REPORT OF THE FUND MANAGER

Review of Global and Domestic Economy

The year 2021 begun with economies around the globe experiencing what seemed to be a gradual but definite easing of the economic and health pressures inflicted by the COVID-19 pandemic. The approval of vaccines for wide-spread distribution further paved the path for trade and movement amongst countries and continents with the severely affected sectors benefiting optimally. 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, although a growing figure, this development alongside progressive policies by the OPEC+ particularly increased global demand for oil and aided the upward trajectory in crude oil prices from USD$51.27 per barrel at the close of 2020 to USD$62.98 per barrel at the end of Q1, 2021. By the end of the first half of the year, the global economy was yet to fully return to its pre-COVID times despite sustained uptrend of global health conditions and economic activities. The global oil price regulator, OPEC+, further maintained their stance regarding the cap in quantity of oil to be supplied by oil-producing countries which resulted in the increase in oil price to USD$75.68 per barrel by Q2, 2021.

For the Nigerian economy, the uptick in the Q4, 2020 GDP growth which came on the back of an improvement in the non-oil sector lingered all through 2021. Despite the COVID-induced recession suffered by the Nigerian economy, the economy returned to growth, albeit marginally, in the final quarter of last year with GDP expanding 0.11% year-on-year thus pulling the GDP rate for FY2020 to -1.9%. Nigeria recorded a GDP growth rate of 0.51 per cent, 5.01 per cent, 4.03 per cent and 3.98 per cent (year-on-year) in the first quarter, second, third and fourth quarter of 2021 respectively. The four consecutive quarters of growth in GDP was largely driven by a real growth rate in the non-oil sector with the information and telecommunication sector, manufacturing, and agricultural sector recording highest growth. The decline in production level for oil sector was also an inhibitive factor contributing to its low contribution to the GDP level. Annual real GDP value of 2021 stood at N72.39trillion compared to N70.01 trillion in 2020.

The inflation results released in the first few months of the 2021 revealed the fragile state of the economy in its recovery from the of the COVID-19 effects. Inflation increased by 17.33% (year-on-year) in February 2021 from 16.47% in January signaling a month-on-month increase of 1.54 percent in February 2021 from 1.49% percent in January. A major driver of the spike in inflation has been the food sector which has been on a continuous rise from 14.90% in February 2020 to 21.79% in February 2021. The year-on-year inflation rate for both the headline and food index which rose consistently in the first quarter however moderated in April and May 2021 and continued to slow down majorly due to high base effects from 2020. The inflation report for May 2021 had headline inflation printed at 17.93% YoY, 0.19% lower than the 18.12% recorded in April 2021. As of December 2021, the National Bureau of Statistics (NBS) reported a 15.63%YoY increase in the Consumer Price Index for December 2021 with food inflation printing at 17.37%YoY.

On the monetary policy front, The CBN all through the year in its quarterly Monetary Policy Committee Meeting sustained its expansionary stance towards economic growth by maintaining all Monetary Policy parameters; Monetary Policy Rate at 11.25%, Cash Reserve Ratio at 27.5% and Liquidity ratio at 30%. 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 novel coronavirus omicron variant, which was labeled by the World Health Organization as a 'variant of concern' emerged. This global fourth wave, as other waves, particularly tested the resilience of our domestic economy as well as the international economy. The imposition of partial or full lockdowns by various countries threatened a decline in demand of oil prices, however oil price as at year end closed at US$79.31 per barrel as against Q4 2020 figures of US$51.27 per barrel. The persistent increase in oil prices in the quarter was buoyed in part by European utilities switching their power source to heating oil from natural gas due to record-high gas prices on the continent.

Despite the recovery of oil prices experienced in the year, federal reserves reached its all-time low of $33.32 billion from $36 billion already in the first quarter. In response to this reduction in the nation's external reserves, the CBN devalued the Naira at the official window to N410/USD from N380/USD. Foreign reserves as at the end of the third quarter stood at $36.78 billion, an increase of over $3 billion from the figures of the second quarter. The accretion in the reserves could be attributed to earnings from oil exports, non-oil exports, capital importation, as well as foreign investment flows. The Nigerian external reserve however closed the year at US$40.5 billion, a 16% increase from Q4 2020 figures. Major reasons responsible for the growth recorded in the external reserves were the US$3.35 billion Special Drawing Rights (SDRs) approved by the International Monetary Fund (IMF) in August 2021 and the US$4 billion raised from the issuance of Eurobond in September 2021. Pressure on the external reserves in the last quarter of the year however fostered a decline of US$1.8 billion, thereby leading to a depreciation in the exchange rate from NGN409.8/USD in the third quarter to NGN412.49/USD in the fourth quarter.

Review of the Equities Market Performance

Over the course of the first quarter of the year, the Nigerian stock market experienced losses for eight consecutive weeks resulting in the drag of the All-Share index (ASI) to a Year-till date return of -3.33%. A major reason amongst others responsible for the shedding of the 50% return growth accumulated in the previous year was the upward revision of rates by the CBN in the fixed income sector. Investors were seen to exit equity positions entered in 2020 at a time where the rates of Treasury bills and Bonds were at an extreme low. In contrast to the performance of the stock market, the fixed income market experienced an increase in both OMO bills and bond instruments. Yields in the T-bills market surged from its low levels of 0-2% (Q4, 2020) to levels of 2-8% across all tenors while bond yields surged form low levels of 3-6% (Q4,2020) to levels of 10-12% at the primary market in the first quarter. The central bank engaged in this upward revision of rates with the aim to attract foreign investors into the country to boost the federal reserves and therefore reduce the pressures on the domestic currency.

Sell-offs in the equity market however continued in the second quarter as most local investors took advantage of the increasing yield environment in the fixed income market. Following the payments of dividends and bonuses, prices plummeted, and investor activities bordered on bargain hunting and profit-taking. The NGXASI consequently shed -2.91% in Q2 2021 with a corresponding value of the index at 37,907.28. In the Fixed Income market, yields on both NTBs and OMO bills rebounded in the first half of the year compared to lows seen in 2020.

The NGX ASI gained 6.10% in Q3 2021 with a corresponding value of the index at 40,221.17. Demand however waned in the second quarter compared to the first quarter, as maturities thinned out and system liquidity got tighter. Foreign participation in the quarter was limited as Local investors commanded 82.71% and 71.64% of total trades executed in July and August 2021 respectively, a deviation from the norm as foreign/ local split has previously been in the region of 50/50 to 60/40.

The Nigerian equities market however closed the year with an All-share index YTD return of 6.07% compared to the 2020 YTD return of 50.03%. The P/E ratio for the Nigerian Equities Market inched higher to 10.60x, putting it ahead of peer average (9.65x) with performance attributed to intense buying interest which dominated the market in the period. There was also significant improvement in activity level in the market as total value of transactions in Q4 reached NGN213.07bn.

Fund Performance

The NGX-MERI Value Index returned 15.32% in 2021. Consequently, the fund returned 15.63% (YtD). The Meristem Value Index outperformed the NGX All-share index by 9.25% and the NGX30 Index by 10.31%.

Since the creation of the NGX-MERI Value Index in September 2020 to December 2020, it has returned 29.49% while the fund has returned 39.18%. The NGX All-share index and the NGX 30 index outperformed the NGX-MERI Value Index by 29.51% and 18.51% respectively over the review 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.