

INVESTING

FBN NIGERIA SMART BETA EQUITY FUND

All data as at 31 October 2016 unless otherwise stated



Fund overview

Investment objective

The Fund seeks to provide long-term capital growth by investing primarily in a portfolio of equities listed in Nigeria.

Fund facts

Fund Managers	Laura Fisayo-Kolawole, CFA Kike Mesubi, CFA
Fund launch date	4th January 2016
Fund size	₦159.06m
Base currency	Naira (₦)
NAV per share	₦113.02
Minimum investment	₦50,000.00
Income distributions	
Annual management fee	1.50%
Risk profile	High*

Fund highlights

The Fund is an open ended mutual fund that invests in a diversified portfolio of high quality Nigerian companies that are domiciled in, or carrying out the main part of their economic activity in Nigeria.

In order to manage liquidity, the Fund may invest in short-term money market instruments and deposits with credit institutions may be held from time to time.

Fund strategy

The Fund uses a simple systematic rules-based investment strategy that is designed to capitalize on equity market inefficiencies specific to the Nigerian equity market, as established by extensive in-house quantitative research. The strategy is commonly known as smart beta investing.

The Portfolio Managers draw constituents from the largest 40 stocks (by market capitalization) and screen these stocks based on the following anomalies: value, momentum, profitability and dividend yield. Weights assigned to stocks are screen-rank-driven.

Investor profile

The Fund is suitable for investors who are seeking long-term capital growth, require minimal income and can tolerate market volatility.

The Fund may be suitable for investors looking for a source of long-term capital growth and income through exposure primarily to equity securities in Nigeria. Investors in this Fund should have at least a three to five years investment horizon.

Benchmark

Nigerian Stock Exchange 30 Index (net of fees)

Source: FBN Capital Asset Management

* The Fund has a 'High' risk profile given it invests the majority of its assets in equities. The value of equity securities may go down as well as up in response to the performance of individual companies and general market conditions.

^ Bid price is stated net of fees and expenses.

Holding period: 90 business days.

Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested.

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A part of the FBN Holdings Group

Monthly comments

Fund and market review

The equity market lost stem in October as a result of weak 9 months earnings result released within the month. The Nigerian Stock Exchange All-Share Index (NSEASI) declined 3.94%. Similarly, the Fund's benchmark NSE 30 index also declined by 3.94%. The Fund's performance was 0.08% outperforming both the NSEASI and its benchmark by 4.02%. The outperformance was supported by the weighting strategy of the Fund relative to the broad market. The Fund's performance was also boosted by the allocation to crop production; Okomu and Presco both released strong results and continued to enjoy local demand owing to the ban on sourcing official foreign exchange (FX) for Crude Palm Oil importation.

A review of the earnings result released in the month affirms companies' challenging operating environments. Within the consumer sector, the price increase in some products was not enough to stem the decline in revenue as that meant that Consumers shifted to value brands. This is evident in the 33.10% revenue growth reported by International Breweries and single digit growth in rival Guinness and Nigerian Breweries. Notwithstanding, the increase in finance cost and cost of production weighed negatively on earnings. Nestle Nigeria grew revenue by double digit but profitability declined as a result of FX pressure and elevated taxes. For the first time in recent years, Nestle did not declare an interim dividend. The energy challenges faced by cement companies in Q2 continued into Q3 and weighed on profitability. Lafarge Africa converted its shareholders loan of USD\$493m to equity, we view that as a positive because it should moderate earnings volatility going forward. Within the banking sector, we witnessed moderated revaluation gain q/q because of lesser depreciation of the Naira. Non performing loans continue to remain a source of concern. The oil and Gas sector was not spared from the blood shed; Seplat's revenue was down 52.00% owing to the disruption caused at the Forcados Terminal. Within the month, there were no changes to the portfolio's allocation.

Fund and market outlook

Sentiments are likely to remain subdued in the equity market in Q4 2016 as persistent weakness in macroeconomic fundamentals dampens investors' appetite for risk. We see this as an opportunity to invest in risky assets ahead of the implementation of the proposed government US\$29.90bn borrowing which is expected to stimulate economic activities. We expect some respite in energy cost when the full utilization of coal comes on stream for some cement players.

Positioning

Historic prices

	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
Bid price (₦) [^]	95.99	96.36	99.13	108.75	113.07	110.01	110.78	112.93	113.02

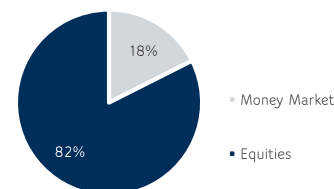
Top 5 equity holdings

Total	6.94%
Okomu Oil	6.03%
Presco	5.53%
Seplat	4.93%
Access Bank	4.92%

Top 5 sector exposure

Financial Services	22.38%
Consumer Goods	19.55%
Oil & Gas	18.75%
Agriculture	11.56%
Industrial Goods	9.36%

Current allocation



Asset allocation ranges

Fixed Income	0-25%
Equities	75-100%