

United Capital Fixed Income Fund | Monthly Fact Sheet

February-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

The Debt Management Office (DMO) conducted its February FGN bond auction in the primary market, with an offer of N360.0bn across four (4) tenors, FEB 2028, APR 2032, APR 2037, and APR 2049. At the auction, investors' demand came in strong with overall bids summing up to N992.1bn implying a bid-to-cover ratio of 2.8x. The DMO opted to oversell the auction by an allotment rate of 1.8x, selling N462.8bn worth of papers across the tenors on offer. Interestingly, marginal rates at the longer end of the curve climbed by 10bps a piece, the 2037s and 2049s, to settle at 15.9% and 16.0% from 15.8% and 15.9% respectively. The observed upward climb is largely down to the DMO's decision to oversell the auction, particularly at the tail of the curve, as allotment-to-offer ratio for 2037 and 2049 printed at 2.5x and 2.7x respectively, indicating the FG's strategy of frontloading debt issuances and a sustained reliance of domestic debt market to fund the budget deficit. The marginal rate on the 2032s remained unchanged at 14.9% and attracted the least interest from investors at the auction, as it was undersubscribed by 0.9x. However, the marginal rate on the 2028s declined by 1bp to settle at 13.99% from 14.0%.

In the secondary market, sentiments from investors were mixed. There were pockets of bullish sentiments that kept yields suppressed across the curve, buoyed by the buoyant financial system. However, investors were mostly bearish toward the auction papers, in anticipation of the next DMO auction. Investors also priced in the higher-than-expected inflation print for Jan-2023. Yields on the 2028s, 2032s, and 2049s climbed by 59bps m/m, 1bp m/m, and 24bps m/m, while the yield on 2037s declined 13bps m/m. This essentially highlights investors' bias for the 2032s and particularly the 2037s in the month of February. Overall, the average yields on sovereign bonds dipped by 8bps to print at 13.3% as of 28th Feb-2023.

For the corporate bonds segment, we observed investors' bearish sentiment trickle down. Average yields on corporate bonds as of the end of Feb-2023 climbed 20bps m/m to close at 13.2% (previously 13.0%) in tandem with the broad-based bearish sentiment toward duration-exposed instruments. Conversely, the FGN Sukuk bonds closed bullish as average yields on sovereign Sukuk bonds declined by 38bps m/m to close at 12.0% compared to the previous month's close of 12.4%.

This month, we expect bearish sentiments from investors toward duration-exposed instruments, as they continue to price in another potential hike from the MPC in its March (20th – 21st) meeting, in response to the higher-than-expected inflation print for Feb-2023. We believe that the recent positive macroeconomic data and decent corporate earnings will stand as added upsides for another hike by the MPC, albeit moderate. We expect that the FG's need to finance the 2023 budget deficit to facilitate early implementation of the 2023 budget will continue to drive the supply of bonds. In this month's bond auction, the DMO's strategy to frontload debt issuances and its overall debt appetite will fuel investors' appetite for higher rates particularly at the tail-end of the curve. We believe post-election uncertainties and the country's dampened short-term fiscal outlook will motivate further sell-offs at the short-end of the curve. System liquidity will remain pivotal at intervals. Lastly, coupon payments to the tune of N351.9bn (426.7% higher than the total coupon payment of N66.8bn in Feb-2023) will make room for pockets of bullish sentiments, as investors will look to reinvest their funds.

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

Fund Manager	United Capital Asset Management Ltd
Base Currency/Start Year	Naira/2006
Fund Size (N)	101.1bn
NAV Per Share (N)	1,9744
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

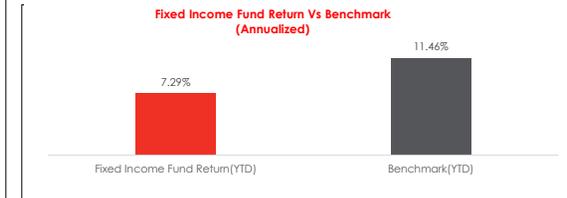
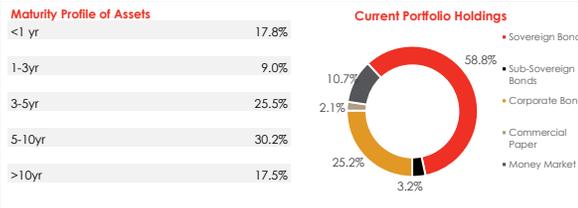
PERFORMANCE REVIEW

The United Capital Fixed Income Fund returned 0.53% for the month of February and 7.29% year to date relative to a 11.46% posted by the benchmark for the same period.

In the secondary market, we saw mixed investor sentiments. There were pockets of bullish sentiments that kept yields suppressed across the curve, buoyed by the buoyant financial system. Overall, the average yields on sovereign bonds dipped by 8bps to print at 13.3% as of 28th Feb-2023. For the corporate bonds segment, we observed investors' bearish sentiment trickle down. Average yields on corporate bonds as of the end of Feb-2023 climbed 20bps m/m to close at 13.2% (previously 13.0%) in tandem with the broad-based bearish sentiment toward duration-exposed instruments.

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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	YTD 2023
United Capital Fixed Income Fund	28.4%	11.3%	14.9%	9.35%	6.40%	6.33%	7.29%
Benchmark	14.0%	15.1%	10.2%	3.54%	9.45%	12.83%	11.46%

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

Past performance is not a reliable indicator of future performance and individual investors' returns may differ depending on individual investment period. Performance is net of fees and charges. This information has been prepared for the purpose of providing general information, without taking into account your objectives, financial situation or needs. Before making an investment decision, you need to consider whether this information is appropriate to your objectives, financial situation or needs. Please consult your financial adviser. This information has been compiled from sources considered to be reliable, but is not guaranteed. Any potential investor should consider conducting further enquiries in deciding whether to acquire, or continue to hold units in a fund.