

2020 Q1 NEWSLETTER

ECONOMIC REVIEW

**IMPORTANCE
OF SOCIAL
DISTANCING**

**FREQUENTLY
ASKED
QUESTIONS**

**JUST FOR
LAUGHS**

Dear Esteemed Customer,

We trust you have been staying safe.
Welcome to the 2020 Q1 edition of the PAL Newsletter.

The start of 2020 was different from that imagined in 2019, but we are getting stronger and better as we overcome new challenges daily.

In this edition of our newsletter, we have the Economic Review of 2020, the impact on the Funds, and a short article reiterating the importance of social distancing.

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



The header image features a blue background with a white line graph showing an upward trend. On the right side, there is a 3D rendering of a red, spiky virus particle, likely representing COVID-19. The text 'Economic Review' is written in large, bold, white letters across the center.

Economic Review

Gross Domestic Product

In the first quarter of 2020, the National Bureau of Statistics published the GDP growth rate report for Q4 2019, which showed the fastest expansion in economic activities in real terms since the third quarter of 2015. Q4 2019 GDP grew by 2.55%, faster than the 2.28% and 2.38% growth rate recorded in Q3 2019 and Q4 2018 respectively. The fourth quarter GDP number was firmly supported by the 6.36% y/y growth rate in the Oil sector (vs. -1.62% y/y in Q4 2018) which more than offset the slower expansion in the non-oil GDP.

The solid Oil GDP growth in Q4 2019 relative to Q4 2018 was supported by higher average daily crude oil production while the ICT, Agriculture and Financial service sectors majorly drove the expansion recorded in the non-oil sector. Overall, the Nigerian economy grew by 2.27% in FY 2019, faster than the 1.91% growth rate in FY 2018.

Inflation

Average inflation climbed to 12.17% in the first two months of Q1 2020, the third consecutive quarterly increase in consumer prices. The continued closure of the nation's land borders by the Federal government, which began in August 2019, has continued to put upward pressure on prices. As a result, food inflation reached a 23-month high of 14.90% in February 2020 while prices of non-food items, which decelerated for

the most part of 2019, is currently at its 11-month high as at the end of February. The continued rise in food prices is due to the limited supply of various food staples like cereals, fish and meat which are usually imported in large quantities via the nation's land borders. The passthrough impact of the border closure, especially with regards to supply chain disruption, has also put upward pressures on non-food items.

Crude Oil Prices

Crude oil prices dropped to \$25/b in March, thus driving a 19% q/q decline hitting its lowest quarterly level since Q2 2017. The downturn in crude oil prices was majorly driven by demand worries following the spread of the COVID-19 virus across the globe, which nearly grounded economic activities globally.

Furthermore, the inability of the OPEC+ member to reach a production cut agreement, which subsequently led to a Saudi-Russian price war further combined to send oil prices to lows not seen in over a decade.

FX Reserves

Nigeria's external reserves declined by 8.89% from the previous quarter to close March 2020 at \$35.2bn. The decline represented a \$3.4bn drop in the country's reserves. The continued depletion in the FX reserves is largely driven by CBN's increased

intervention in the FX space following the rising investor exits from the nation's equity and fixed income markets. For instance, CBN's supply of FX in the NAFEX window increased by 131% q/q and the depreciation of the Naira regardless from an average of N362.85 in Q4 2019 to N367.07 in Q1 2020 is an indicator of the intensity of dollar demand.

FI Market

Yields in the fixed income space continued its southward movement in the first quarter of 2020, largely driven by monetary authorities' efforts to keep rates subdued. Given significant OMO maturities in Q1 2020 (N4.83tr) amidst CBN's exclusion of non-bank financial institutions and high net worth individuals from participating in OMO sales; yields compressed further as market participants re-invested maturing funds in bond instruments. The compression was largest at the short end of the curve, as most institutional investors remained wary of long term exposure.

Equities Market

After starting the year on an optimistic note, Nigerian equities have since reversed their gains owing to dampened economic outlook and investor sentiment following the global outbreak of the Covid-19 crisis. In Q1 2020, the NSEASI and the NSE 30 indices declined by 20.7% and 23.4% respectively.

Going forward, our outlook for the nation's equities market is quite bearish as the major source of foreign exchange earnings for the country would most likely be depressed for the most part of the year. This may have consequential impact on government spending on critical sectors of the economy, which would further deteriorate the operating environment, subdue disposable income and suppress corporate earnings.

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 and to generate extra return for risk seeking investors.

Investment Strategy

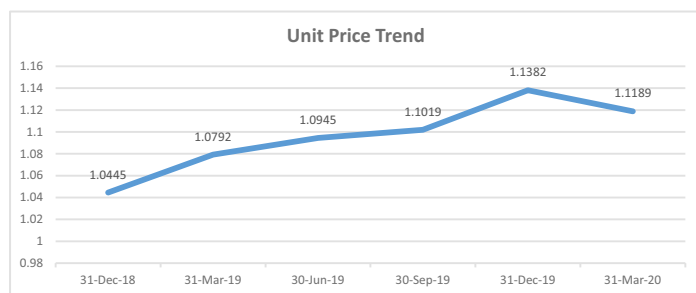
In line with regulatory requirements for this Fund, we plan to allocate a maximum of 10% of the Fund's assets in a combination of variable income asset (public equities, private equities and infrastructural funds). The portfolio is structured aggressive, and it is actively managed to generate positive alpha.



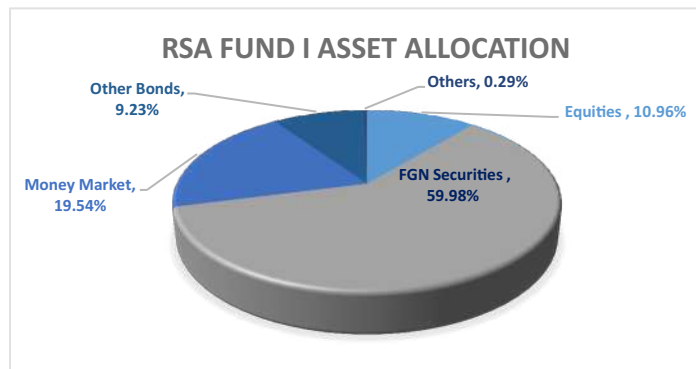
Trend in Unit Price

The fund ended the period – 31st March 2020 with a unit price of N1.1189, a decline at -1.70% return from its closing price in December 2019. The relatively poor performance was as a result of the downtrend in the equities and fixed income markets. Toward the end of first quarter (Q1 2020), the financial markets witnessed significant drop in asset prices owing to the COVID-19 crisis and crash in oil prices. Prior to this, fund returns had been under attack from low rates engendered by Central Bank policies.

In Q2 2020, our focus remains to strengthen returns by investing in relatively attractive fixed income securities including corporate bond investments whilst bargain hunting stocks with strong fundamentals and exploiting possible capital gains from existing equity investments.



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

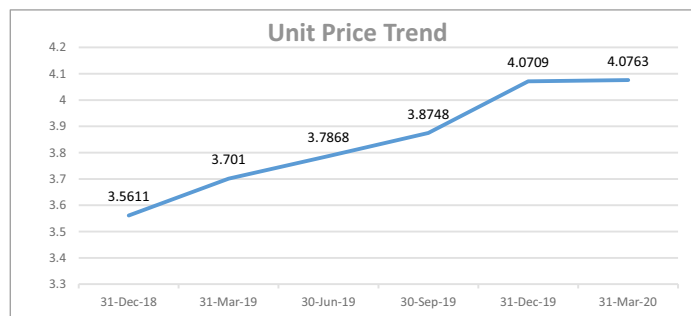
Our strategy entails maintaining a balance of reasonable risk and capital appreciation to achieve long-term capital growth and income generation. As

such, a portion of the portfolio is managed actively to generate positive alpha.

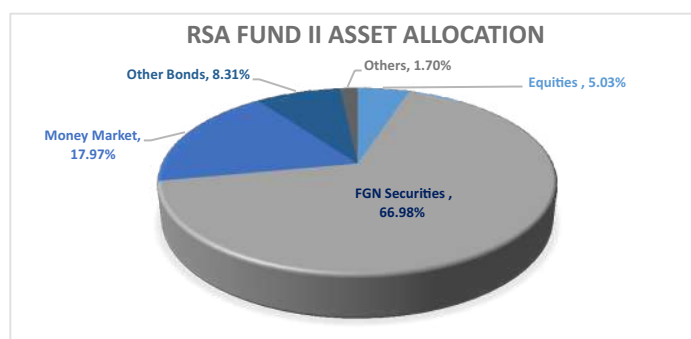
Trend in Unit Price

The fund ended the period – 31st March 2020 with a unit price of N4.0763, a 0.13% return from 31st December 2019. The low return was as a result of the downtrend in the equities and fixed income markets. Toward the end of first quarter (Q1 2020), the financial markets witnessed significant drop in asset prices owing to the COVID-19 crisis and crash in oil prices. Prior to this, fund returns had been under attack from low rates engendered by Central Bank policies.

Despite the lower performance, the fund has retained its top position in the industry ensuring capital preservation. In Q2 2020, our focus is to strengthen returns by investing in relatively attractive fixed income securities including corporate bond investments whilst capturing possible capital gains from our fair value portfolio across equities and fixed income securities.



Asset Allocation



Fund Manager's Report: Fund III

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.

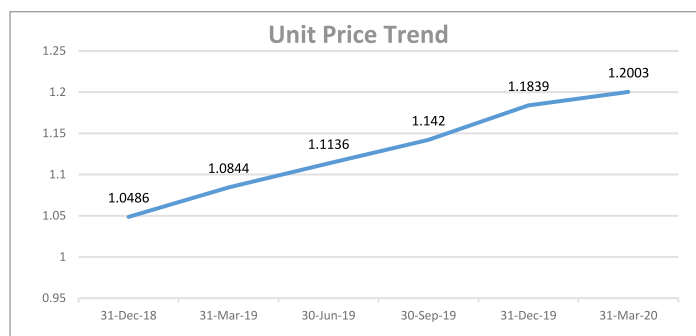
Investment Strategy

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

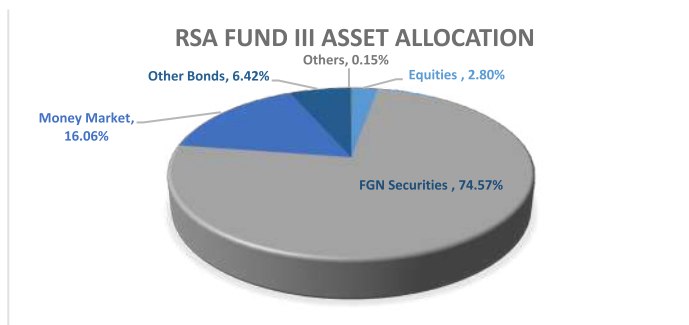
Trend in Unit Price

The fund ended the period - 31st March 2020 with a unit price of N1.2003, a 1.39% return from its closing price in December 2019. The relatively low return was as a result of the downtrend in the equities and fixed income markets. Toward the end of first quarter (Q1 2020), the financial markets witnessed significant drop in asset prices owing to the COVID-19 crisis and crash in oil prices. Prior to this, fund returns had been under attack from low rates engendered by Central Bank policies.

Despite economic and capital markets headwinds, the return for the fund is decent and above industry average, year-to-date, which is recorded at 1.01% as at end of reporting period. In Q2 2020, our focus is to strengthen returns by investing in relatively attractive fixed income securities including corporate bond investments whilst capturing possible capital gains from our fair value portfolio across equities and fixed income securities.



Asset Allocation



Fund Manager's Report: Fund IV

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.

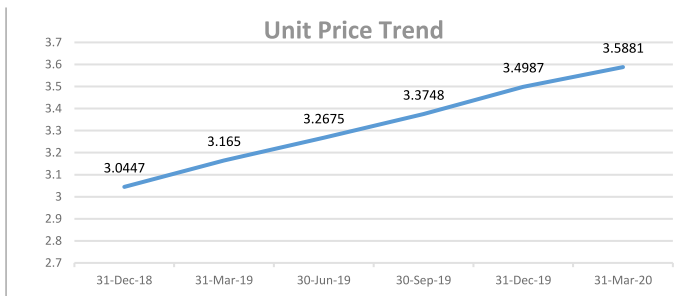
Investment Strategy

The portfolio construct will be designed not to exceed the 5% maximum investment in assets that could suffer negative returns 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.

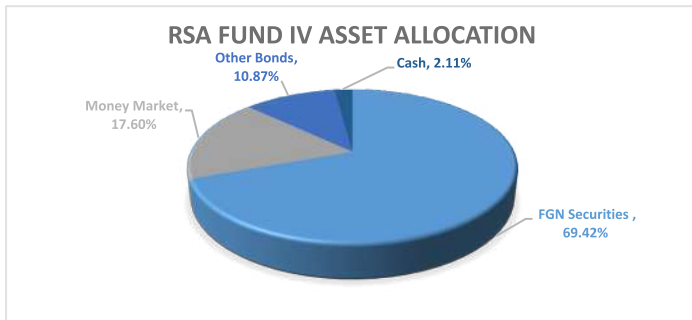
Trend in Unit Price

The fund ended the period - 31st March 2020 with a unit price of N3.5881, implying a 2.56% return for Q1 2020 compared to industry's average of 1.90%. In Q1 2020, we anticipated lower returns across the asset classes on the back of Central Bank policy reviews.

However, the emergence of COVID-19 led to more virulent attacks on the financial markets and this impacted negatively on fund return. Despite the lower performance (i.e. against Q1 2019 returns), across the industry, the fund retained its top five performing position ensuring capital preservation for members of the fund. In Q2 2020, our focus is to strengthen returns by investing in a mix of high yielding short and long tenored fixed income securities, to enhance returns and maintain sufficient liquidity for withdrawal needs.



Asset Allocation



Fund Manager's Report: Fund V Micro Pensions Investment Objective

This fund was designed to majorly cover the larger working population in the country, comprising of unskilled, semi-skilled workers and other self-employed persons in the informal sector under the contributory pension scheme. The composition of this fund consists of self-employed persons in the private sector with a moderate tolerance for risky investments. Hence, the key objective of the fund is to deliver return above inflation, preserve capital and to maintain adequate liquidity in the fund.

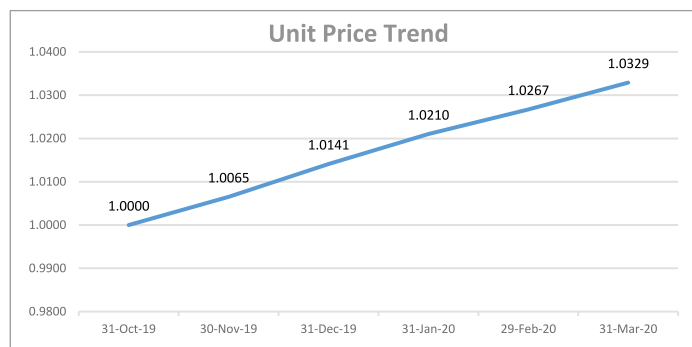
Investment Strategy

The portfolio construct will be designed in line with the 60:40 regulatory limit, which requires 40% as a contingency fund for members. The contingency fund can be accessed by contributors at any time during a financial period. Our goal will be to achieve returns at a rate above inflation while providing sufficient liquidity to meet the contingent withdrawal needs of the fund. The fund will specifically invest in fixed income and money market securities given the risk profile of its members.

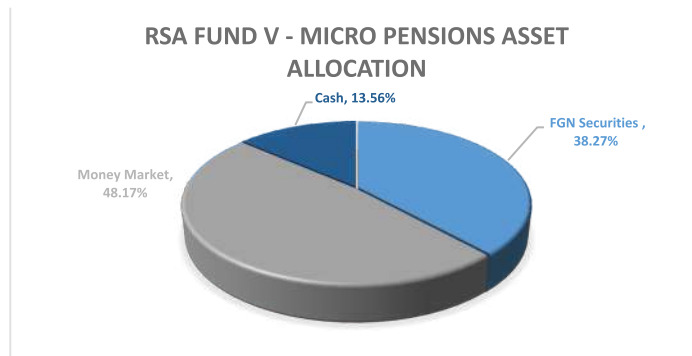
Trend in Unit Price

The fund commenced in Q4 2019 – October 2019 after regulatory mandate was released for the industry. The fund ended the period – 31st March 2020 with a unit price of N1.0329 implying a return of 1.85% for Q1 2020. In view of relatively low rates outlook for the year, we shall invest more in short term securities and

reinvest maturing assets in longer dated assets when the market upturns. Specifically, in Q2 2020, our focus is to strengthen returns by investing in a mix of high yielding short and long tenored fixed income securities, to enhance returns and maintain sufficient liquidity for withdrawal needs.



Asset Allocation



The Importance of Social Distancing

To stem the spread of the coronavirus disease (COVID-19), communities have been asked to limit face-face contact with people. This practice is referred to as 'Social Distancing' which is an important and effective way to slow down the spread of COVID-19.

What is Social Distancing?

According to the Centers for Disease Control and Prevention (CDC), social distancing, also called "physical distancing," means keeping space between yourself and other people outside of your home. To practice social or physical distancing:

- Stay at least 6 feet (about 2 arms' length) from other people
- Do not gather in groups
- Stay out of crowded places and avoid mass gatherings

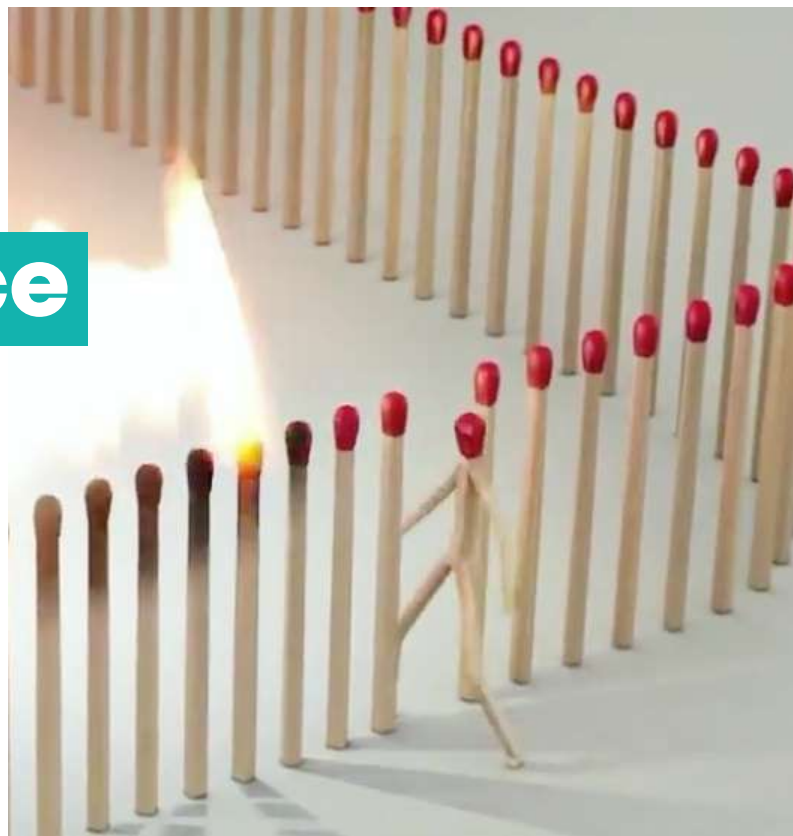
Why Practice Social Distancing?

COVID-19 spreads when an infected person coughs, sneezes, or talks, and droplets from their mouth or nose are launched into the air and land in the mouths or noses of people nearby. The droplets can also be inhaled into the lungs.

Recent studies indicate that people who are infected but do not have symptoms, likely also play a role in the spread of COVID-19. This means that an infected individual may not show symptoms of the infection and could possibly infect people in proximity.

Therefore, limiting the way people come in close contact with each other is highly essential to control the spread of COVID-19 as you may not know whether your neighbor has been infected or not.

Social distancing is important for everyone especially



older people and individuals who have serious chronic medical conditions such as; heart disease, diabetes and lung disease as they are at higher risk of serious complications if infected by COVID-19.

How to practice Social Distancing

- Follow guidance from authorities where you live.
- If you need to shop for food or medicine at the supermarket or pharmacy, stay at least 6 feet away from others.
- Cover your mouth and nose with a face mask when around others, including when you have to go out in public.
- Avoid large and small gatherings in private places and public spaces.
- Work from home when possible.
- If possible, avoid using any kind of public transportation, carpooling, or taxis.

The best time to begin social distancing was 2019.

The second best time is now.

Social distancing may need to be practiced for months in order to completely defeat COVID-19. This may be the new way of life for some time and we need to adapt to it.

Although the risk of severe illness may differ from one person to another, anyone can get and spread COVID-19.

Therefore, everyone has a role to play. Let us all do our part to overcome COVID-19.

Stay at Home, Stay Away, Stay Safe.



FREQUENTLY ASKED QUESTIONS

How can I contact PAL Pensions during this period?

Because of the restricted movement associated with this period, it's advisable to stay indoors. You can contact us using our alternate channels. You can call us on our toll free number: 0800palpensions (080072573674667) or chat us up on various social media platforms. You can also download our Mobile App to access your RSA. PAL Pensions is committed to delivering your retirement benefits with ease.

I am presently based abroad; How do I contribute into my RSA?

The National Pension Commission has provided guidelines on Cross Border Arrangement - CBA. This arrangement allows for Nigerians living abroad amongst others to participate in the Nigerian Pension Scheme. Under the CBA, Nigerians living abroad can make contributions into their Retirement Savings Accounts (RSA) by making payments into a domiciliary account opened by our Pension Fund Custodian.

Once the lodgement is received, we will credit your RSA with the equivalent Naira value and invest your contributions accordingly.



JUST FOR LAUGHS

The guy who gives out food at the prison canteen asks: "Eat here or take away?"

The prisoner frowns: "Not funny Musa, Not funny at all!!"

#DIDYOUKNOWNIGERIA

Covid-19 and SARS-CoV-2 are not the same thing. Covid-19 is a disease (D stands for disease) caused by a new coronavirus. SARS-CoV-2 is the name of the virus itself.

