Fixed Income Market Review and Outlook

FIRST HALF 2018

FUND MANAGER'S LETTER

In the first quarter of 2018 (Q1-2018) the Ghanaian economy remained on a steady footing, evidenced by a number of macroeconomic indicators which continue to trend positively. Demand for assets with longer maturity dates (3+ years) however remained keen, as local investors sought higher yields on their fixed-income investments. Foreign investors attracted by the appeal of the Ghanaian economy (growth, currency and stability) also heavily patronized its longer-dated fixed-income securities.

Positive developments in the economy (particularly on the pricing front), instilled confidence in the Bank of Ghana's Monetary Policy Committee to slash the policy rate by 200bps (i.e. 2%) to 18% – the lowest level since April 2014. Together with the introduction of the Ghana Reference Rate, we expect more transparent lending by financial institutions to the general public.

We expect interest rates of benchmark securities to remain largely unchanged over the next three to six months. On the corporate front, as banks prepare to meet the new stated capital requirement, we expect their fund raising efforts to be channeled towards raising direct equity. The issuance calendar for Q2-2018 reveals, among other things, the Government's plan to continue to issue short-term securities. There is also a planned issuance of a Eurobond in Q2-2018 for budgetary support as well as for the refinancing of maturing debts.

Equity Market Review and Outlook

The Ghana Stock Exchange Composite Index (GSE-CI) returned an impressive 30.51% in the first quarter of 2018 compared with 10.42% in Q1-2017. Although total volume traded declined by 3% in Q1-2018, price appreciation in most actively traded stocks led to a 42% increase in value traded. The increased value traded could be attributed to an improved macroeconomic environment.

Increased investor confidence in the Ghanaian economy, high returns on the GSE and improved stock market activity is expected to lead more investors towards equities to earn higher returns. These factors support a positive outlook for the equity market. Stocks to look out for include Cal Bank (CAL), Societe Generale (SOGEGH), GOIL and Fan Milk (FML), for their innovation, strong financial performance and sound growth prospects.

Performance of Databank Mutual Funds

For the quarter, MFund posted an annualized yield of 17.98%, which was boosted by investments in bonds and longer-dated fixed income instruments. ArkFund and BFund, which have 30% and 40% invested in equities, respectively, benefited from the strong performance of the GSE, in particular SOGEGH, GOIL and TOTAL (BFund). For our strategy for ArkFund, we shall continue to drive the performance of the Fund by taking advantage of bonds and longer-dated fixed-income instruments to boost returns. Epack returned 11.75% for the quarter. The return was hindered somewhat by the Fund's exposure to stocks in other African markets which have performed well, but not as high as the GSE. EdIFund Tier 1 recorded a return of 3.75%, while EdIFund Tier 2 returned 11.72% for the quarter.

For the second quarter, we will see the release of the financial statements for the 2017 financial year of companies listed on the Ghana Stock Exchange. We expect that the strong performance of a number of these companies will lead to profit taking by the shareholders, which could impact equity-based mutual funds. This is something that happens on an annual basis – though the extent of the impact varies from year to year – and so we expect that profit-taking should normalize by the end of the second quarter, heading into the third quarter. We thank investors for their continued support and patronage of the Databank group of mutual funds.

Sincerely,

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Chief Investment Officer
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