

# United Capital Fixed Income Fund | Monthly Fact Sheet



September-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

In the primary market, the Debt Management Office (DMO) conducted the September 2023 FGN bond auction with a total offer size of N360.0bn across the 2029s, 2033s, 2038s and 2053s papers. The auction was undersubscribed due to a combination of the financial system's illiquidity (at the time of the auction) and banks' recent apathy toward long-duration exposure (banks have remained reluctant to increase their exposure to loan risks, leading to CRR debits by the CBN, further contributing to the financial illiquidity situation). Investor demand was N290.9 billion, or 0.8 times the amount offered.

The DMO undersold the auction, which is what we anticipated. The non-competitive allocations comprised 20.0% (N65.0bn) of the overall allotments of N316.4bn, giving the FG an upper hand in determining the magnitude of the rate increase at the auction. The allocation of bonds to investors at competitive rates totalled N251.4 billion. Due to increased demand and better value for money at the time of the auction, marginal rates increased (underpinned by system illiquidity). Ultimately, rates on the 2029s, 2033s, 2038s and 2053s papers climbed by 65bps, 45bps, 35bps and 40bps to settle at 14.5%, 15.45%, 15.55% and 16.25% respectively. Meanwhile, the last two (2) DMO auctions, which were both under-allocated, showed that the FG would be leaning toward decreased reliance on borrowing to finance government operations. According to Chief Wale Edu, the money saved from eliminating the petrol subsidy will be utilised to cut back on a sizable amount of government spending, especially on areas of the economy that were being targeted. Ultimately, average yields on sovereign bonds climbed by 16bps m/m to print at 14.4% in September 2023, from the 14.1% print in August 2023, implying that bearish sentiments mostly prevailed in September.

In the corporate bonds segment, we observed similar sentiments from investors. The average yields of FMDQ-listed corporate bonds climbed by 45bps m/m at the end of September 2023 to close at 14.8% (previously 14.4%). In tandem, the FGN Sukuk bonds closed bearish as average yields on Sukuk bonds climbed by 53bps m/m to close at 15.9% compared to the previous month's close of 13.4%.

We anticipate that the FG's efforts to reduce its borrowing will be more apparent in the domestic debt market in October. The FG will automatically have an advantage in calculating the size of rate increases going forward due to the decreased reliance (particularly in the presence of a liquidity surplus in the financial system). We anticipate bond yields to remain volatile at the present levels pending the publication of the bond auction calendar. Meanwhile, the MPC meeting, which was postponed to a later date but hasn't yet been announced, is an independent factor. We anticipate another modest 25bps increase. The liquidity situation will also impact the volatility of bond yields. Ultimately, we expect secondary market bond rates to remain at their current levels mostly. At the primary market, a combination of the anticipated auction calendar and investors' demand (supply and demand fundamentals) will determine the direction of yields.

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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 (M)	102.1bn
NAV Per Share (M)	1.9133
Minimum Entry (M)	10,000
Additional Investment (M)	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 0.46% for the month of September and 6.66% year to date relative to a 13.12% posted by the benchmark for the same period.

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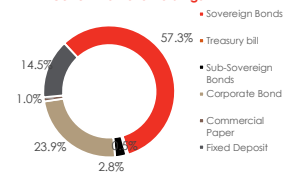
In the secondary market, investors' sentiment was primarily driven by the illiquidity of the financial system. In the corporate bonds segment, we observed similar sentiments from investors. The average yields of FMDQ-listed corporate bonds climbed by 45bps m/m at the end of September 2023 to close at 14.8% (previously 14.4%).

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.

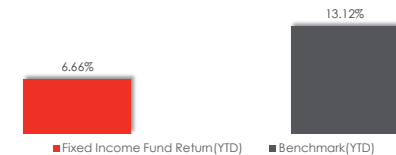
## Maturity Profile of Assets

<1 yr	23.7%
1-3yr	9.0%
3-5yr	23.8%
5-10yr	27.2%
>10yr	16.3%

## Current Portfolio Holdings



## Fixed Income Fund Return Vs Benchmark (Annualized)



\* 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

## Return History

	2017	2018	2019	2020	2021	2022	YTD
United Capital Fixed Income Fund	28.4%	11.3%	14.9%	9.35%	6.40%	6.33%	6.66%
Benchmark	14.0%	15.1%	10.2%	3.54%	9.45%	12.83%	13.12%

\* 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.