureau of Statistics (NBS) published the Q2 2019 GDP figures, which showed a return to growth in the Oil sector whereas growth in the Non-Oil sector came in at its lowest level since Q1 2018.

The Oil sector grew by 5.15% y/y in Q2 2019 after four consecutive quarters of negative growth. We opine the growth recorded in the Oil sector may have been largely due to lower production levels in Q2 2018, as average daily crude oil production printed at 1.98mbpd in Q2 2019, higher than the 1.84mbpd average crude oil production in the corresponding period in 2018 but lower than the 1.99mbpd recorded in Q1 2019.

In the Non-Oil sector space, we saw slower growth in Q2 2019 both on a q/q and y/y basis. The Non-Oil sector grew by 1.64% y/y in Q2 2019 compared to a growth of 2.05% y/y and 2.47% y/y in Q2 2018 and Q1 2019 respectively. The y/y growth recorded was supported by Agriculture and Services while Trade and Manufacturing numbers came in disappointing.

Inflation

Average inflation in Q3 2019 continued to moderate, declining by 25bps q/q to 11.05%. Since June 2019, we have observed sustained deceleration in headline numbers, largely supported by slower rise in Food prices which has complemented the continued moderation in the Core sub-index that has been noticed since the start of the year. In July and August 2019, price increases in the food sub-index moderated by 17bps y/y and 22bps y/y to 13.39% and 13.17% respectively. Similarly, we saw moderation in food prices on a m/m basis. We attribute the cooling in Food prices to the ushering in of the green harvest season since mid-May 2019.

This may have improved the supply of food crops, hence leading to a decline in food prices. Furthermore, weak consumer spending, a reflection of the largely uninspiring macroeconomic environment, may have also been a part contributor to the reduction in food prices.

With regards to the Core sub-index, relative stability in PMS prices and exchange rate continued to support price moderation in this index. In July and August 2019, the Core sub-index declined by 4bps y/y and 12bps y/y to 8.80% and 8.68% respectively. Consequently, July and August headline numbers printed at 11.08% and 11.02% respectively, the lowest level since January 2016.

Crude Oil Prices

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FI market

In Q3 2019, yields in the fixed income space was bullish along the curve with bearish tilt at the very short end and the very long end of the curve. While the yields on the 1yr, 5yr and 10yr benchmark bonds fell by 35bps q/q, 26bps q/q and 30bps q/q respectively to 13.30%, 14.11% and 14.21% the yield on the 20yr benchmark bond increased by 41bps q/q to 14.54%.

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Equities market

Investor 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 may have adversely impacted on investor sentiment. This said, in Q3 2019, the NSEASI index stood at -7.80% q/q whilst our benchmark, the NSE30 stood at -8.66% q/q. We expect the equities market to remain volatile going forward in the absence of fiscal policy direction.

Investment Objective

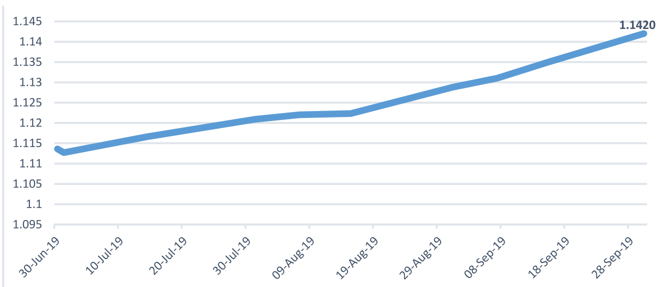
The key objectives of the RSA fund III is to provide real and satisfactory returns to members with very minimal to moderate exposure to risk. The RSA fund III is a conservative fund for contributors who are approaching retirement age (age 50 and above) who typically have low tolerance for risk, short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

Investment Strategy

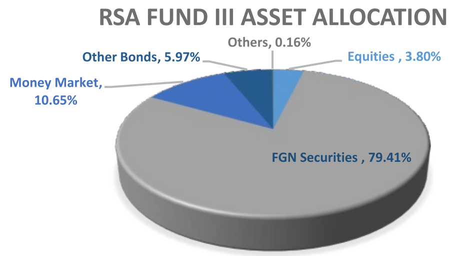
Our Strategy is to maintain a 95:5 allocation to fixed income and variable income instruments respectively, with a 3% – 5% range in variable assets, to preserve capital, ensure adequate liquidity and minimize downside volatility in fund returns.

Trend in Unit Price

This fund ended the period - 30th Sept 2019 with a unit price of N1.1420 implying a return of 8.96% (Annualized return of 12.16%) as at Q3 2019. Despite economic and capital markets headwinds, the return for the fund is decent and above industry average, year-to-date, which stood at 6.86% as at end of reporting period. In Q4 2019, our focus is to strengthen returns by investing in high yielding fixed income securities including corporate bond investments whilst, capturing pockets of capital gains from our equity investments.



Asset Allocation



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Content for Fund manager report: Fund IV

Gross Domestic Product

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Investment Objective

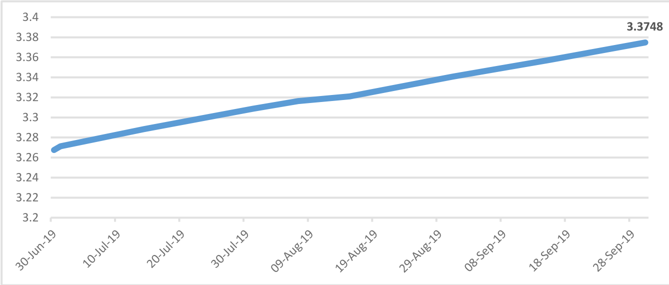
The composition of this fund consists of retired employees from the public and private sector with a low tolerance for risky investment. Hence, the key objective of the fund is to deliver return above inflation, preserve capital and to maintain adequate liquidity in the fund.

Investment Strategy

The portfolio construct will be designed not to exceed the 5% maximum investment in quoted equities while other fixed income and money market assets will be utilized to 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 ended the period - 30th Sept 2019 with a unit price of N3.3748 implying a return of 10.65% % (Annualized return of 14.49%) as at Q3 2019. Despite economic and capital markets headwinds, the fund has retained its ranking top three performing funds in the industry. In Q4 2019, our focus is to strengthen returns by investing in high yielding fixed income securities including corporate bond investments whilst, capturing pockets of capital gains from our equity investments.



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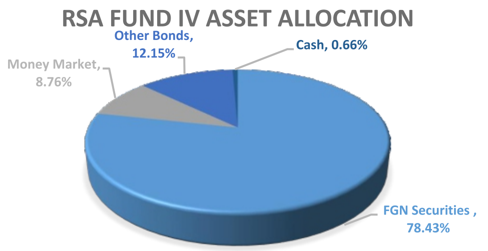

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PHISHING ALERT

With the rise in cybercrimes, there is a need to be abreast of some of the techniques that hackers use in cyberspace and how to respond appropriately.

How fast can you run when chased by a bear or a lion? The answer is this… Just run faster than the last person.

As we secure your future and hard-earned investment, hackers, fraudsters and malicious people are planning to steal or sabotage your efforts.

One of the ways they intend to carry out this cruel mission is using some of the information we know or have.

Some time ago, a retiree received an email from an assumed known source requesting for some personally identifiable information (PII) needed for appropriate documentation. Secured in the knowledge that she knew the other party, she quickly replied providing the necessary information only to discover a few minutes later that she has been scammed. How did this happen?

“Phishing is the fraudulent practice of sending emails purporting to be from reputable companies to induce individuals to reveal personal information, such as passwords and credit card numbers.”

Emails are an indispensable part of our everyday communications. Unfortunately, it is also one of the tools hackers use to attempt to gain contact with sensitive information. According to research, more than 90% of data breaches start with a phishing attack. (www.technology.pitt.edu)

Through a simple email or a phone call requesting private information. The means of carrying out these schemes are cheap most time, all they need is your email address and phone number. So, what do you do?

How to Handle These Threats

- Don't be pressured by timelines contained in calls or emails from unknown or suspicious persons. They use a sense of urgency to get people to divulge confidential information.

  Hint: Give yourself some minutes to decide on your next line of action. Either an email or phone call.

- If it sounds too good to be true it probably isn't.
  E.g. Do you want the latest iPhone or a cozy location for your next holiday? Then take the survey and send it to 5 friends
  Hint: think before you click

- Look for clues
  Hackers or fraudsters are vulnerable to errors like spellings or dysfunctional sentences.

- Use the Two-Factor Authentication where applicable
  Using two factor authentication gives you a step ahead of your adversaries

- Phishing isn't exclusive to email only.
  Hackers can get your information from your activities on the web, your social media handles

As earlier quoted, to remain safe from the beer and the lion, you will need to run faster than the last person. With due care, diligence and more security awareness, you will be running faster than the last man.

Security is your responsibility!

For more information or enquiries, you can send us a mail on info@palpensions.com or call us on 01-2776900.

FREQUENTLY ASKED QUESTIONS

(Multi-Fund Structure)

Is it possible for a client below 50 years to move to fund III?

No, Fund III is strictly for active contributors of 50 years and above.

With the new multi-fund structure, can I be given the option to choose which specific variable income instruments my funds can be invested in?

No, the regulation only allows contributors to select a Fund, but the PFAs would continue to have the responsibility of selecting the specific instruments that the Funds would be invested in.

Joy
(A Poem on Retirement)

Work has been a long routine,
Now it's time to change your scene.
The journey lasted, so many years,
Now get ready, for some cheers.

You have done, a top-notch job,
We shall miss you; we may sob.
Freedom will be, something new,
You'll enjoy the brand-new view.

We're happy for you, that you're done,
Try new hobbies, have some fun.
No more thoughts about - employ,
Take it easy and share your joy.

Culled from the internet

#DIDYOUKNOWNIGERIA
Nigeria shares border with four other African countries: Chad, Niger, Benin, Cameroon.

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