REPORT OF THE FUND MANAGER

Review of Global and Domestic Economy

The year 2021 began with the gradual easing of the economic restrictions induced by the COVID-19 pandemic across many economies around the world. The approval of vaccines for wide-spread distribution further paved the path for trade and movement amongst countries and continents, boosting activities in the most severely affected sectors. At the end of the first quarter, at least 158 countries and territories had administered more than 596 million doses of a COVID-19 vaccine. This formed the foundation for the global economy to grow by c.5.88% in 2021, compared to a decline of 3.1% in 2020. Supportive fiscal and monetary policies (low interest rates and quantitative easing) further contributed to the sharp recovery across developed and low-income countries. The low oil production volumes in 2021 dampened the performance of the oil sector, with crude oil production averaging 1.60mbpd, compared to 1.78mbpd in 2020.

However, the rising inflation which resulted as economies reopened activity was a cause for concern. Initially considered as transitory, the record level inflation across advanced economies has however persisted. Monetary authorities have responded by changing the tone of policy to a more contractionary one, with the Bank of England hiking rate in December 2021, while others have indicated similar measures will be taken in 2022.

For the Nigerian economy, the non-oil sector which was the main driver of the economy's exit from recession in 2020, sustained the growth momentum in 2021; the Nigerian economy recorded a GDP growth rate of 3.4% YoY (vs. -2.69% in 2020). The information and telecommunication sector, manufacturing, and agricultural sector were the major contributors of the growth recorded during the period. The oil sector however declined by 8.30% as incidences of oil theft and underinvestment continue to plague output from the sector.

The inflation rate rose through the first quarter, peaking at 18.17% after twenty (20) consecutive months of trending upwards. The major drivers were higher food prices and weakening exchange rate. Although it moderated for the rest of the year, the average inflation rate for the year was 16.98%, significantly higher than the 13.2% of the previous year.

On the monetary policy front, the Monetary Policy Committee (MPC) left the monetary policy rate unchanged at 11.25%, while keeping other policy parameters constant such as the Cash Reserve Ratio and Liquidity ratio at 27.5% and 30% respectively. The decision of the CBN was made to help strengthen the country's recovery process despite inflationary pressures, further establishing the perspective of the CBN with respect to inflation as being driven by structural rather than monetary factors.

As we approached the end of the year, the Omicron variant of the Coronavirus, labeled by the World Health Organization (WHO) as a 'variant of concern' emerged. The restriction of air travel and imposition of partial or full lockdowns by various countries threatened a decline in demand for oil. These measures were however quickly rolled back, supporting crude oil prices at USD79.31 per barrel as against US51.27 per barrel at the start of the year.

Despite the recovery in oil prices, the external reserves came under pressure in the first half of the year, declining by 5.80% to USD33.32bn (vs. USD35.65bn at the start of the year). The reserves position however swelled to USD40.5bn in the second half of the year, boosted by USD3.5bn in inflows from the IMF's Special Drawing Rights (SDR) and proceeds from Eurobond issuance (USD4bn). Nonetheless, the currency weakened by 7.43%, trading at an average of NGN410.32/USD in 2021 (vs. NGN356.62/USD in 2020).

Review of the Equities Market Performance

The domestic equities market raced to a 5.32% gain in January 2021, having closed as one of the best performing stock indexes in the world in 2020. This was however cut short with an uptick in fixed income yields; stop rates at Treasury bills auctions more than tripled from their respective levels at the start of 2021. Yields in the secondary market also jumped in tandem, rising steadily through H1:2021. The ensuing correction reversed the 5% gain with the All-Share Index closing lower by 5.87% by H1:2021. In the second half, positive sentiment towards equities due to a retreat in fixed income yields, impressive earnings performances, dividend distributions, and relatively cheap valuations boosted the performance of the market. Hence, the market gained 6.07% for the year.

Fund Performance

In 2021, the NGX-MERI Growth Index gained 9.12%, outperforming the NGX All-share index by 305bps and the NGX30 index by 411 bps respectively. The Meristem Growth ETF however returned -1.45%. A major reason for the significant tracking error, asides an expense ratio of about 3%, is the sharp movement in prices at the points of rebalancing the fund in line with the benchmark index. Progressive measures have however been put in place to ensure a tighter tracking of the index.

From September 2020 when the ETFs were created to December 2020, the NGX-MERI Growth Index has returned 18.70% while the Meristem Growth ETF has returned 20.23%. The NGX All-Share Index and the NGX30 Index however outperformed the NGX-MERI Growth Index by 39.30% and 30.23% respectively for the comparable period.

Market Expectations for 2022

In 2022, the bullish sentiment is expected to be sustained despite the prospect of tighter monetary policy particularly in advanced markets. The Nigerian equities market closed on a bullish note despite an initial bearish run which dominated the first half of the year.

Further to the positive outlook for the economy and the accommodative policy environment, we expect a strong corporate earnings performance. We also expect the relationship between equities performance and fixed income yields to dictate the direction of the market, with positive equities performance coinciding with dropping yields and vice versa. While average yields have moved away from the 2020 year-end levels, real returns remain negative. Nonetheless, the risks to our outlook are possible selloffs triggered by a reversal in fixed income yields amidst possible market reactions ahead of the general elections.