

United Capital Fixed Income Fund | Monthly Fact Sheet

June-22



FUND OBJECTIVE

The main objective of the Fund is to achieve consistent income streams through investment in select portfolio of securities and investments specified in the Trust Deed. The Fund's assets are invested in Federal Government bonds, Sub-national bonds, corporate bonds and high quality money market securities. The Fund is not affected by the fluctuations in the equity markets. However, opportunities for capital appreciation are dependent on changes in interest rate.

MARKET REVIEW, OUTLOOK AND STRATEGY

The Debt Management Office (DMO) conducted its June FGN bond Auction, the last auction for Q2-2022 with N75.0bn on offer for each of the following instruments: MAR 2025 (three-year bond), APR 2032 (10-year bond), and JAN 2042 (20-year bond). At the auction, investor demand was relatively healthy as 2025, 2032, and 2042 instruments were oversubscribed with bid-to-cover ratios of 1.8x, 1.1x, and 4.5x, respectively. Due to sparse financial system liquidity and reduced investor interest, bids were relatively lower than in the previous auction, with bids declining 4.0%, 34.5%, and 0.1% for the 2025s, 2032s, and 2042s, respectively.

In line with our expectations, the marginal rates inched northwards for all the auction papers, crawling upwards by 10bps, 5bps, and 15bps to print at 10.10%, 12.50%, and 13.15% for the 2025s, 2032s, and 2042s, respectively. Despite the increase in the marginal rates for the auction, we consider the magnitude of the increase inadequate and below expectations. For context, the 15bps increase in the 2042 marginal rate represents one-tenth of the recent hike in the Monetary Policy Rate (MPR) amidst limited inflows at the long end of the curve. Interestingly, the DMO sold the sum of N226.1bn, N1.1bn higher than it intended to offer representing a significant deviation from its usual practice of "significant overselling" at the auction (the May auction was oversold by 68.0%).

Mixed sentiments dominated the secondary market, with most of the trading activity around the auction papers. Investor interest was dominant across the short end of the curve as market participants sought to cover and rebalance their portfolio positions. Average yields printed at 11.2% for the month, remaining flat m/m. Approximately N23bn worth of coupon payments came into the system, having a negligible impact on the system liquidity. For corporate bonds, month-end average yields climbed 16bps m/m to close at 11.3%. However, the FGN Sukuk bonds traded in contrast with the other fixed-income secondary markets with a 28bps m/m decline in average yields to close at 10.0% at the end of June.

Looking forward, we expect muted activity in the bond market. In July, we anticipate that the CBN could further hike, resulting in investors demanding higher yields on bond instruments. With this in mind, we expect investors will continue to sit on the sidelines, further fuelling the mild bearish sentiments in July. Thus, we also expect to observe cherry-picking of bond instruments, as investors will only begin to show interest in bonds when they reach their preferred yields.

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The United Capital Fixed Income Fund is regulated by the Securities & Exchange Commission

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Fund Manager	United Capital Asset Management Ltd
Base Currency/Start Year	Naira/2006
Fund Size (₦)	118.6bn
NAV Per Share (₦)	1.8911
Minimum Entry (₦)	10,000
Additional Investment (₦)	5,000
Structure	Open Ended
Minimum Holding Period	90 days
Management Fee	1.5%
Total Expense Ratio*	1.6%
Benchmark	3-Yr FGN Bond Yield
Risk Profile	Medium
Investment Style	Income Oriented

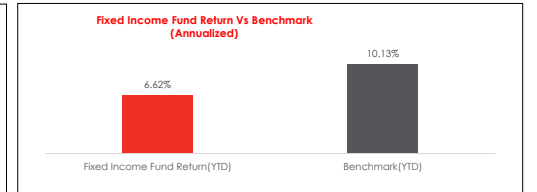
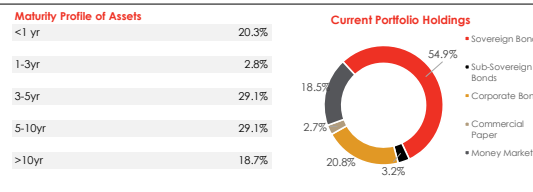
PERFORMANCE REVIEW

For the month of June, the United Capital Fixed Income Fund gained 0.48% and Year to date ("YTD") annualized return printed at 6.62%. The benchmark posted an annualized return of 10.13% for the same period.

The Treasury Bonds secondary market remained bearish with mixed sentiments across the curve. Thus, average yield contracted across the short and long end of the curve following bargain hunting while yields expanded at the mid segment following a bit of sell offs.

We reiterate our view of an uptick in bond yields in the medium term, as both the FGN's borrowing plan for 2022FY and expected fiscal deficit point towards an elevated supply.

The Fund maintains sufficient exposure to FGN bonds, money market instruments and sub-sovereign bonds with significantly higher yields. We will maintain current allocation to enhance returns for the Fund.



*Inclusive of management fee; Returns are net of all fees

Governance Asset Allocation Ranges:

Money Market(10%-30%); Fixed Income: 70%-90%

Why choose the Fund?

- Not exposed to equities market volatility
- Seamless entry and exit
- Low entry threshold
- Professional management with robust risk framework
- Long term capital preservation and growth

Investment Risks

- Market risk
- Macroeconomic instability
- Interest Rate Risk

How to participate

1. Log in to our online platform www.investnow.ng
2. Click on Bond Fund
3. Click on "Open and account" and complete the online form
4. Fund your account online with a one-time payment or recurrent

Return History

	2016	2017	2018	2019	2020	2021	YTD 2022
United Capital Fixed Income Fund	16.0%	28.4%	11.3%	14.94%	9.35%	6.40%	6.62%
Benchmark	15.5%	14.0%	15.1%	10.20%	3.54%	9.45%	10.13%

*Represents the Fund's Annualized Return vs the Benchmark's Annualized Return