



# ValuAlliance Value Fund

## Market Review

Growth slowed to 2.3% y/y in Q1-23 due to the adverse effect of the cash scarcity on the informal sector (which contributes 48% to Nigeria's GDP), occasioned by the CBN's naira redesign drive. Growth was also hurt by the impact of election uncertainties. Price pressures were sustained over the review period due to lingering currency weakness and soaring energy costs exacerbated by the fuel subsidy removal. Food inflation touched a 17-year high due to the impact of higher transport costs triggered by the intermittent PMS scarcity, incidence of flooding, and security challenges. On the currency front, the CBN collapsed the multiple FX windows into the I&E window on June 14th. This led to a surge in official exchange rate from N461/\$ to N769/\$.

While the monetary policy committee remains resolute on taming inflation, it delivered just 50bps in rate hikes over Q2-23 enforcing our view that the committee is increasingly concerned about the negative implications of sustained interest rate hikes on output growth.

For Fixed income, bond yields contracted over Q2-23 on the back of elevated system liquidity particularly in the month of June. The buildup in system liquidity was brought about by a change of guard at the apex bank and an unwinding of the arbitrary CRR debit regime. While average NTB yields are up q/q, they also retraced following the marked increase in system liquidity.

Early communication of the Tinubu administration's pro-market policy direction brought cheer to the equities market in Jun-23. While the gains over Q2-23 were broad-based, the Oil & Gas, and Banking sectors recorded outsized gains benefiting from the removal of fuel subsidies and a rollback of the unorthodox arbitrary CRR regime instituted under Emeifele's tenure.

## Fund Review

During the year under review, the Fund's performance was buoyed by rising Eurobond prices, price gains across most of the equity holdings, dividend receipts as well as income from placements.

**Portfolio Performance:** The Fund closed the quarter ended 30th June 2023 with a NAV of ₦276.84/unit (unaudited) and calendar and financial YTD returns of 48.36% and 46.18% respectively.

**Portfolio Outlook:** In 2023, we foresee sustained GDP growth supported by increased consumption and government spending in the non-oil sector. We also expect a moderate rebound in the oil sector due to completed maintenance work at, improved surveillance and the effect of a low base in 2022. However, we expect output growth to be moderated by inflationary pressures and FX challenges. Overall, we forecast growth of between 2.5% - 3.5% in 2023.

The speed and magnitude of the President Tinubu's decision to remove PMS subsidy; electricity tariff hikes scheduled for H2-23 and higher taxes expected later in the year should keep price levels elevated. We have raised our annual forecast to between 22% - 25% on average by FY-2023. We expect the headline inflation to remain elevated till the end of 2023, driven by a combination of the following existing factors: food shortages, high energy costs (due to the removal of fuel subsidies), and currency pressures amid the recent abolishment of multiple FX windows.

For H2-23, we expect inflation to remain at the center of monetary policy decisions. We also see the MPC exercising caution even as some global central banks bring their aggressive tightening campaigns to an end. Considering our expectation for inflation to remain elevated through the year (with subsidy removal likely to pressure prices further upward from its current 22% levels to mid-20s), the Committee may be inclined to hike rates mildly, if only to signal its unwavering commitment to bringing down inflation.

Considering our expectations that the current liquidity surfeit is likely to subsist in the near term, we see the possibility for interest rates to remain low for the rest of the year. This position is strengthened by the Presidency's preference for lower interest rates to spur economic activity and reduce borrowing costs. Conversely, we also see the likelihood for interest rates to materially retroce higher in the near term amidst decade-high inflation levels, twin deficits in the fiscal and external accounts, and an ineffective currency float in the absence of a substantial return of foreign capital. We are closely watching for signs of a commitment one way or the other from the monetary authorities.

Considering the recent liberalization of Nigeria's foreign exchange market, the market is currently in its price discovery phase, trading anywhere between N680 - N780/\$ at the official FX market. Over the medium to long term, assuming policy consistency and harmony (between both fiscal & monetary authorities), we think FX flows through the official segment will improve, eliminating the scarcity premium and sending exchange rates to settle around fundamental value between N650-750/\$.

## Top 5 Sector Holdings -Equity - 30.06.2023

Banking	27.81%
Agriculture	11.54%
Oil & Gas	8.84%
Insurance	4.02%
Industrials	3.23%

## Top 5 Equity Holdings - 30.06. 2023

Access Bank
Okomu
Presco
Seplat
Zenith Bank

## Manager Information:

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## 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

<b>Classification:</b>	A Balanced Unlisted Closed End Fund
<b>Start Date:</b>	30th June 2011
<b>Trustees:</b>	Leadway Capital & Trusts Limited
<b>Custodian:</b>	Stanbic IBTC Bank Plc
<b>GAV:</b>	N6.220billion
<b>NAV:</b>	N6.195 billion
<b>Total Distribution:</b>	N3.48 billion (Inception till date)
<b>Total Distribution/unit:</b>	N112.33 per unit (Inception till date)
<b>Latest Distribution:</b>	N12.50 per unit (Paid in January 2022)
<b>NAV/Unit:</b>	N276.84 per unit

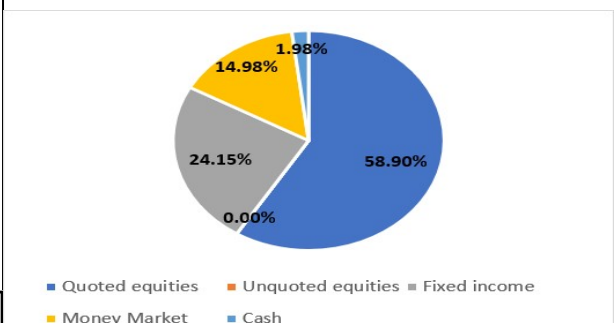
## Key Statistics as at 30.06.2023 (net of fees & expenses)

Calendar YTD	IRR (since inception)	HPR (since inception)	*Total expense	**Total expense
48.36%	15.35%	289.17%	0.80%	0.80%

\* Trailing 12 months exclusive of incentive fee

\*\* Trailing 12 months inclusive of incentive fee

## Asset Allocation as at 30th June 2023



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