CONFIDENTIAL

2021 & Your Portfolio; Looking For Headwinds and Tailwinds

January 2021

Outline

FBNQuest Asset Management

FBNQuest |Who we are

We have a strong heritage & pedigree

FBNHoldings

FirstBank Since 1894

FBNQuest

FBNInsurance

- **c.125 years in business** (Est. 1984)
- Pan- African
- **Leading financial services Group in Africa**
- Largest bank in Nigeria*

* by total deposits and gross earnings

- Innovative player within its space
- Recognized as clear industry leaders in the face of rapid change
- Numerous awards
- Leveraging on international partnerships for sustainable growth.

Overview of FBNQuest Asset Management

Asset Under Management

> ₦ 415 billion*****

6 SEC registered mutual funds

Discretionary Portfolios

Structured Products

Cash Management

Awards both local and international

> 43 years experience across local and international firms

Seasoned Investment Professionals

> 23% market share of SEC registered funds

… Our strong suite of Asset Management/ Investment Management products is market leading…

FBNQuest Asset Management is a leading asset manager in Nigeria for individual and institutional investors offering a wide range of investment products and services.

Asset Management

Liquidity Management

Structured Products

Investment Management

Multiple asset class; multiple currency solutions

Alternatives

Fund of Funds Investments

Direct Investments

Third-Party Funds

Investment Philosophy ♦ Performance Monitoring ♦ Risk Management ♦ Reporting ♦ Safeguarding Assets

Core Offerings

We add value by leveraging our investment management expertise…

Understand markets	Understand client	Deploy solutions	Risk management & Reporting
Investment Strategy & Research ❑ Macro-economic view ❑ Market expertise	**Investment Advisory** ❑ Risk profile ❑ Advisory process ❑ Wealth planning ❑ Strategic asset allocation	**Investment Products** ❑ Direct investments ❑ Structured funds ❑ Discretionary portfolios ❑ Advisory portfolios ❑ Mutual funds	**Risk management** ❑ Sector limits ❑ Rebalancing **Reporting** ❑ Portfolio review and performance ❑ Market review and outlook

Investment solutions are tailored to meet client needs

FBNQuest Asset Management

Institutional Asset Management Offering

Our DPMS portfolio provides specialized solutions to client's investments

Employee End of Service Schemes	Unclaimed Dividend	Cash/Treasury Management	Overlay/Structured Solution

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Market Colour

2020 Recap

Pandemic, Recession: The Global Economy in Crisis

EXTERNAL

The novel coronavirus (COVID-19) has delivered an enormous global shock, with the global economy is climbing out from the depths to which it had plummeted during the Great Lockdown in April.

Key Highlights

COVID-19 brought the global economy to a sudden stop, causing shocks to supply and demand. Country after country suffered outbreaks, with each facing epidemiological shocks that led to economic and financial shocks as a consequence

The Russia–Saudi Arabia oil price war was triggered in March by Saudi Arabia in response to Russia's refusal to reduce oil production in order to keep prices for oil at moderate level. This economic conflict resulted in a sheer drop of oil price over the spring of 2020.

Following the introduction of COVID-19 containment measures across the world since March, real GDP in the OECD area showed an unprecedented fall. Among the Major Seven economies, Q2 GDP fell most dramatically, by 20.4%, in the United Kingdom

The Organization of Petroleum Exporting Countries (OPEC) and its allies (OPEC+) finally agreed to a historic cut in crude oil output as part of measures towards tackling the global oil crisis. The deal sees oil production cut to as much as 9.7 million barrels per day

In United States, benchmark borrowing rates were dropped to zero (0.00%-0.25%) and a USD$2trillion stimulus bill was approved. Canada, Japan, European Central Bank, Switzerland, Australia and other major economies also dropped their borrowing rates.

The 2020 United States presidential election held on Tuesday, November 3, 2020. The election saw a record number of ballots cast early and by mail due to the ongoing pandemic; this led to in vote counting and reporting.

Nigeria In Times of COVID-19: Tough times, tough takes!

While the ultimate outcome is still uncertain, the pandemic has resulted in deepest contractions across the vast majority of emerging market and developing economies.

Key Highlights

President Muhammadu Buhari finally signed the Finance Act 2020 into law. it is targeted at raising additional revenue for the Government through the introduction of new fiscal measures, including the increase in Value Added Tax (VAT) rate from 5% to 7.5%.

To further stimulate a contracting economy despite quickening inflation, the MPC's at its September meeting axed its monetary policy rate by 100 basis points to 11.50% and adjusted the asymmetric corridor to +100/-700 bps from +200/-500 bps.

In a technical devaluation, the CBN moved the Forex sales rate to Foreign Portfolio Investors (FPIs) on the I&E window to ₦380.0/$ from ₦366.7/$

President Muhammadu Buhari announced the removal of the subsidy on petrol and electricity in Nigeria as well as the full deregulation the downstream sector of the petroleum industry.

The Central Bank of Nigeria (CBN) also announced some palliative measures to reduce the effect of the pandemic. They include An intervention fund of about ₦1.2trillion for affected businesses and households.

INFLATION

The Pandemic compounded existing supply side pressures, leading to high cost-driven inflation due to structural rigidities. December 2020 inflation printed at 15.75%

Bringing it home: Impact of Twin Shocks on Nigeria's 2020 Budget

Nigeria, being an oil-dependent economy, has a twin Shock on its horizon: COVID-19 Pandemic Global & Domestic Shock, and Oil Price Shock. Nigeria's vulnerabilities to the impact of these external shocks can be adduced to increased dependencies on global economies for fiscal revenues, foreign exchange inflows, fiscal deficit funding and capital flows required to sustain the nation's economic activities.

KEY BUDGET ASSUMPTIONS

	OIL PRODUCTION	OIL PRICE	EXCHANGE RATE
INITIAL 2020 BUDGET	*2.18mb/d.*	*US$57/bbl*	*₦305/US$.*
REVISED 2020 BUDGET	*1.7mb/d.*	*US$30/bbl*	*₦381/US$*

KEY BUDGET COMPONENTS

	REVENUE	EXPENDITURE	DEFICIT
INITIAL 2020 BUDGET	*₦8.2tn*	*₦10.59tn*	*₦2.17tn*
REVISED 2020 BUDGET	*₦5.08tn*	*₦10.27tn*	*₦5.2tn*

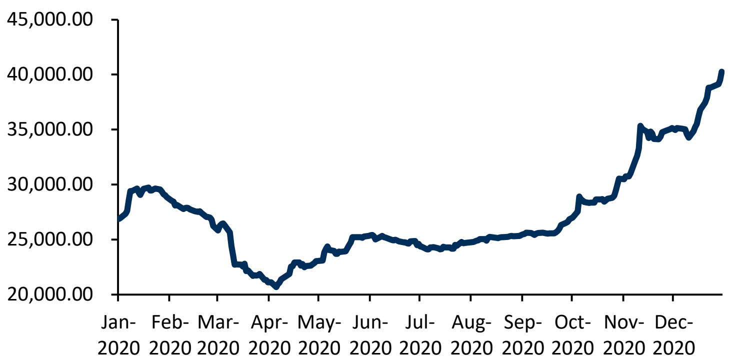
Due to the impact of the virus on global demand, Nigeria's top importers of oil namely China, India and Europe and China slowed down their importation of crude, leading to a buildup in crude inventories.

With oil receipts being a major contributor of FG revenues, lower oil prices only suggests that revenues will fall below budgetary targets. By extension, debt servicing and sovereign borrowing rates which currently takes up c.60% of total revenues will continue to increase.

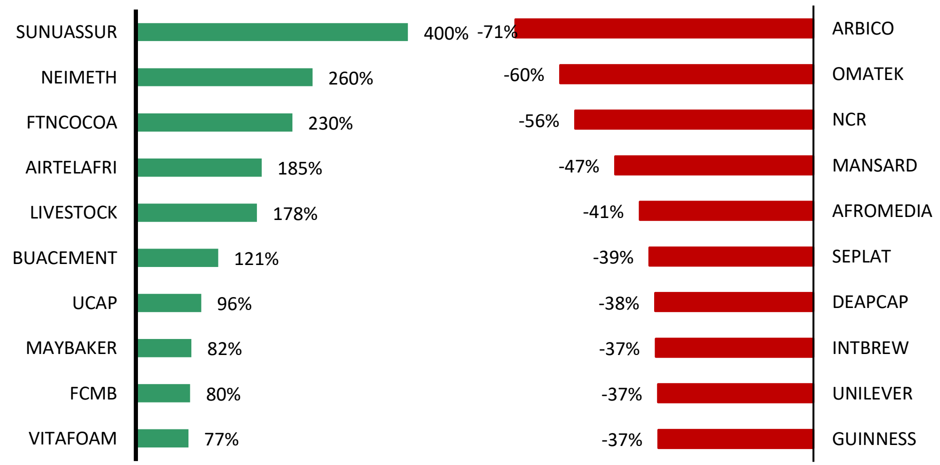
The equity markets was the only game in town….

Equity markets all started the year on a positive note, but they all witnessed declines at the height of the pandemic (March/April). Although an economic recovery began due to government policies, reopening of economies and pick up in oil prices, the recovery in markets was driven by excess liquidity as opposed to fundamentals

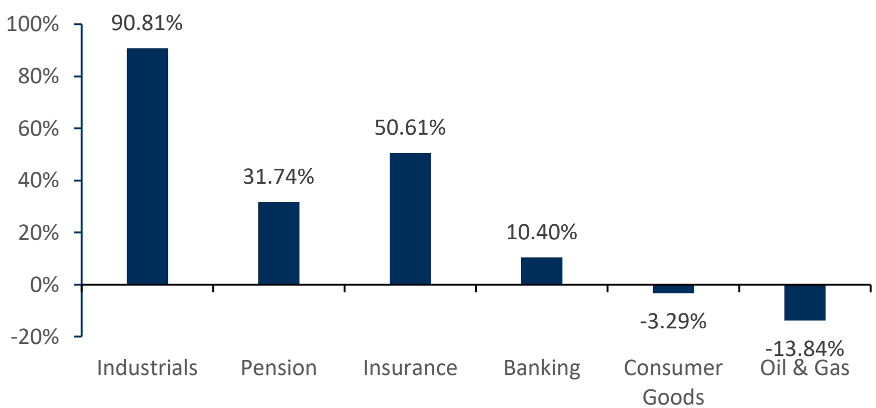
NSEASI YTD Performance



Best & Worst Performing Stock in 2020



Sectorial Performance 2020



- After a poor start to the year, the Nigerian equities market closed the year in the green. The All-Share index hit 40,270.72pts while the YtD pegged at 50.03% in 2020.
- The rally in the Equities Market was not fundamentally driven as the market benefitted majorly from excess system liquidity and low yields in the fixed income market.
- All sectorial indices closed in the green in 2020 save for the Consumer goods and Oil & Gas which contracted by 3.29% and 13.84% respectively.

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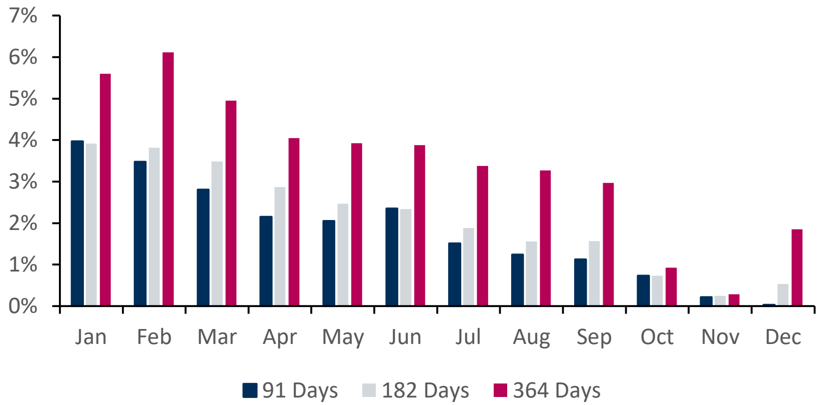
…while the Fixed Income market remained in favour of low interest rates

Rates in the money market have been on a constant decline both at the auction and the secondary market. Bond yields, however, have experienced volatility and demand as they have offered better yields than bills.

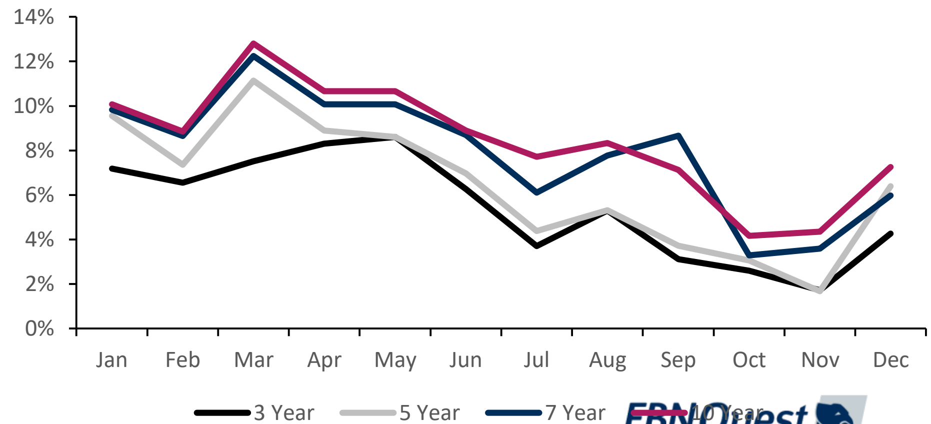
Treasury Bill Rates



- Events in the global space mirrored happenings in the domestic space as the fixed income market was a haven for investors during the peak of the pandemic.
- Yields crashed to low levels while stop rates at Tbills primary auctions thinned out. At the last auction, stop rates reached 0.03%, 0.50% and 1.21% for the 91-day, 182-day and 364-day instruments, respectively.

- The bond market was also bullish for the most part of the year as investors turned to the bond market to provide yield given limited alternatives
- The bond curve however rose in the month of March in reaction to shocks to the fixed income market as a result of the coronavirus pandemic.
- Demand however returned in April as market fears tapered and liquidity improved. The year however closed bearish on profit taking interests and expectations of an upward shift in yields in 2021.

FGN Bond Yields



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2021 Outlook

Global Economy: Taking a Shot at Recovery

World Recovery Dependent on Vaccines

- The outlook for 2021 highlights a potential broad-based recovery, largely dependent on the mass deployment of the COVID Vaccines.
- Global growth is projected by the IMF to rebound by 5.2% in 2021, buoyed by recoveries in Advanced Economies (+3.9%) and Emerging Markets (+6.0%).

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Dovish Monetary Policy to be Sustained

- Most Central Banks will continue to adopt accommodative policies, keeping interest rates low while deploying large scale stimulus programmes to drive economic growth.
- The US Fed at the last meeting already hinted at leaving rates at near zero levels till 2023.

Crude Oil Prices Still Expected to be Volatile

- Headwinds to an oil price recovery remains the extension of lockdowns during the second wave and the resultant decline in economic activities.
- Vaccine news, nonetheless, is positive for markets and the industry. World Bank forecasts crude oil prices to average USD42 pb in 2021.

Financial Markets Expected to be Positive

- The outlook for global equities is broadly positive on the back of reopening of economies, positive vaccine news, global liquidity and the expected rebound in household spending.
- The treasuries in the developed economies remain havens for investors.

Nigeria: Laying Foundations for a Recovery

Revenue is budgeted at NGN7.89trn (35% more than 2020's NGN5.84trn) with oil and non—oil revenue estimated at NGN2ttrn and NGN1.5trn respectively.

The 2021 aggregate expenditure is pegged at NGN13.6trn, 22% higher than the revised 2020 budget.

In 2021, we expect GDP growth to rebound, buoyed by increased economic activity and some improvements in the oil market.

Although the reopening of the borders in Q4-2020 should ease pressures on food prices, other structural factors such as FX market illiquidity, potential increases in petrol price, etc. may keep general prices elevated.

The dearth of FX liquidity that persisted for most of 2020 could also be another factor that will stall the economic recovery.

Corporates have had to resort to sourcing FX from the parallel market to fund their obligations owing to the very low liquidity levels in the official markets.

Boost in intra-African trade expected on the back of possible reduction/elimination of tariffs on trade in goods and services.

Export structure expected to improve to aid cross border trading

Possible increase in Nigerian Foreign Reserves, reducing threat on the Nigerian currency

Equities Outlook: Can the stock market rally be sustained in 2021?

Equity market is expected to be driven by;

- Portfolio inflows from the Money Market
- Bargain Hunting on Fundamentally sound stocks and hunt for dividend yields.
- System liquidity and low yield environment
- Low base effect and corporate actions
- Foreign Participation to remain tepid

NSE Sectorial Outlook

Industry	Ratings	Remarks
Banking	Moderate	Beyond the strain from the difficult macro, weaker interest and non-interest income plus regulatory challenges constitute a drag to performance. However, the industry is resilient with a history of consistent dividend payment, resilient revenue performance and earnings stability.
Agro-allied	Moderate	The industry has benefitted from several Government policy interventions, including a 35% levy on imported palm oil, import ban on refined oil and the exclusion of palm oil and related products from sourcing dollars from the official FX market. However, the reopening of land borders poses a threat with risk of renewed smuggling..
Brewery	Low	Unhealthy competition, weak disposable income and weak sales remain headwinds to industry growth.
Other Consumer goods	Moderate	We expect modest performance for the consumer goods companies that produce essential foods such as NESTLE, and the MILLERS.
Industrial goods	Strong	We expect sector performance to firm up on CAPEX spending, export sales with the commencement of AFCTA and open borders plus modest growth in volume sales.
Energy	Low	Uncertainties around demand recovery in the upstream segment and oil price volatility are downside risks. Cost pressure and other structural challenges remain for downstream players.

Color Key: Strong Moderate Low

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Fixed Income Outlook and Strategy; yield on recovery path

Gradual Uptick in Yield

The case for the uptick in yields seem imminent given that we are currently at rock-bottom, however, this also presents a cheap source of funding for the Government.

Mixed Sentiments

The yield environment might remain depressed in the short term but there is a possible case for upticks during the year (from Q2 2021). This is hinged on the drawdown in system liquidity - OMO maturities of NGN3trn in 2021 lower than 2020's NGN13.2trn.

Eurobond Issuance

Despite the Government's preference for concessionary loans from external sources, we do not totally rule out the possibility of a Eurobond issue in 2021.

Corporate Issuance

Nonetheless, the low yield environment in the fixed income space remains an opportunity for corporate entities to finance capital projects cheaply. Thus, investors should take advantage of investment grade debt issuances

Strategy

Given the low yield environment and an expectation of a gradual uptick in yields by Q2, we recommend:

- Staying at the short end of the curve to minimize losses should yields trend upwards.
- Short selling

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Thank you

FBNQuest Asset Management Limited RC 978831
16-18 Keffi Street, Off Awolowo Road
S.W. Ikoyi, Lagos, Nigeria
Tel: +234 (1) 2702290-4
www.fbnquest.com/assetmanagement
An FBN Holdings Company