



INVESTMENT MANAGEMENT - AXA MANSARD PERSPECTIVE

Feb., 2016

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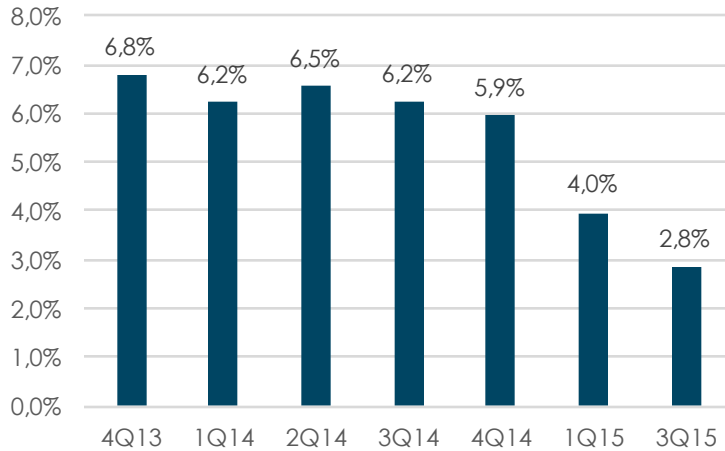


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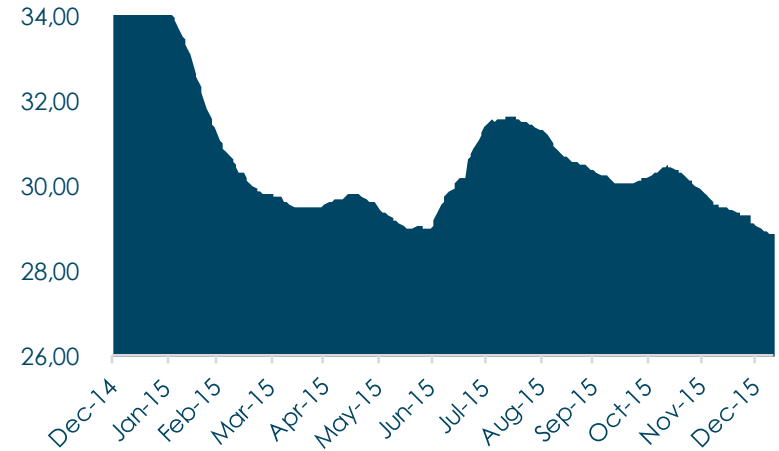
Domestic Economic & Market Review

Nigeria: Low oil price, policy uncertainty stifling the economy & markets

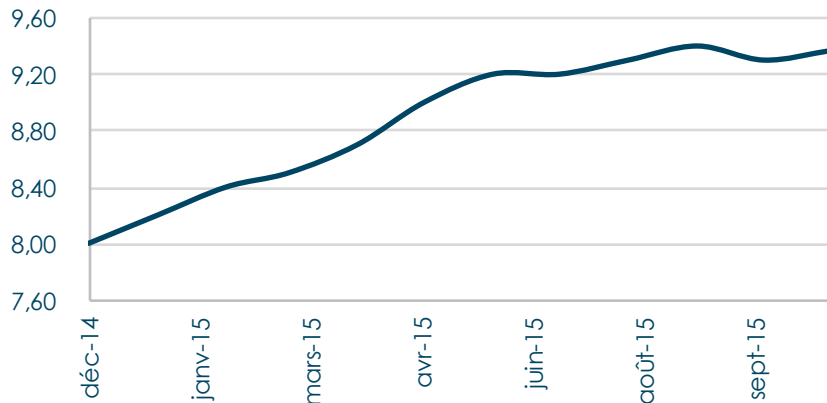
1 Real GDP growth slowed to 2.8% in 3Q15



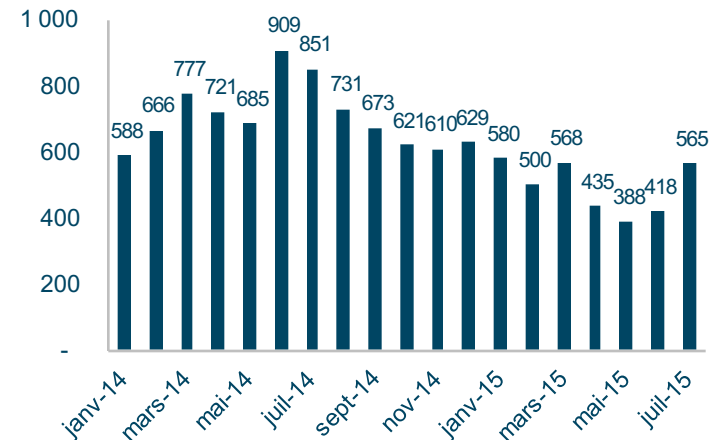
2 External Reserves remain under pressure – dips 17% YoY to \$28 billion



3 Inflation near double-digit: @ 9.6% in December 2015



4 FAAC dwindles – avg. @ N450b and 35% short of sufficiency level



Forex: Desperate times require desperate measures (unmet demand in excess of \$6-8billion)

Desperate times

- ➔ US Fed increased benchmark interest rate by 25bps in Dec-2015 as investors dump emerging and frontier markets assets.
- ➔ External reserves shed 4% in 4Q15 (dipped by 16% to N29.1 billion in FY15) given the seasonal festive demand pressure as well as intensified activities of round-trippers.
- ➔ USD/NGN exchange rate depreciated by 11% and 14% to N199.30 and N240 at the interbank and BDC markets, respectively in FY15. Parallel market and NDF closed FY15 at N266 and N265/\$1 (after touching a high of N285/\$1 in Nov -15).
- ➔ Average financial system liquidity increase 3-fold to N473 billion in 4Q15 from 3Q15.



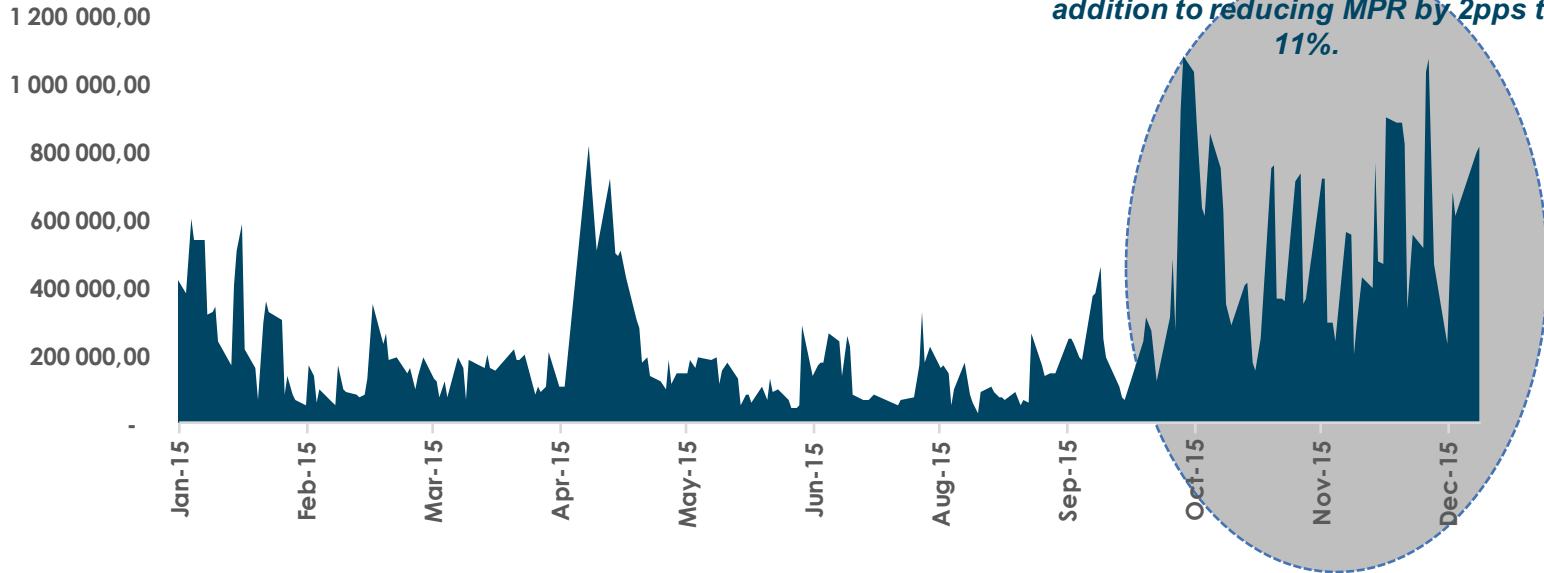
Desperate measures

- ➔ US dollar rationing by the apex bank in favor of matured LC, refined petroleum products and key raw material imports.
- ➔ Presidency announced plans for the CBN to introduce some **FX flexibility** in FY16 to encourage FX inflow.
- ➔ CBN stop sale of US dollar to BDCs.
- ➔ The apex bank, in conjunction with the banks, introduced varying measures to stem demand including:
 - ➔ Reduction to the annual US dollar limits from \$50,000 – some banks cut down to as low as \$10,000/annum.
 - ➔ Increasing transfer charges via debit card channel from 0-5% to as high as 25%.
 - ➔ Introducing a daily offshore transaction limit via Naira debit cards.

Monetary Policy – clearly loosing the FX battle... confused?

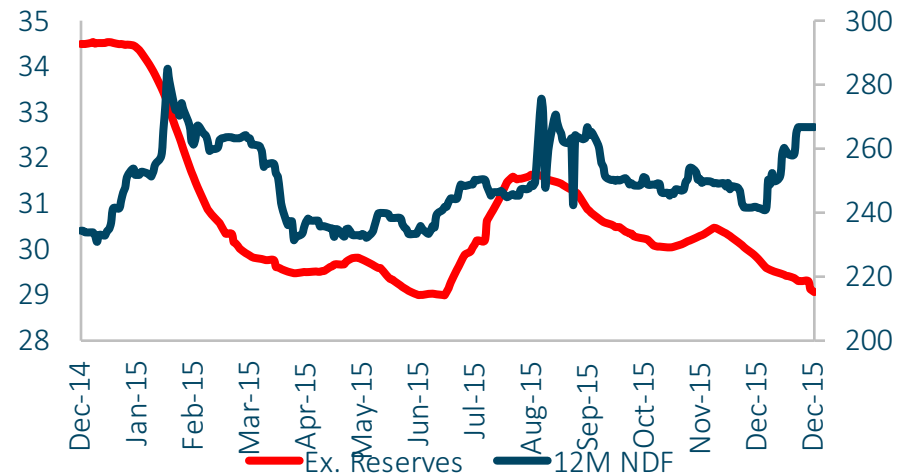
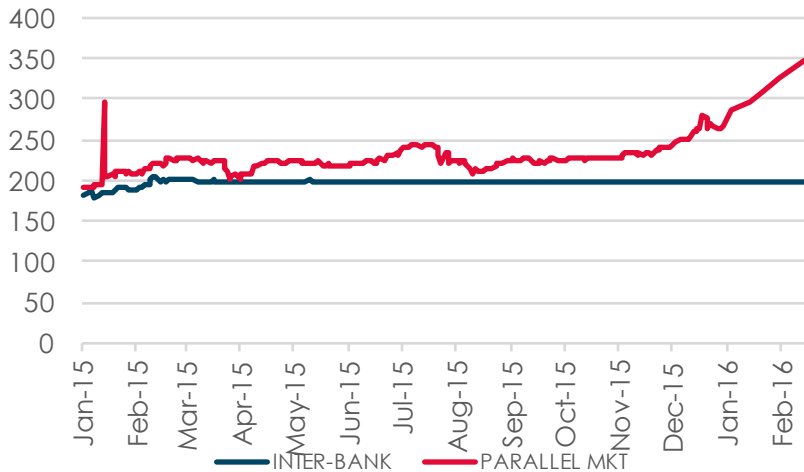
Liquidity spike following the CBN's dovish policy in 4Q15

CBN cut CRR twice in 4Q15 to 20%; in addition to reducing MPR by 2pps to 11%.



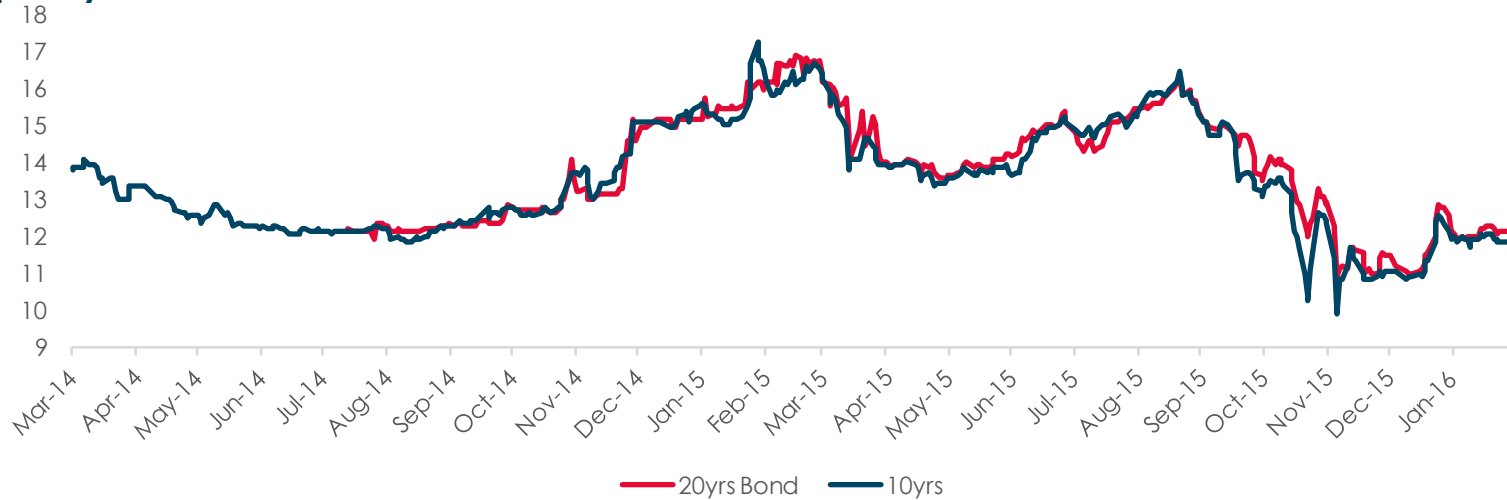
Parallel market FX rate trade away from official rate

Offshore investors bet on currency devaluation

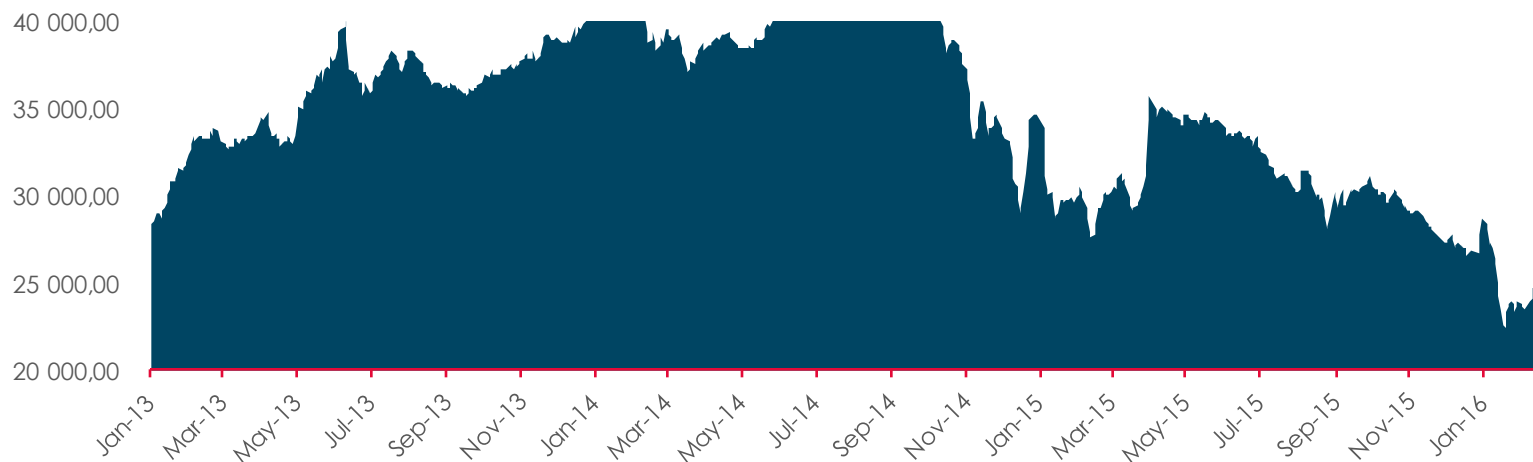


Traditional Assets – Return under intense pressure

Yields have dipped by an average 300bps across the yield curve following the CBN's dovish policy



Risk-off posture across the world, weak economic fundamentals, rising default risk weigh on equity market – shed 31% from the highest level last year



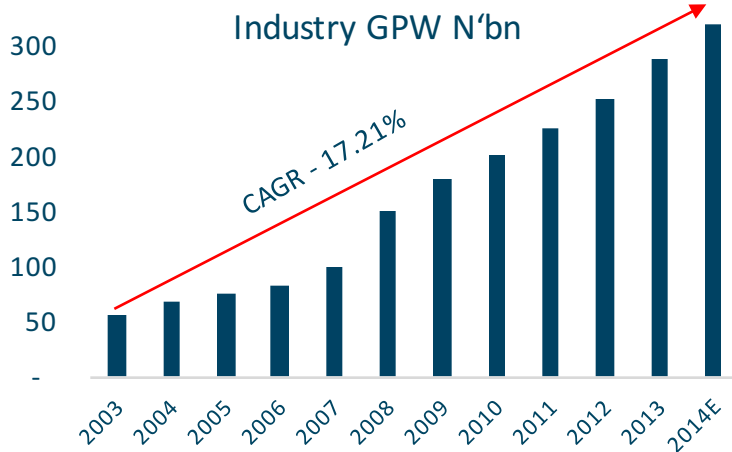


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Investment Management for the Insurance business

Nigeria Insurance industry: Largely underpenetrated

Industry Growth Trends



- ➔ Growth has not compared favourably with other sectors where regulatory reforms have been stronger
 - ➔ Nigerian banking sector – 39% CAGR
 - ➔ Telecoms - 88% CAGR
- ➔ Penetration issues are drawn from the following factors:
 - ➔ Poor awareness/credibility
 - ➔ High costs with high combined ratios (+100%)
 - ➔ Sub-par product development

Industry Fact Sheet

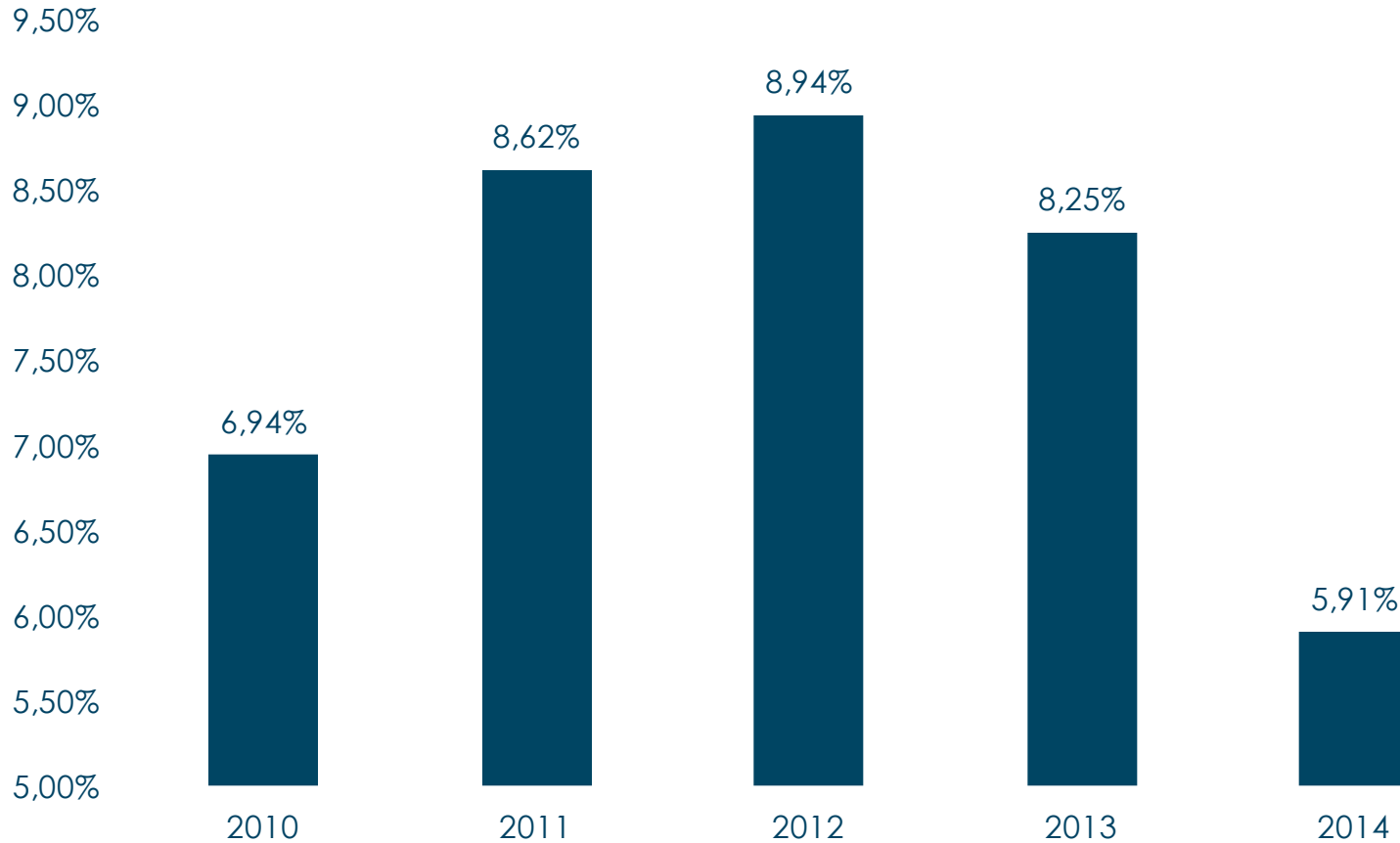
- ➔ Industry operators
 - ➔ Reinsurers – 2
 - ➔ Underwriters – 58
 - ➔ Brokers – 577
 - ➔ Loss Adjusters – 54
- ➔ Number of insured individuals – 1.5million (2012)
- ➔ Insurance Penetration - 0.3% (2014)
- ➔ Insurance Density - \$10.0 (2014)
- ➔ Both insurance penetration and density rate are a far cry from the African average (Penetration 2.8% and Density \$61)

Major African Insurance Hubs

Country	GPW \$ million	Penetration Rate %	Life Penetration Rate %	Non-Life Penetration Rate %	Density \$
South Africa	49,159	14	11.4	2.7	925
Morocco	3,400	3.2	1.1	2.1	102
Egypt	1,968	0.7	0.3	0.4	24
Nigeria	1,790	0.3	0.1	0.2	10
Kenya	1,784	2.9	1	1.9	39
Algeria	1,597	0.7	0	0.7	40
Angola	1,142	0.8	0	0.8	52
Namibia	931	7.2	5	2.2	396
Tunisia	888	1.8	0.3	1.5	80
Mauritius	766	6	4.1	1.9	613

Source: NIA Digest Swiss Re Sigma 3/14 CBN Website NAICOM Website 2013 EFINA Report

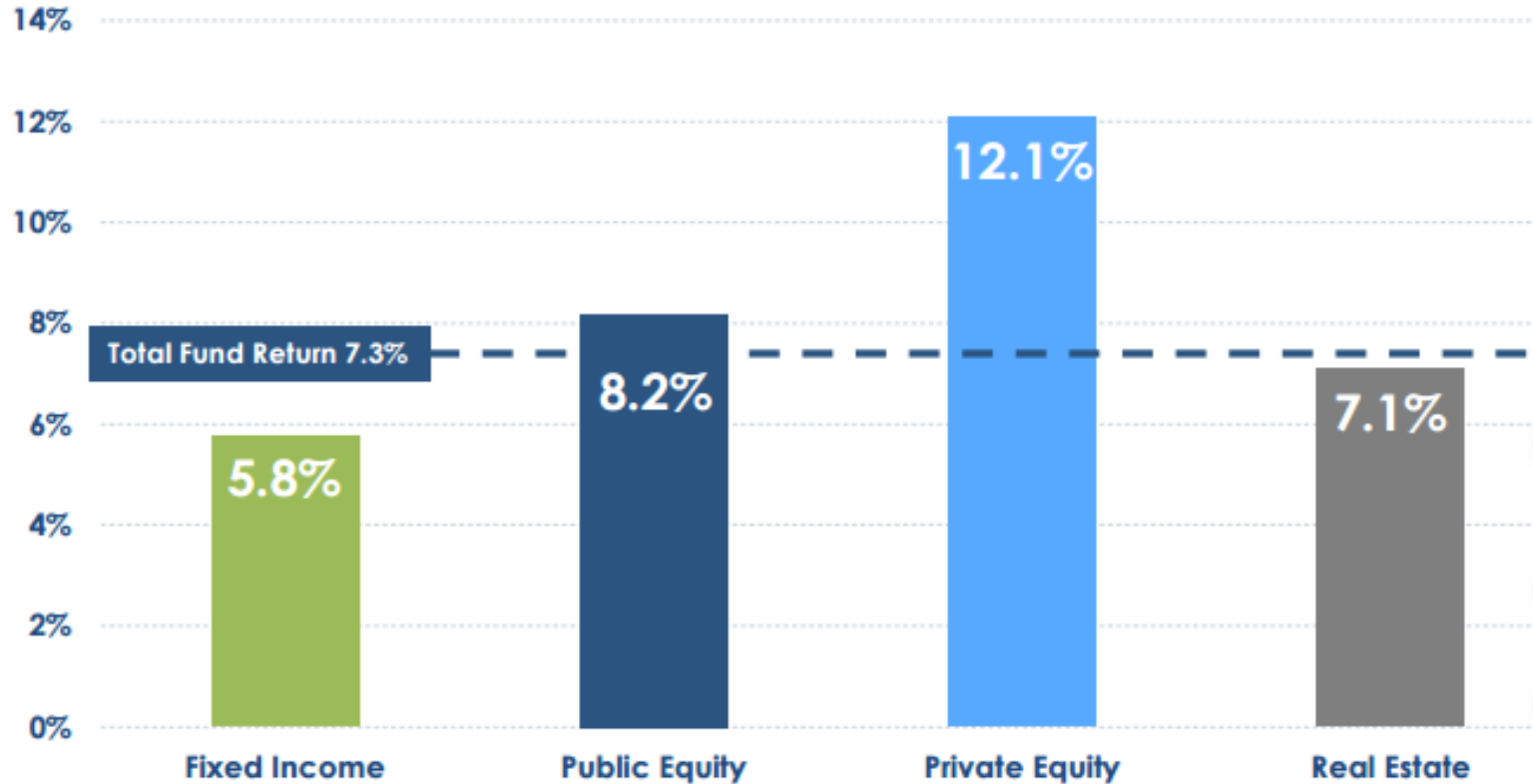
Historical Nigeria Insurance Industry Average Return on Investment



However, Private Equity continues to provide respite for investors

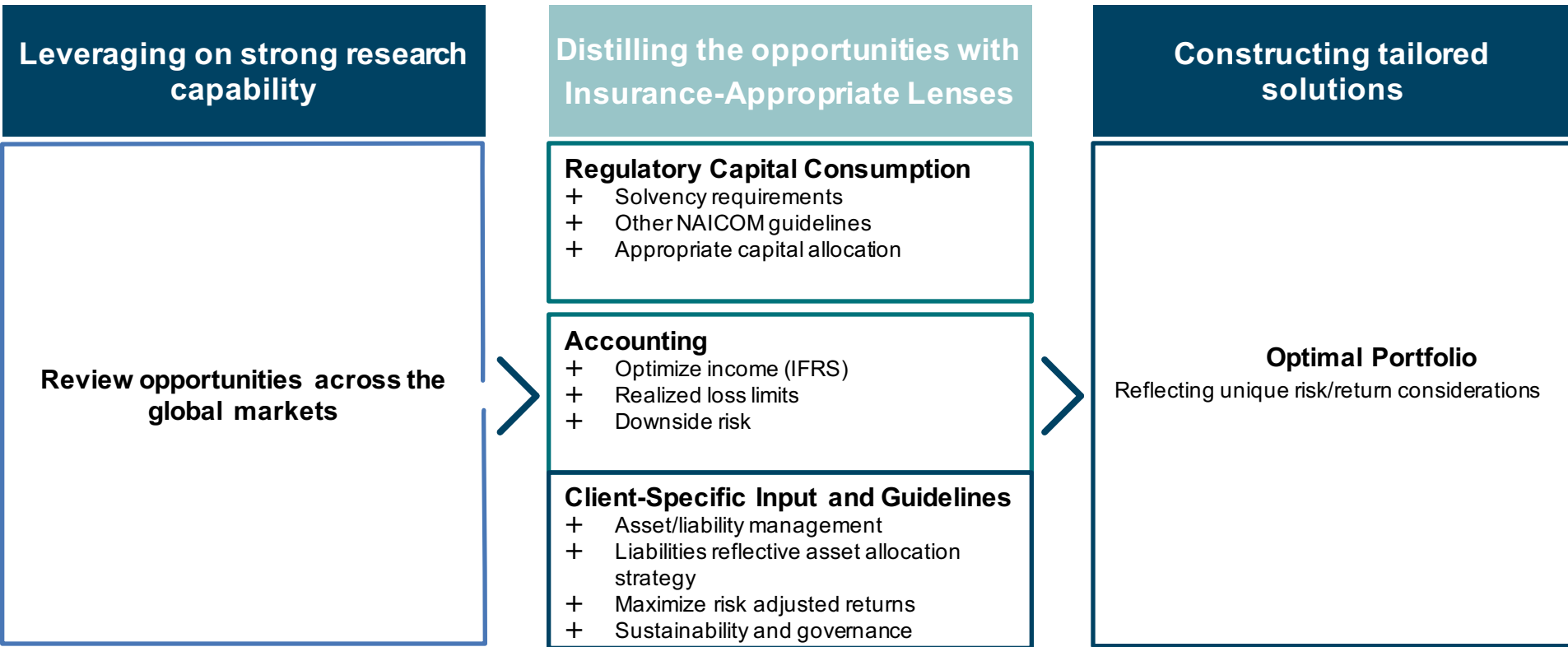
Pension Fund Investment Return by Asset Class

Median 10-Yr. Annualized Return



Source: ACA, Private Equity Growth Capital Council, 2015

Insurance investment management – driven by regulatory guidelines, diligent research and risk-return considerations



A restrictive insurance industry... Investment managers leading the charge

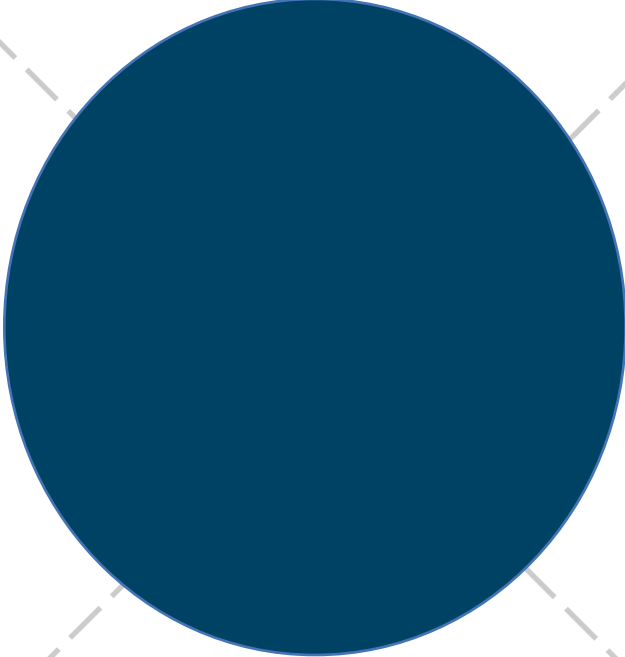
Some provision in insurance guideline

- ➔ Reinsurance arrangement (oil & gas) – deductible must be more than 2.5% and 5% of shareholder fund for construction and operational risk respectively where excess loss of reinsurance is purchased. The reverse apply for proportional treaty/facility.
- ➔ Defines “investment and related functions’ as core activities that can not be outsourced.

Recommendations by the investment managers

- ➔ 5% cap may be to restrictive as borrowing may be a cheaper source of funds. Some insurance companies currently have up to 30% gearing.
- ➔ The definition contradicted another provision that “no insurer can outsource its investment function without an approval from the commission”.
- ➔ A provision in the guideline also require a written contract between the insurer and asset manager.
- ➔ The need to include registered mutual funds and other alternative assets as the industry evolves.

Benefits of outsourced investment business

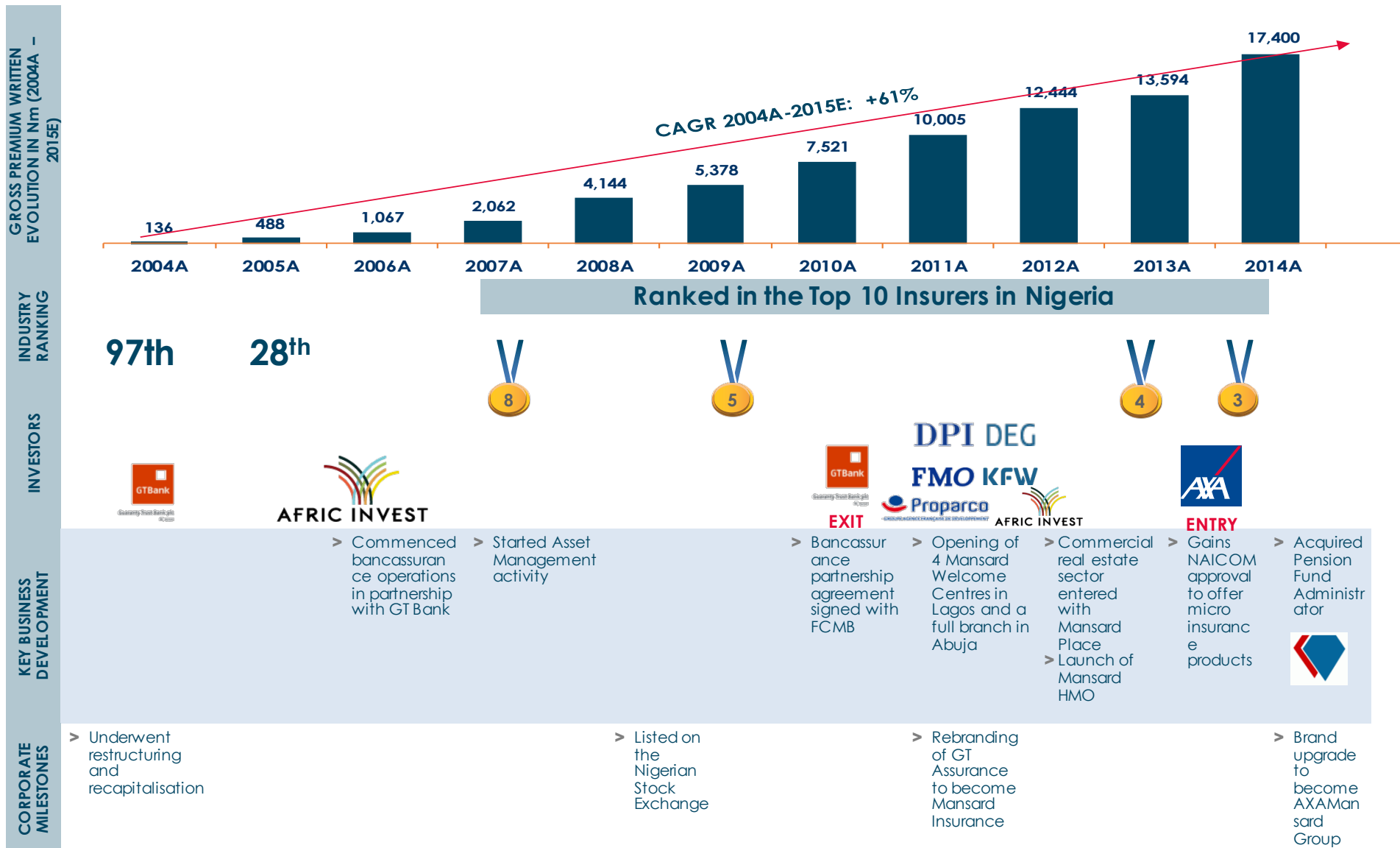
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- **Focus:** Allows the insurance company leverage on its underwriting strength leaving investment management to the experts
 - **Regulatory evolution:** Investment managers possess extensive experience to help insurance companies meet regulatory requirements, risk management and reporting
 - **Cost savings:** No need to replicate functions/departments required for asset management.
 - **Research:** Investment managers are experts in rigorous fundamental and technical research; enabling the insurer stay ahead of change



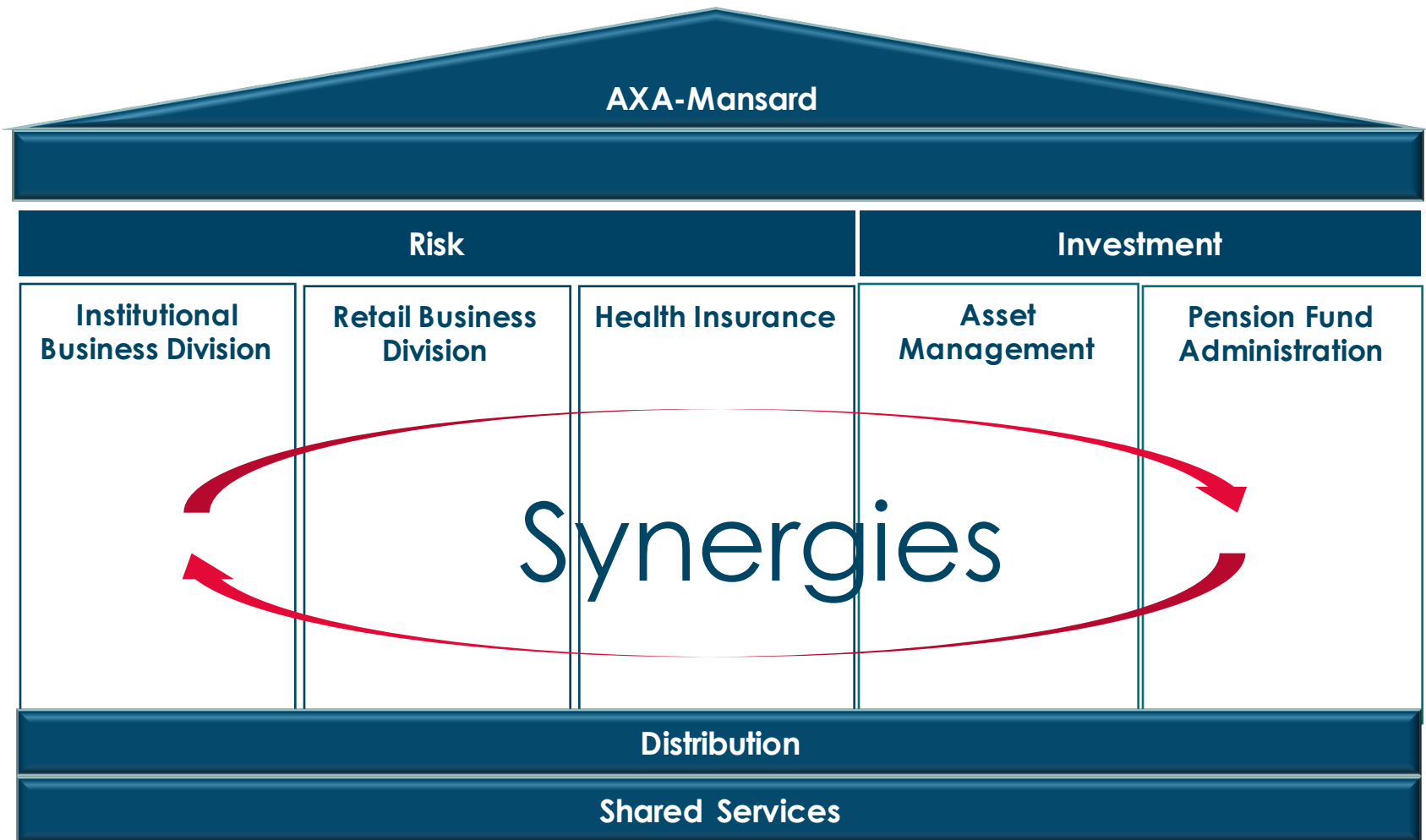
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About Us

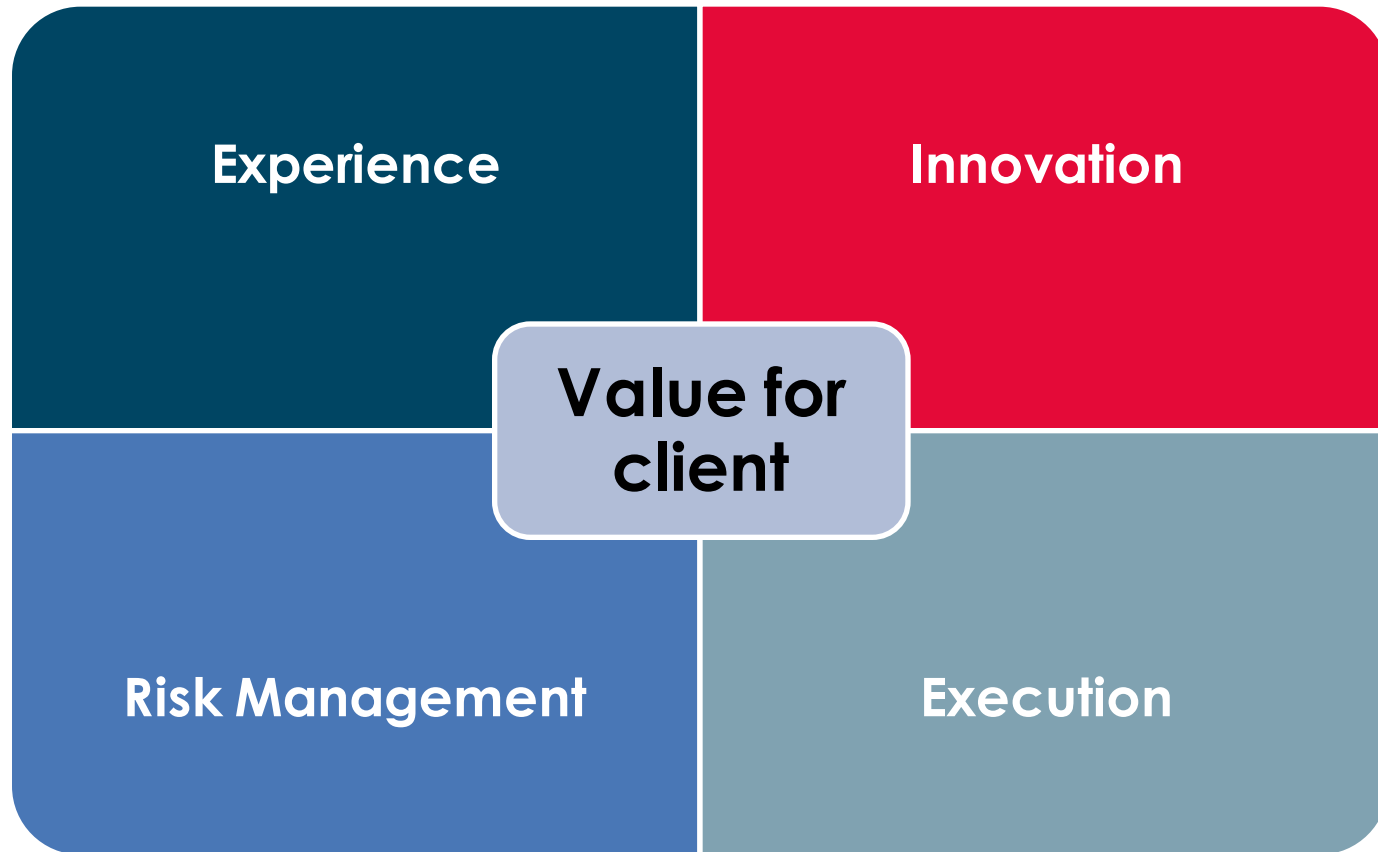
AXA Mansard: Our journey so far ...



AXA Mansard: Currently segmented into 5 distinct businesses

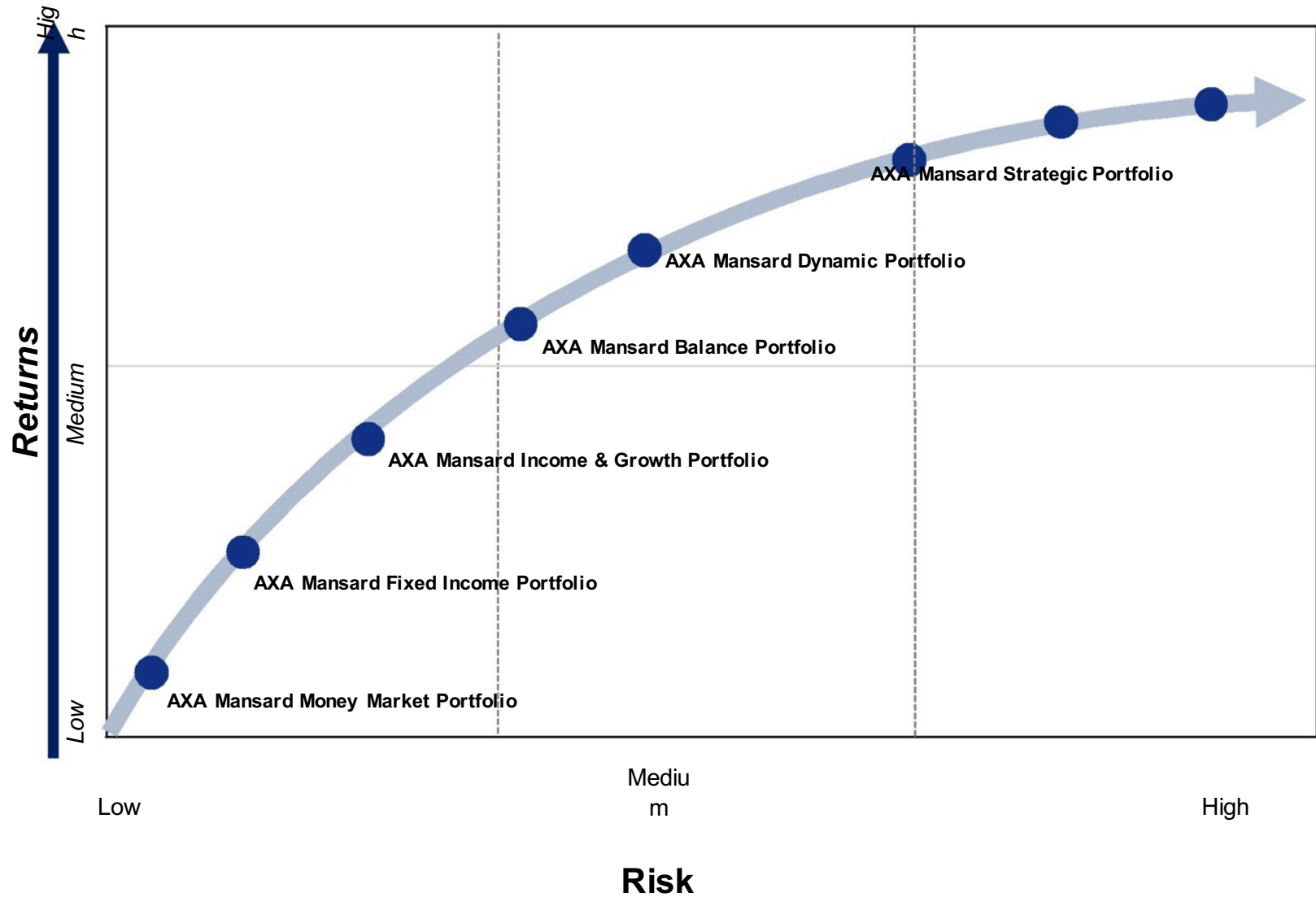


Our investment philosophy: to secure the future for our clients



Our experienced team across asset classes seek market opportunities; but more important are the creative approaches and best executions to capture best risk-adjusted returns on behalf of our clients.

Standard solutions for varying risk profiles





THANK YOU
