



Dear Valued Client,

Q4:2018 Portfolio Report

The macroeconomic indicators in the most recent quarter gave varying signals on the back of uncertainties storming the economy. The Gross Domestic Product (GDP) advanced to 1.81% in Q3'2018 when compared to 1.40% recorded in Q3'2017 while on a Quarter-on-Quarter (QoQ) basis, GDP grew by 9.05%. Manufacturing PMI which signals production level also recorded a peak this year settling at 61.1, its highest since 2014. Inflation on the other hand rose to 11.28% in November after an initial decline to 11.26% in October while unemployment rate in the third quarter peaked at 23.1%. Similarly, FX liquidity tightened amidst capital flight which saw Naira depreciating against the Dollar in the parallel market though marginally.

The Monetary Policy Committee (MPC) held its last meeting of the year on the 21st and 22nd of November and voted to retain the Monetary Policy Rate (MPR) and other policy rates as they had been all year. The Committee's resolve was based on growing global market uncertainties particularly as regards Brexit, the trade war between US and its trading partners, and the likely outcome of US-Iran sanction. The committee also took this stand to reduce capital flight which had recently plagued emerging economies and more so Nigeria, given the forthcoming general elections concerns.

CBN however kept up its tenacity to stabilize the FX market by the introduction of an additional trading day, which saw the parallel market exchange rate revert to N360 levels after a sudden jump to N370 to a Dollar. The CBN, amidst liquidity concerns, also maintained a competitive stop rate at Treasury Bills auctions held in the quarter, to mop up excess liquidity. By the end of the quarter, after several bearish runs in the market, yield curve rose across all maturities while Open Market Operation (OMO) stop rate peaked at 15%. We however expect CBN to remain steadfast in its strife to keep FX stable through continuous liquidity injections. We also expect that Treasury Bills stop rate will be kept attractive in the interim to forestall major capital flight.

The equities market was dominated by bearish sentiment in 2018. The market gauge (All shares Index) posted return of -17.81% in 2018 as against 42.30% in 2017 while on a Quarter-on-Quarter basis, equities returned loss of 4.08%. The market's performance was on the back of reduction in investors' appetite for equities largely driven by slowdown in economic activities and declining crude oil price, mixed financial performance of listed companies amidst value-destruction corporate actions, proposed inclusion of Nigeria in OPEC's supply cut, and heightened political risk as general elections draw near. In addition, foreign investors' participation also fell, leading to a net outflow of 16.72% in November, which resulted to a supply-pull effect on share prices of foreign biased counters.

Given our research capabilities and value orientation, we leveraged on high yield fixed income and alternative investments to protect our clients' wealth from undue exposure to risk, particularly before the elections outcome. We however expect the equities market to rally post-election and share prices to revert to mean in medium to long term. We also believe that the downbeat mood in the equities market provide opportunities to derive value for our esteemed clients with long term investment horizon as share prices are depressed and some stocks are trading below their fair value.

We are pleased to inform you of our giant stride of claiming compliance with the Global Investment Performance Standards (GIPS) which are ethical standards that promote fair presentation and full disclosure of investment performance. The launching of this compliance will hold in January, 2019. Also, we will like to introduce our newly revamped product: *The Target Date Portfolio* structured for investors who have future financial obligations or saving towards their retirement. Other structured products still available for subscription at very attractive returns are our foreign currency denominated products- Meristem Dollar Investment Portfolio & Real Estate Advantage Portfolio with minimum subscription amounts of USD2,000 and GBP2,000 respectively; and our Equity and Money Market Mutual Funds. Our core services also include Retirement Planning and Estate planning.

At Meristem, year 2019 is particularly significant as it signifies a transformational journey. Please be assured of our commitment to exploring innovative ideas to create more value and serve you better than ever.

I thank you for your steadfast support and wish you a prosperous year- 2019!

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Sulaiman Adedokun", is written over a light blue horizontal line.

SULAIMAN ADEDOKUN, CFA
MANAGING DIRECTOR