GHANA

INVESTMENT OUTLOOK

TABLE OF CONTENTS

Our 2019 outlook surveys the views of ten (10) money managers on Ghana's economic outlook. Through the survey we identified key market themes that will drive assets performance for 2019, probed into key risks on the horizon and refreshed our views on key investable assets.

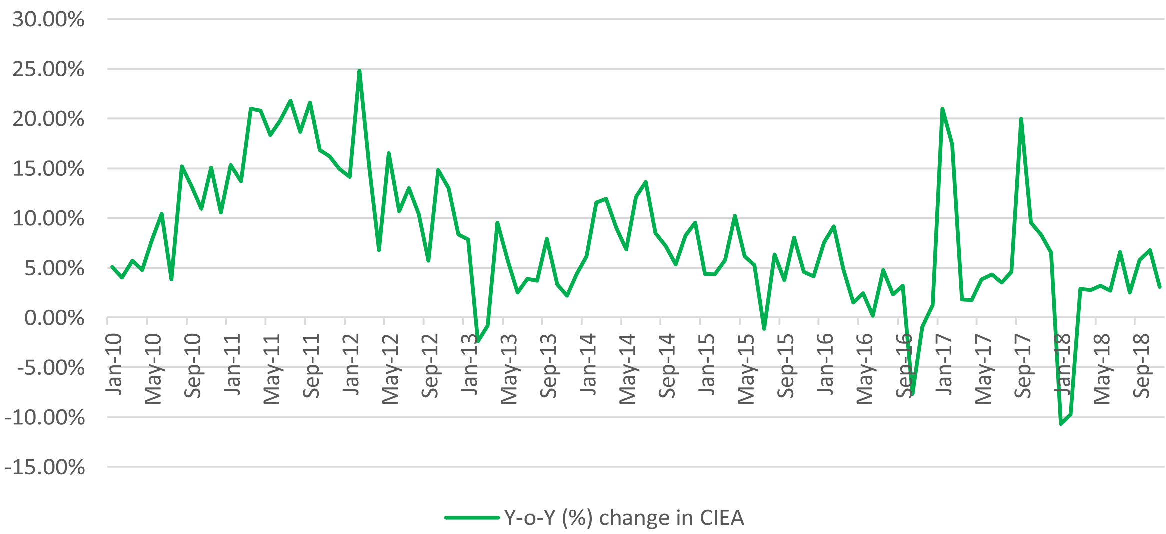
CHAPTER 1- EXECUTIVE SUMMARY

Themes: We see a sublime rebound in the Ghanaian economy in 2019 driven by government infrastructure spending and a pickup in credit to private sector and consumers. The difficulties from the 2017-2018 banking sector clean-up however will still be felt at least throughout the first quarter of 2019.

Government's infrastructure budget of over GH¢8billion is expected to prop up economic growth. We expect a strong, liquid and well capitalized banking sector going into 2019 to anchor growth in the real sector. We expect a strong economy to translate into strong corporate profitability for listed equities leading to positive outturn for stocks. We view Government's projection of GDP growth of 7.6% for 2019 as largely achievable.

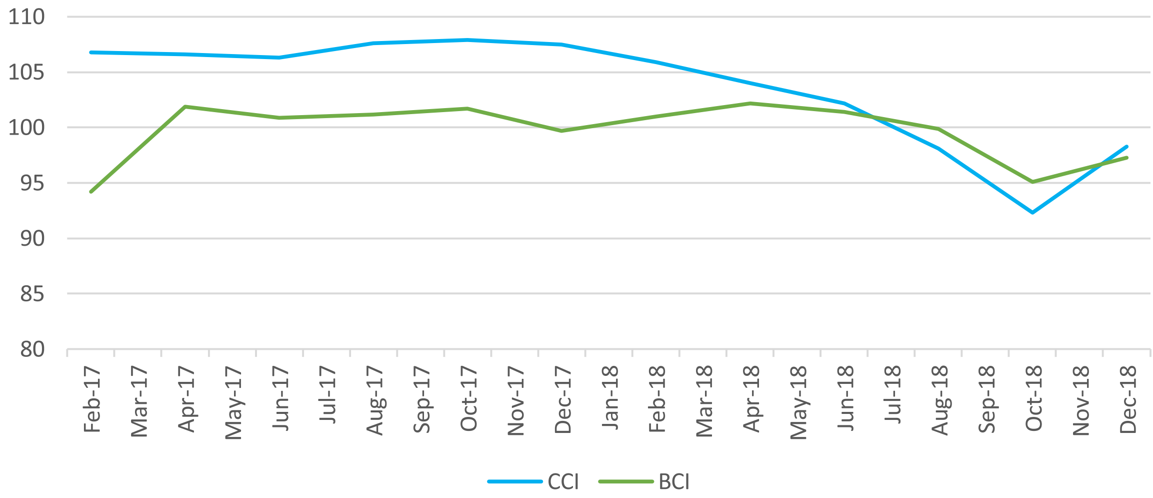
It is expected that fiscal constraints will drive treasury rates higher than 2018's close, a positive outcome for money market investors. Attractive short term fixed income rates may crowd out capital inflow into equities by multi asset managers and put a dent on the anticipated stock performance in 2019.

Composite Index of Economic Activities



Source: Axis Pension Trust, with data from the Bank of Ghana.
Note: The real composite index of economic activities (CIEA) provides an outlook on the state of the economy. It is usually a short term indicator of GDP. We see four (4) negative readings of the indicator from 2010 to date. January, 2017 saw largest year on year jump whiles the preceding year witnessed the composite largest decline in the last 10 years.

Bank of Ghana Confidence Surveys



Source: Axis Pension Trust, with data from the Bank of Ghana.
Note: Both business and consumer sentiments have seen a rebound since October 2018

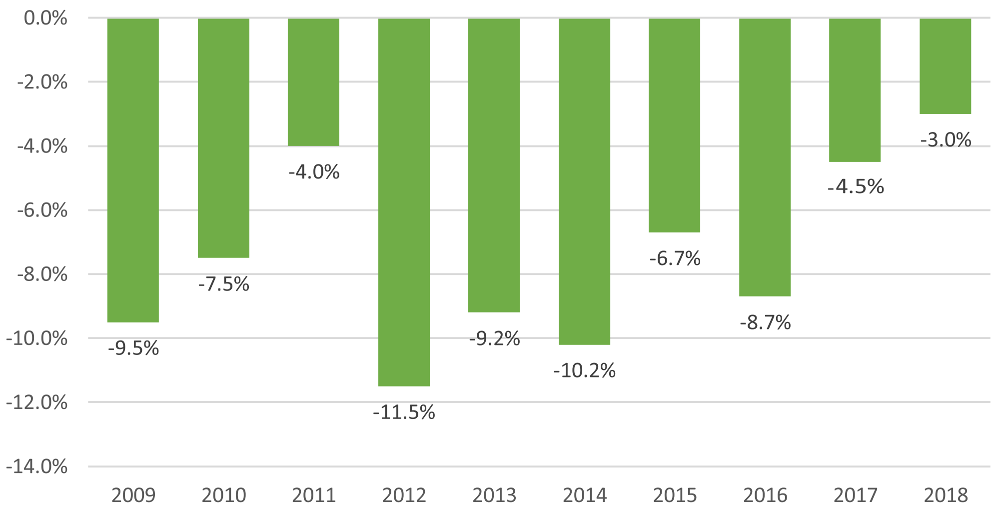
Risks: Key risk to the economy remains the high and growing debt level and more especially, the high proportion of total debts held by non-residence investors. The economy over the years has been vulnerable to offshore portfolio investors. For example, offshore portfolio investors' holdings in government treasury securities reduced from 38% of to about 34% from January to December 2018. A sell off by foreign investors will have significant impact on the cedi as was seen between Q2 and Q3 2018.

Headwinds from the banking sector clean-up is expected to negatively affect consumer sentiments. Indication of plans to sanitize the lower tiered financial institutions by the regulator will add to consumer pains. Liquidity crunch will consequently be ineluctable, impacting overall demand if the cleanup exercise cascades down to the savings and loans industry, insurance and asset management companies. Revenue underperformance will worsen Government's fiscal constraints and adversely affect public spending especially on infrastructure. What is more, negative price performance of key export commodities will add to government's income squeeze.

Market view: Given the general consensus from money managers that the equities market has bottomed; we believe equities may see a rebound in 2019 albeit at a very slow pace compared to the first half of 2018. Our focus will thus be on companies with quality cash flow, sustainable growth rate and clean balance sheet.

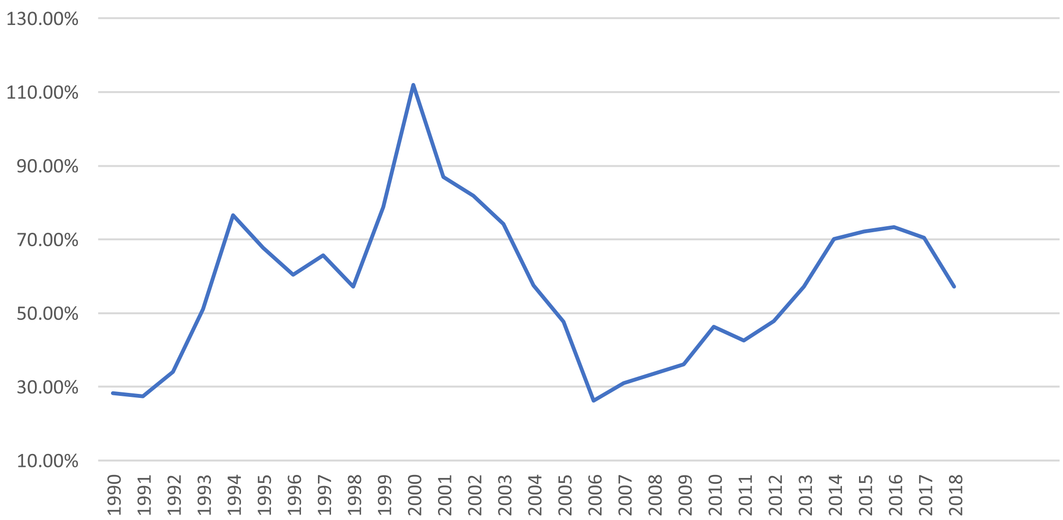
Government of Ghana securities shall continue to dominate asset allocation for multi-asset managers in 2019. GOG's securities on accrual basis remains a low risk option and the preference of most institutional funds. Expected increase in Government spending ahead of election year 2020 will lead to a growth in fiscal deficit. The view of the market is that short term rates will increase between 100bps-300bps as government focuses borrowing activities in the short end of the government curve to benefit from relatively low interest rate vis-à-vis long term rates. Long term rates should remained relatively unchanged from current secondary market rate levels.

Government fiscal deficit,2009 -November 2018



Source: Axis Pension Trust, with data from the Bank of Ghana.
Note: Ghana battled with double digit fiscal deficit between 2012 and 2014. Since then fiscal deficit has trended downward, with a spike in 2016 mainly due to election year spending. The deficit reduced by almost a half in 2017. New fiscal responsibility act should ensure the gains made in reducing fiscal deficit is not eroded for election gains.

Debt to GDP ratio, -November 2018



Source: Axis Pension Trust, with data from the Bank of Ghana.
Note: Debt to GDP peaked at 111.90% in 2000 before HIPC reliefs and debt forgiveness brought it low to 26.20% in 2006. Since then, Debt to GDP peaked again at 73.4% in 2016. Ghana has been under the IMF debt sustainability program since 2015. Rebasing of our GDP reduced the ratio from about 70% to current level of 57%.

CHAPTER 2 - GLOBAL ECONOMIC OUTLOOK

In 2019, global GDP growth is likely to decline from the 3.3% growth expected in 2018 to 2.9% in 2019 according to the World Bank, mainly due to fading policy stimulus in the USA and policy tightening in EM ex-China. China's GDP print for 2018 was announced at 6.6%, the lowest since 1990. Falling demand and consumer confidence plus escalating trade war accounted for the decline in GDP. Growth is expected to remain resilient at about 6% although below the levels we have seen over the last decade, as policy stimulus goes into full gear to prop up the Chinese economy.

International trade and investment have weakened. Trade tensions remain elevated. The two largest economies, USA and China are in a middle of a trade war, with a 90days truce called to find a solution. Several large emerging markets underwent substantial financial pressures last year, against the back drop of four rate hikes by the US Federal Reserve. Emerging market (EM) and some frontier market (FM) currencies and bonds took heavy hits. Against the challenging global environment, growth in emerging market and developing economies is expected to remain flat in 2019.

The pickup in economies that rely heavily on commodity exports is likely to be much slower than hoped for. Growth in many other economies is anticipated to decelerate. Fading US economic outperformance, inflationary pressures and a potentially weaker dollar create a strong backdrop for real assets. Again, restrained supplies should support major commodities despite demand worries. The biggest challenge going in 2019 are populism, isolationism, nationalism, and fear for immigrants and globalism.

CHAPTER 3 – 2019 MACRO-THEMES FOR GHANA

3.1. GDP Growth

The participants surveyed project 2019 GDP growth rate in a range of 6.5% to 8.0%, well in line with Government GDP growth target 7.6% for 2019. A key concern that emerged from our survey is the ability of Government to realize fully its 2019 revenue target of GH¢58.905 billion, a 25% increase from last years. The participants believe the following will slow Ghana's economic performance;

3.1.1. Dwindling fiscal space will impact negatively on long term investment in infrastructure. Government first quarter issuance calendar signals an amount of GH¢11.25 billion will be raised by the Ministry of Finance out of which GH¢10.15billion will be to rollover maturities. The issuance calendar again signals waning interest by investors in long term papers as about 64% of the amount to be raised will have maturities less than 1 year. Participants anticipate government may struggle to issue the securities without a significant increase in interest rates.

3.1.2. High banking sector Non-Performing loans (NPLs) will continue to hinder private sector credit growth. Stricter Basel II & III capital compliance will reduce banks appetite for corporate credit risk.

3.1.3. The US Federal Reserve (Fed) rate hikes could strengthen the dollar and lead to currency pain for frontier markets like Ghana with inadequate reserves to support the local currency.

The factors below are projected to serve as a boost to GDP;

3.1.4. Expansionary fiscal policy, with most spending expected during the second quarter. Government allocation to infrastructure increased by 157% from GH¢1.8 billion to GH¢4.8 billion. This represents 12% budgetary allocation from 6% in 2016 and 2018 respectively and 10% in 2017.

3.1.5. Well capitalized banks may support credit growth especially as credit contracted by 7.5% in October 2018 compared to a 12% growth same period in 2017.

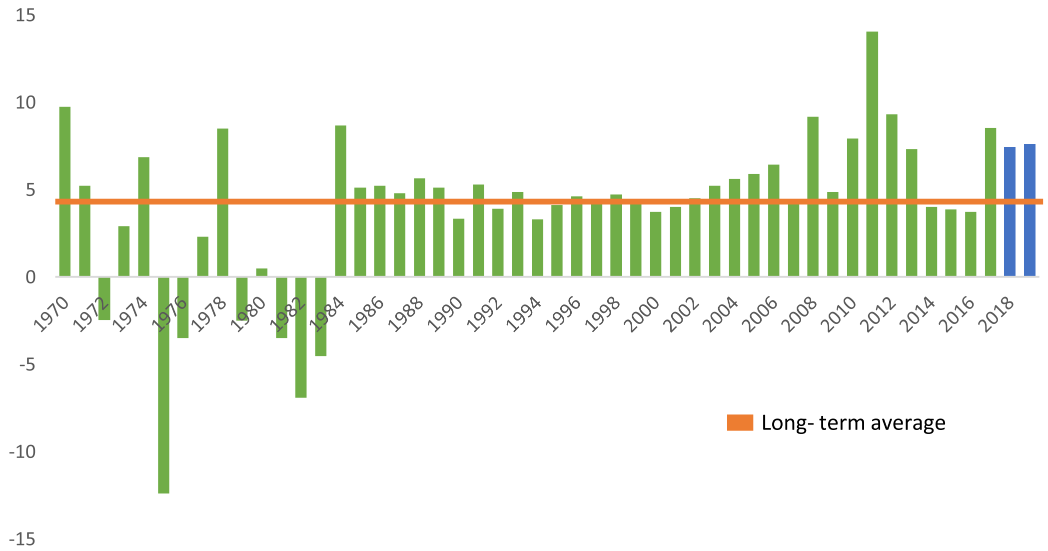
3.1.6. The realization of the $2billion Chinese Bauxite for infrastructure investments in the road and railway sectors.

3.1.7. Investment in the agriculture sector through the planting for food and job will continue to push up contribution of agriculture to GDP.

3.1.8. Government's flagship 'One District One Factory (1D1F)' and likelihood of ease of credit stance from Q2 will provide a boost to industry. The oil sector will continue to significantly drive industry's contribution to GDP.

GDP expected to rebound

Real GDP growth, 1970-2018. Long term average growth since 1970 is 4.01%

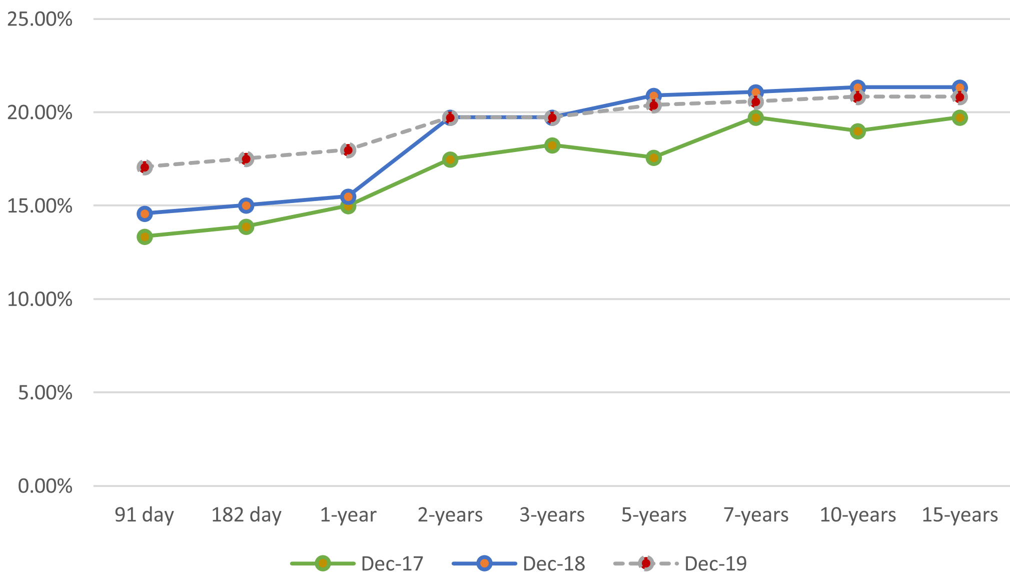


Source: Axis Pension Trust, with data from the World Bank

Notes: Projection for 2019 is based on Ministry of Finance numbers as was available in the 2019 budget statement. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate. 2018 number is based on third quarter GDP print.

Short term government paper will be more attractive.

Yield curve for 2017-2019. 2019'S curve is a forecast based on surveys view.



Source: Axis Pension Trust, with data from the Bank of Ghana and average secondary market quotes by selected primary dealers.

Note: There were uneven upward shift across the government curve. Yield increased by an average of 200bps between the 2 years and 15years maturities. The short term maturities yield increased by about 100bps.

3.2. Financial sector development and the credit market

The banking sector has gone through some turbulence over the last five years. First, it was the Bulk Oil Distribution Companies (BDC's) and Finatrade Ltd. debt overhangs that almost brought an entire industry to the brinks and subsequently insider self-dealings, alleged fraudulent behaviors and ineffective corporate governance leading to the collapse of nine (9) banks over the last of two (2) years.

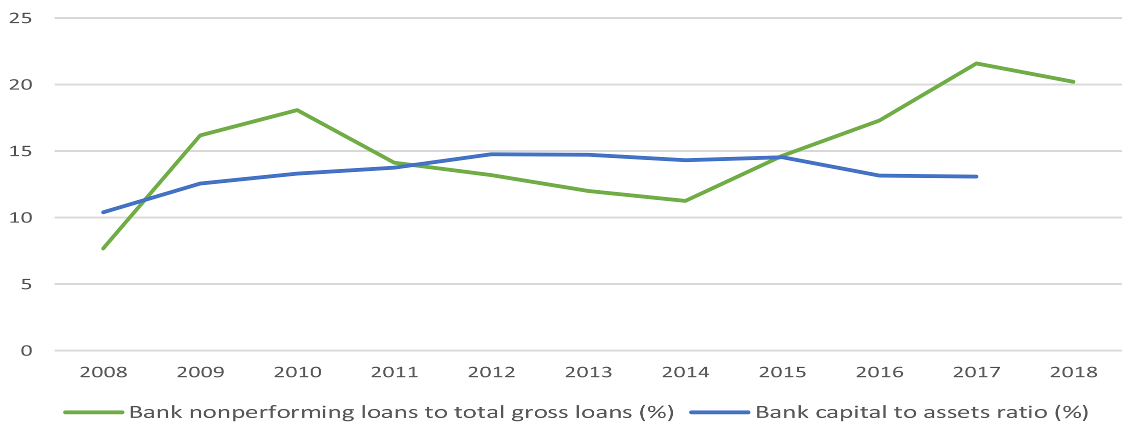
According to the Bank of Ghana, twenty three (23) banks remain after the banking sector clean up. Pending transactions within the industry are FNB acquisition of GHL Bank, First Atlantic Bank acquisition of Energy Commercial Bank and Sahel Sahara merger with Omni Bank.

In addition to the above, there is the potential investment by Ghana Amalgamated Trust (GAT), a special purpose vehicle sponsored by Government of Ghana (through the Finance Ministry) to invest in five solvent and liquid local banks unable to capitalize prior to the deadline.

It is expected that credit to the private sector will grow albeit with lots of caution from banks, as past credit mishaps are well anchored on the minds of bank management. Tiered one banks with excess liquidity will drive credit growth. Bank must learn to navigate IFRS 9 and Basel II & III for credit growth to take root.
We see major risk emerging from the non-bank financial sector as the central bank extends its clean up exercise to that sector. Potential revocation of licenses in that sector could lead to liquidity crunch as was experienced in 2018.

Banking sector NPL and capital to asset ratio, 2008-2018

High NPL's have characterized the banking industry over the last five (5) year amidst dwindling capital position industry wide.



Source: Axis Pension Trust, with data from the World Bank
Notes: The banking industry non-performing loans have increased whiles banks' capital as a ratio of total assets has seen a marginal decline since 2014. Most of the bad loans are linked to the energy and commerce sectors. The energy sector debt have been structured under the ESLA Plc bond programme. NPL's will see further reduction as more ESLA bonds are issued to replace energy related lending bad loans.

3.3. Monetary policy rate and inflation

Currency pressure and inflationary concerns will see the Bank of Ghana (BOG) holding its Policy rate at least for the first two monetary policy committee meetings until a clearer path on the currency and inflation emerges.[1] On inflation in 2018, it is believed amongst other factors, the rebasing of the CPI basket helped sustain single digit inflation, it is expected that base effect will wane in 2019. The central bank will have to put in work to maintain inflation within its target of 8(+/-2). We see a lot of upward pressures, especially currency weakening and crude price volatilities, on the horizon. Inflation may cross the year a little above the targeted upper band.

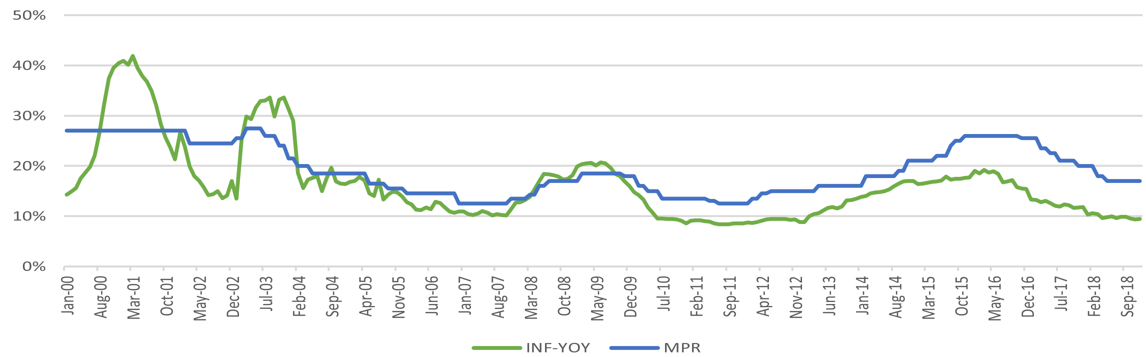
3.4. Interest rates and fixed income performance

We expect interest rate on government securities to increase up to 200bps on the short end of the curve especially during the first half the year. Out of the total GH¢11.25 billion expected to be issued by way of treasuries, 64% will be issuance with maturity below one year. This strategy is cost effective for government as spread between short term and long term rates are about 500bps. We expect the spread between short term and long term treasury rates to fall as short term rates pushes higher due to relatively higher supply.

The pressure on short term rates are expected to ease if government succeed in raising money from the euro-dollar market or realizes the $2 billion Ghana-Sinohydro infrastructure facilities very early in the year. Bloomberg news reports government is speeding plans to raise about $3 billion in Eurobond scheduled for the first quarter. On the whole, we expected long term interest rates to close the year flat with +/-100bps changes expected on the long end of the curve.

Inflation and prime rate, 2000-2018

The monetary policy rates has tracked inflation since 2010. In recent times the monetary policy committee has eased the Policy rate in line with CPI trajectory.



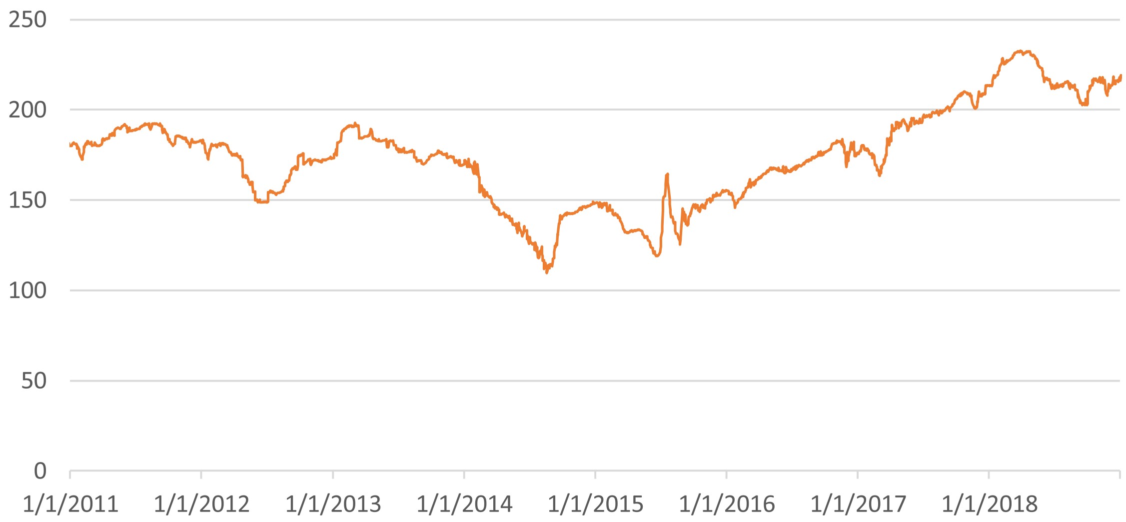
Source: Axis Pension Trust, with data from BOG and the Ghana Statistical Services
Notes: The chart shows the spread between central banks' prime rates and inflation. The blue line shows the prime rates whiles the green shows inflation rate. The two line shows a decelerating since mid-2016 a departure from the pre 2000 trends.

1 The Bank of Ghana reviewed downward its monetary policy rate during its January 29 meeting on the basis that risks to the disinflation path are well contained and the fact that the current conditions provide scope to translate current macro stability to economic growth

3.5. S&P Ghana Sovereign Bond Index USD

Government bond returned a marginal 2.2%, reading from the S&P Ghana sovereign bond index, in 2018 on a marked-to-market basis in USD. The index covers forty nine constituent government issues with outstanding value in excess of GH¢9 billion, a par weighted coupon of 19.31% and weighted average maturity of 3.89 years.

Bond performance based on the S&P Ghana Sovereign Bond Index USD, 2011-2018



Source: S&P Dow Jones Indices LLC. Note: The launch date of the S&P Ghana Sovereign Bond Index USD was November 25, 2014. All information presented prior to the index launch date is back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. The charts shows the volatilities and risk in long term fixed income investment. When interest rate increases the market value of bonds reduces and vice-versa. Past performance is not an indication or guarantee of future results.

3.6. Equity Market outlook

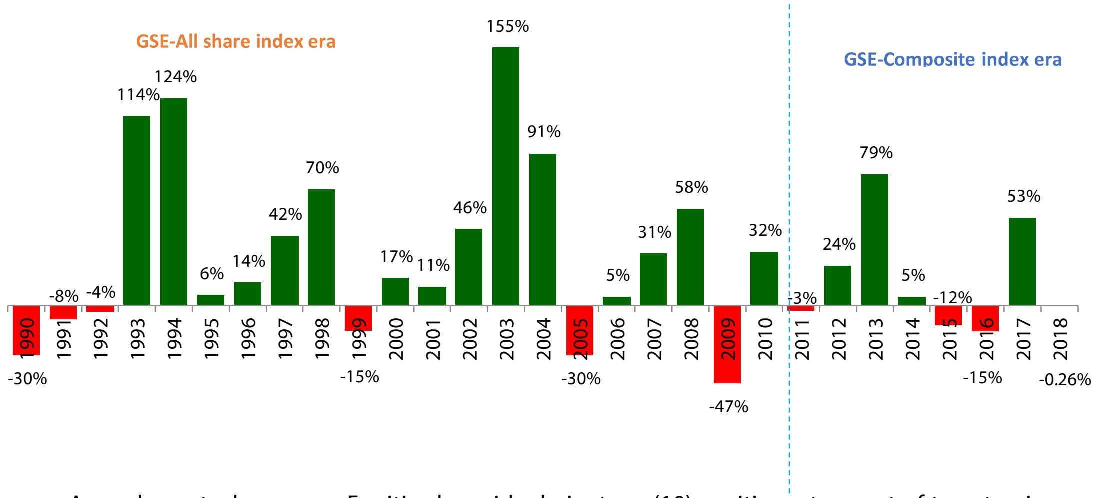
The survey points to equities eking out positive returns in 2019 following a declines of the GSE-All Shares Composite from a peak of 3489.45 in April to 2572.22 by close of 2018, representing a loss 26% since it peak at the end of April and an overall 2018 return of -0.2%. According to participants, the following factors provided major headwinds to the markets performance in 2018; MTN IPO sucked lots of liquidity from the market leading to selling pressures on equities, uncertainty around bank capitalization and general retail sell off mostly arising from investors inability to access their fixed deposits investment from certain financial institutions.

The general sentiment is that equities have bottomed, however, liquidity pressures by retail investors may lead to temporary sell off which may drive down the markets marginally. We see lots of value in some banking equities with strong cash flow and robust balance sheet and are selling below book value. The macro-economic environment is also conducive for manufacturing and consumer non-discretionary equities to rebound. Overall, strong economic growth coupled with improved earnings of companies will drive long term performance of equities market. Below are the potential factors that will influence the direction of the equities market in 2019.

The GSE-CI, 2011-2018

Sources: Axis Pension Trust, with data from GSE and Annualreportsghana.com.
Notes: The equities market has more than doubles since 2011, with the index reaching a peak of 3489.45 in April, 2018. Since then the market fell to close the year at 2572.22. Past performance are not a reliable indicator of current or future result.

Historical performance of equities, 1990-2018



Sources: Annualreportsghana.com. Equities have irked nineteen (19) positive return out of twenty-nine (29) trading years since the stock exchange began. Over the long term we expert general growth rate and cash flows of listed equities to drive performance. Demand and supply imbalances will drive short term market return. Past performance are not a reliable indicator of current or future result.

3.7. Currency outlook

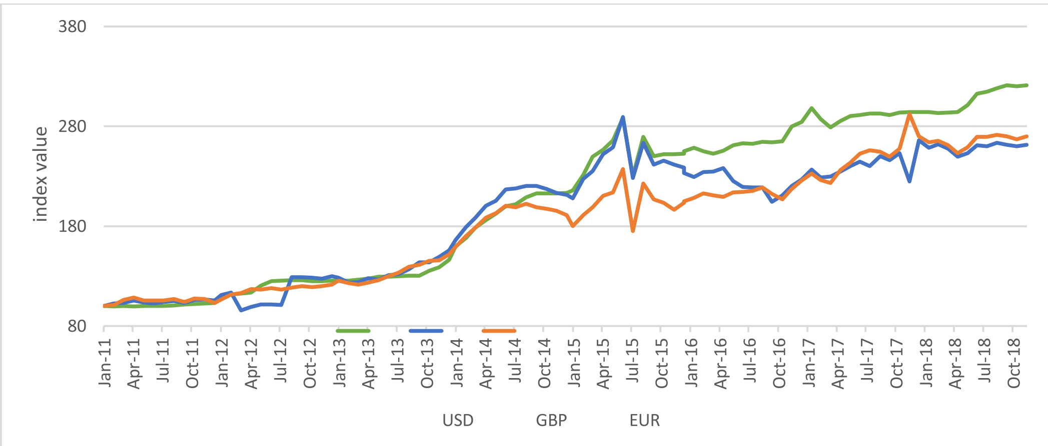
The most conservative fund managers surveyed put the Ghanaian cedi to close the year 8%-12% down. The consensus amongst most managers surveyed put the currency depreciation against the United State Dollar 5% to 8%.

The Sino-hydro facility and the expected euro bond issuance, will provide some buffer and stem the tides of demand pressure on the USD. Two consecutive years of trade surplus in addition to fiscal discipline experience under the current administration should reduce speculative pressure on the cedi. Export is expected to be strong in 2019. Increase oil output, lifting of ban on small scale mining is expected to increase gold revenue.

We may have already experienced the worse of portfolio outflow resulting from the Fed's hawkish stance last year and that potential rate hike in 2019 by Fed is already priced into exchanges rate, barring any surprises.

Cedi performance against the USD, GBP and EUR, 2011-2018.

The constant depreciation of the cedi remains the concern to investors, both local and foreign.



Source: Axis Pension Trust, with data from BOG

Notes: We show a starting cedi index value of 100 against the US dollar, the British pound and the Euro. As at close of 2018, the value had increased to 320.12, 267.14 and 270.22 for the USD, GBP and EUR respectively. The cedis continues losing streak against major currencies is a constant concern for businesses and investors.

CHAPTER 4. INVESTMENT STRATEGY OUTLOOK

Tactical views on selected asset, January 2019

▲ Overweight — Neutral ▼ Underweight

Asset class		View	Comments
Equities	GSE-FI	▲	We are entering 2019 on the back of a banking sector clean up leading to increase capitalization of bank and a reduction of banks from 42 to about 23. We see strong banking earnings for majority of the listed banks and resumption of dividend for banks with parent domiciled outside as profit are repatriated.
	GSE-CI	▲	Solid corporate earnings and strong economic growth underpins our positive view. We have a growing preference for quality companies with strong balance sheets as the 2019 macro and earnings outlooks become more uncertain. Consumer non-discretionary and telecommunication stocks are our favourite
Fixed income	Government bond	–	Higher yields and anticipated flatter curve after a couple of rates increases at the medium end of the curve makes short to medium- term bonds a more attractive source of income. Longer maturities are also gaining appeal as an offset to equity risk.
	Treasury bills	▲	Government had signaled it is going to raise a lot of money via treasury bills issuance compared to bonds. We expect this to weigh positively on treasury bill rate as government will have to pay more to attract inflows.
	Corporate bond	–	There is the dearth of new issuers within this asset class. We have had the same issuers mostly in the financial sector rolling over maturities and raising additional to finance working capital.
	Bank Fixed deposit	▼	With a lot of banks which hitherto competed for fixed deposit by offering higher yield no longer operating independently, we do not expect banks to offer any significant premiums above treasury bills. Thus we believe fixed deposit risk will not be well compensated for.
	Local government & statutory agency	▲	Cocoa bills and the ESLA Plc bond are the only available instrument under this asset class. We see the opportunities for yield pickups above treasury and therefore offering a better risk adjusted return.
Others	Commodities and currencies	▲	Gold exchange traded funds priced in foreign currency, foreign currency denominated fixed asset will be a good addition to a typical pension portfolio. Although these assets may not match the return on typical government securities, it offers many diversification benefits and stable risk adjusted return.

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Our Positioning Statement

“For persons and organisations looking for peace of mind about their pensions, Axis Pensions is the pensions provider that offers flawless administration and tailored solutions to inspire workers to achieve their retirement goals. Unlike other Pension Providers, we have proprietary technology, diverse expertise and deep customer insights”.

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