



ValuAlliance Value Fund

Market Review

Output growth was capped in the second quarter of the year, as sustained oil sector headwinds led to a GDP print of 2.5% y/y. The oil sector (-13.4% y/y) shaved off 80bps from growth, as oil production averaged 1.22mb/d (vs. 1.43mb/d in the corresponding 2022 period). We attribute the decline in oil production to the temporary shutdown in the Forcados terminals and oil leakages and theft.

Inflation remained stubbornly elevated reaching 26.7% y/y in Sep-23, an 18-year high, reflecting the lagged impact of the PMS subsidy removal and rising AGO prices. Food inflation rose to 29.35% y/y stoked by high input and transport costs, poor rainfall and security challenges in northern Nigeria.

Consistent with our expectation for caution, the monetary policy committee delivered just 25bps in rate hikes over Q3'23, a sign that while the committee remains concerned with fighting inflation, it is mindful of the harmful impact of consecutive interest rate hikes on already faltering output growth.

Bond yields edged up during the quarter as system liquidity tightened (from an average daily net placement position of N46bn in June, deposit money banks became average daily net borrowers in the CBN discount window). The surprise upswing in 1-yr stop rates at the July NTB PMA to 12% levels, and the return to OMO issuance all spurred a rotation away from duration and towards bills.

The equities market pulled back over Q3'23, registering its first monthly decline in Sep-23 as investors reacted negatively to FTSE Russell reclassifying Nigeria from frontier to unclassified market status due to lingering FX liquidity challenges. Compared to Q2'23 (+11.1%), the ASI returned 8.9% over Q3'23. Q4 performance will likely be influenced by the interest rate trajectory, end-of-year portfolio balancing activities, and fiscal policies. The possibility of higher rates to attract foreign capital, as well as profit-taking by managers at year-end, may moderate equities performance in Q4-2023.

Fund Review

During the period under review, the Fund's performance was buoyed by rising Eurobond prices, share price gains, dividend receipts as well as income from placements.

Portfolio Performance: The Fund closed the quarter ended 30th September 2023 with a NAV of ₦295.14/unit (unaudited) and calendar and financial YTD returns of 55.43% and 58.17% respectively.

Portfolio Outlook: On output growth, we retain our initial views from the start of the year. We note the slower than expected contribution from the oil sector and expect the non-oil sector to continue to anchor growth. Elevated inflation and currency depreciation constitute significant headwinds to our growth forecast. Overall, we forecast growth of between 2.5% - 3% in 2023.

The President's decision to remove PMS subsidy, revise electricity tariffs, and currency depreciation added to inflationary pressures and raised our annual forecast to between 22%-25% on average by FY-2023. At 23.31%, average inflation over 9M-2023 is tracking our revised inflation estimates.

For the rest of the year, we expect inflation to remain at the center of monetary policy decisions. We also see the monetary policy committee exercising caution as some global central banks begin to wind down their aggressive tightening campaigns. Considering our expectation for inflation to remain elevated through the year, the Committee may be inclined to hike rates mildly, if only to signal its unwavering commitment to bringing down inflation.

Interest rates will be driven by liquidity conditions and monetary policy direction in Q4-2023. On the liquidity front, while inflows from fixed income maturities and coupons are scheduled to be light in Q4-2023, the impact of FAAC inflows is likely to pressure treasury rates in the quarter. Early signs suggest that the new CBN governor may be focused on a return to orthodox monetary policy and exchange rate stabilization. His inaugural address at the next MPC meeting is should be instructive.

Considering the recent liberalisation of Nigeria's FX market, the market is currently in its price discovery phase, trading anywhere between N780 - N850/\$ at the official FX market. Comments from the Finance Minister and recent actions by the apex bank (obtaining the \$3bn Afrexim loan, and lifting the ban on the 43-items excluded from access to FX) leads us to believe there may be improved liquidity in the near term, which should repel speculative activity and lift black market rates.

In the medium term however, we do not see credible capacity for the Federal Government to stabilize the currency amid weaker-than-expected net FX reserves, limited fiscal room for foreign borrowing, weak oil production and weak foreign investment flows.

Top 5 Sector Holdings - 30.09.2023

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

Top 5 Equity Holdings - 30.09.2023

Okomu
Seplat
Presco
Access Bank
UBA

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:	N6.641 billion
NAV:	N6.609 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:	N295.14 per unit

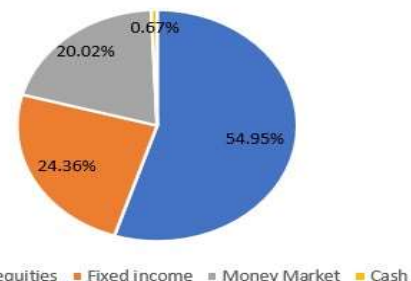
Key Statistics as at 30.09.2023 (net of fees & expenses)

Calendar YTD	IRR (since inception)	HPR (since inception)	*Total expense ratio	**Total expense ratio
58.17%	15.79%	307.48%	1.92%	1.92%

* Trailing 12 months exclusive of incentive fee

** Trailing 12 months inclusive of incentive fee

Asset Allocation as at 30th September 2023



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

Manager Information:

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