ValuAlliance Value Fund

Market Review

Multilateral institutions like the World Bank and IMF expect Nigeria's GDP to expand by 2.9% - 3.2% by the end of 2023 (after growing 3.1% y/y in 2022 according to data published by the NBS).

The Central Bank's currency redesign policy and the lingering cash crunch that followed is a key downside risk to achieving the growth target as the Nigerian economy is largely cash-based (c.40% of Nigeria's N198trn 2022 GDP was from the informal sector, of which about 90% is cash-based. Another 30% of formal sector GDP is cash-based).

Inflationary pressures remained entrenched in Q1-23, with headline inflation shooting up to 21%. Persistent currency weakness and FX shortage, low domestic food supply worsened by insecurity in the food producing regions, and elevated energy costs are some of the factors keeping inflation elevated. Exchange rates in the official market remained rangebound around N461.5/$ over the first three months of the year supported by periodic intervention by the CBN, while parallel market premiums widened by N19 to N755/$ amid the lingering dollar shortages.

The heightened inflationary environment spurred the monetary policy committee (MPC) to hike the benchmark rate by a cumulative 150bps to 18.0% in Q1-23. The softer hike (50bps) delivered by the committee in March, in our view, underscores growing concerns about the negative implications of sustained policy tightening on output growth.

Fixed income yields moderated significantly in the first two months of the year amid high system liquidity from maturities (bonds and treasury bills), FAAC payments, and CRR refunds. As a result, real rates of return remained firmly negative across the fixed income market segments.

The local bourse began the year on strong footing, with the benchmark ASI up 7.04% at the end of Q1-23. Most of the gains came from bellwether names like **AIRTELAFRI**, **MTNN**, **BUAFOODS**, and **DANGCEM**. Excluding **AIRTELAFRI** which foreign investors have employed as a vehicle for repatriation given its dual listed status, strong earnings scorecards, and accompanying dividend announcements piqued investor interest on the other counters. Notably, the market's positive outturn over the quarter came despite expectations that investors would remain on the sidelines (i.e., adopt a risk-off approach) amid electoral uncertainty.

Fund Review

During the review period, the Fund's performance was supported by rising Eurobond prices, price gains across most of the equity holdings, dividend income and income from placements.

Portfolio Performance: The Fund closed the quarter ended 31st March 2023 with a Net Asset Value of ₦197.26 per unit (unaudited) and calendar and financial year-to-date returns of 5.98% and 5.72%, respectively.

Portfolio Outlook: We expect system liquidity, monetary policy actions, inflation trajectory, government's borrowing needs, and FX devaluation/liquidity to be the major drivers of domestic interest rates in 2023.

Overall, we envisage that the combination of elevated FGN borrowing, relatively tighter liquidity conditions, and sustained inflationary pressures would guide interest rates higher by year end.

We hold the view that after an initial liquidity-driven moderation in fixed income yields in Q1-2023, interest rates will rise substantially in subsequent quarters of the year. Thus, the fixed-income strategy for 2023 would be to play on the short end of the curve and increase exposure to higher duration as yields retrace higher.

Specifically, our strategy is to reposition the fixed-income portfolio to benefit from expected interest rate volatility. This entails divesting from relatively low-yielding bonds with long durations and reinvesting later in the year at rates that will be net accretive to the portfolio over the long term.

For equities, we maintain our preference for quality companies trading below our estimation of intrinsic value.

The Fund manager will seek to selectively trade out of positions that we consider to be trading around intrinsic value and introduce new positions that provide a compelling investment case over the long term.

Top 5 Sector Holdings -Equity - 31.03.2023

Banking	*32.43%*
Agriculture	*13.18%*
Oil & Gas	*9.18%*
Insurance	*4.68%*
Industrials	*4.30%*

Top 5 Equity Holdings - 31.03. 2023

Zenith Bank
Okomu Oil
Presco
Fidelity Bank
Seplat

Investment Objective

The ValuAlliance Value Fund aims to provide investors with capital growth over the long-term by investing in listed and unlisted Nigerian equities and other securities as approved by SEC. The Fund pursues a total return objective.

Investment Strategy

The Fund pursues a pragmatic value philosophy. Thus, the Fund invests in securities which are sufficiently undervalued relative to their intrinsic value. It seeks securities with low earnings multiples, low price to book ratio, and which are trading at an acceptable margin of safety to the Fund Manager's assessment of fair value.

Fund Information

Classification:	A Balanced Unlisted Closed End Fund
Start Date:	30th June 2011
Trustees:	Leadway Capital & Trusts Limited
Custodian:	Stanbic IBTC Bank Plc
GAV:	N4.651billion
NAV:	N4.710 billion
Total Distribution:	N3.48 billion *(Inception till date)*
Total Distribution/unit:	N112.33 per unit *(Inception till date)*
Latest Distribution:	N12.50 per unit *(Paid in January 2022)*
NAV/Unit:	N197.26per unit

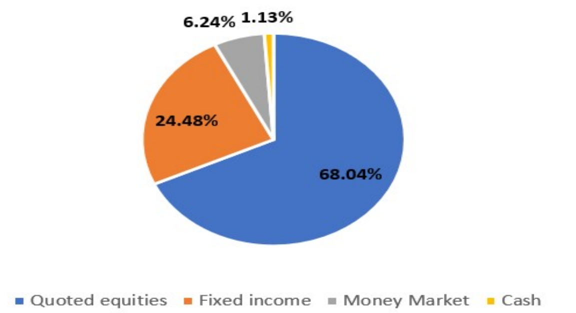
Key Statistics as at 31.03.2023 (net of fees & expenses)

Calendar YTD	IRR (since inception)	HPR (since inception)	*Total expense	**Total expense
5.72%	13.16%	209.59%	0.41%	0.41%

* Trailing 12 months exclusive of incentive fee

** Trailing 12 months inclusive of incentive fee

Asset Allocation as at 31st March 2023



Asset class	Permissible Range
Quoted equities	20% - 60%
Unquoted equities	0% - 20%
Fixed income	20% - 60%
Money market	0% - 40%
Cash	0% - 5%

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