

United Capital Fixed Income Fund | Monthly Fact Sheet



January-23

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

Last month, the Debt Management Office (DMO) conducted its first FGN bond Auction for 2023, with N360.0bn worth of papers on offer across the following tenors: FEB 2028, APR 2032, APR 2037, and APR 2029. At the auction, investors' demand was strong, supported by the buoyant liquidity in the system, with appetite skewed towards the longer-tenured instruments. Thus, the auction was oversubscribed, with total subscription printing at N805.2bn and a bid-to-cover ratio of 2.2x. The 2028s, 2037s, and 2049s were oversubscribed with bid-to-cover ratios of 2.1x, 2.9x, and 2.9x, while the 2032 paper recorded a bid-to-cover ratio of 1.0x. Surprisingly, the DMO oversold the auction, allotting a total of N662.6bn vs N360.0bn on offer signalling the government's strong reliance on the domestic debt market. Also, we perceive an attempt by the government to frontload 2023 borrowings, with a focus on longer term debt. The marginal rate on the 2032s climbed by c.15bps to settle at 14.9%, while the 2037s remained unchanged at 15.8%. Lastly, marginal rates on the re-issued 2028 and 2049 papers printed at 14.0% and 15.9%, respectively.

In the secondary market, we observed sell pressures dominate as investors' sentiment was mainly bearish. The sell pressures were buoyed by the uncertainties around the Q1-2023 bond calendar and the observed increase in the government's appetite for bonds. Notably, the selloffs were mainly skewed towards the mid and long end of the curve. Thus, average yields on sovereign bonds climbed higher to print at 13.4% in Jan-2023, a 31bps m/m increase from 13.0% print in Dec-2022.

On the other hand, we observed buy pressures in corporate bonds, as average yields at the end of Jan-2023 fell by 67bps m/m to close at 13.0% (previously 13.7%) in tandem with the depressed interest rate environment. Similarly, the FGN Sukuk bonds closed bullish as average yields on Sukuk bonds declined by 23bps m/m to close at 12.4% compared to the previous month's close of 12.7%.

Looking ahead, we maintain our expectations of continued reliance on the domestic debt market by the Federal Government (FG), as evidenced in the auction calendar and weak government revenue generation. This will drive the supply of bonds in the primary market as the FG seeks capital expenditure financing. However, we note the robust system liquidity will continue to create strong demand. In line with the decline in stop rates at recent NT-bills auctions, we expect marginal rates to trend lower as investors' grip over pricing has weakened at the primary market. In the secondary market, we anticipate an overall bullish sentiment to dominate the market following the excess liquidity in the financial system and declining yield environment.

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

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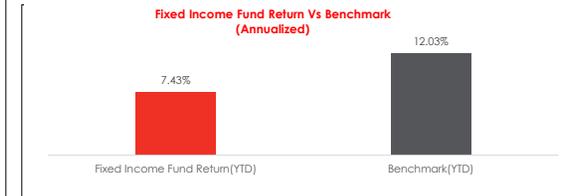
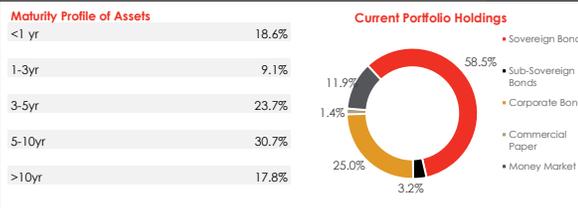
Fund Manager	United Capital Asset Management Ltd
Base Currency/Start Year	Naira/2006
Fund Size (N)	101bn
NAV Per Share (N)	1.95785
Minimum Entry (N)	10,000
Additional Investment (N)	5,000
Structure	Open Ended
Minimum Holding Period	90 days
Management Fee	1.5%
Total Expense Ratio*	1.8%
Benchmark	3-Yr FGN Bond Yield
Risk Profile	Medium
Investment Style	Income Oriented

PERFORMANCE REVIEW

The United Capital Fixed Income Fund returned 0.63% for the month of January and 7.43% year to date relative to a 12.03% posted by the benchmark for the same period.

The bond market started on a calm but bearish tilt as market remained lethargic due to the delay with the release of the FGN Bond issuance calendar for Q1, 2023. Upon release of the calendar, the FGN bonds secondary market traded with bullish sentiments as investors sold off their positions across the spectrum of the benchmark curve. Notably, the selloffs were mainly skewed towards the mid and long end of the curve. Thus, average yields on sovereign bonds climbed higher to print at 13.4% in Jan-2023, a 31bps m/m increase from 13.0% print in Dec-2022.

In the medium term, we expect the FG's frontloading of significant borrowings for the year to result in an uptick in bond yields, as investors demand higher yields in the face of elevated supply. The portfolio remains invested in FGN Bonds, money market instruments and sub-sovereign bonds with descent yields. We will maintain current allocation to enhance yield income 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

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

Investment Risks

- Market risk
- Macroeconomic instability
- Interest Rate Risk

Return History

	2017	2018	2019	2020	2021	2022	Jan-23
United Capital Fixed Income Fund	28.4%	11.3%	14.9%	9.35%	6.40%	6.33%	7.43%
Benchmark	14.0%	15.1%	10.2%	3.54%	9.45%	12.83%	12.03%

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