

Mutual Funds

The Future of Investing

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A decade of pension fund growth in Nigeria has prepared the ground for a boom in the country's mutual fund sector. Investments in carefully constructed higher performing risk-managed funds now outperform interest on bank deposits and even land. In 2020 alone, for example, assets under management in Nigeria's Mutual Funds grew by 50% - topping N1.6 trillion.

Mutual funds are investment funds that pool money from many investors to purchase securities, like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers who seek to assemble the right mix of funds, balancing risk with growth according to investors' risk appetite, growth needs and investment horizons.

It is in the management of these funds that the experience, skill, and above all, the research capacity and global reach of investment management teams becomes critical. After all, individual Nigerians have varying growth needs and different risk appetites.

Consider, for example, someone in their late twenties or early thirties. Single, just starting out in business, the corporate world or as a young professional. They have a good income and few responsibilities or expenses. Being young, they have a long-time horizon of earning and investment ahead of them. This profile allows them to take on more risk. In other words, they have sufficient income and a long enough earning life ahead of them to invest in a higher performing pool of funds that offers higher returns because they involve taking on slightly more risk.

Someone in their fifties, nearing the end of their earning life who has just sold the land they bought on the outskirts Abuja 20 years ago would be advised to invest in a fund composed of less risky securities. While their earnings might not be as high, since they won't have the time or future income to make up for any losses going forward, it's wisest to settle for lower earnings by buying into a fund that is also lower risk. As long as mutual funds are still outperforming treasury bills or bank deposits, they'll still be growing their money and building a hedge against volatility and inflation.

Since mutual funds are regulated and professionally managed financial service instruments, they provide a lot more security than

unregulated instruments. Being assembled by qualified professionals, they are also simple to manage as all purchase and sale requirements are carried out by the fund managers.

With Nigeria's mutual fund industry being only eighth the size of the country's pension industry, there is a lot of room for growth. Certainly, in other markets around the world, the growth of successful pension fund industries led to the establishment of vibrant mutual fund markets.

In such a fast-growing market faced with such a large opportunity, it goes without saying that not all mutual funds are created equal. As with all investing, investors need to be confident that they are working with regulated professionals leveraging world-class research and risk management methodologies to build and operate transparent mutual funds delivering measurable returns.

To this end, Coronation Asset Management is on a mission to build a safe, accessible and transparent mutual fund industry in Nigeria that allows investors to understand, easily compare and then invest in – or sell out of – mutual funds, effortlessly and safely. Mutual funds are, after all, the easiest way for every day working people to access quality risk-managed investments and earn secure, long-term returns.





Working with the Securities Exchange Commission (SEC) of Nigeria as well as the Fund Managers Association of Nigeria (FMAN), Coronation Asset Management is aware that one of the biggest barriers to the growth of the country's mutual fund industry is the difficulty that consumers' experience attempting to assess, evaluate and compare mutual funds. As such, Coronation Asset Management advises the early adoption of Global Investment Performance Standards (GIPS). This will not only harmonise reporting in Nigeria's mutual fund industry but will also position Nigerian mutual funds to attract global investment flows.

In short, many of the funds currently operating in Nigeria are not transparent. This makes it impossible for investors to assess whether the fund matches their need for growth or their risk appetite.

To begin creating a culture of transparency in the Nigerian mutual fund industry, Coronation Asset Management openly shares its fund management philosophy and methodology. Coronation is fully transparent about the investment selection criteria and research that guides the composition of its mutual funds. Each fund is defined by a published investment objective, leveraged by a well-articulated strategy, and guided by a publicly shared philosophy. All these elements are research-driven, closely managed for risk and vetted by an independent risk and compliance review process.

Coronation Asset Management's Fixed Income Fund, for example, aims to provide investors both long-term capital growth and a regular income. The fund invests in a diverse portfolio of fixed income securities. The objective of Coronation Asset Management's Balanced Fund on the other hand is to achieve capital appreciation and income generation, while mitigating volatility associated with equity investments by balancing them with fixed income securities.

The aim or objective of a fund determines its strategy. Given the objective of Coronation Asset Management's Balanced Fund, for example, the strategy is clear: the manager of the Balanced Fund focuses on higher risk capital appreciation and income generation aimed at medium-term focused investors looking for income and moderate growth with a relatively higher risk appetite. The Balanced Fund represents a diverse pool of Nigerian equities and fixed income securities such as FGN Bonds and Money Market securities with a target allocation of 40% - 60% equities and 40% - 60% fixed income securities and money market instruments. The fund strives to maintain a fixed income duration of five years invested in largely Naira-denominated fixed income and money market instruments.

The Balanced Fund is fully compliant with all SEC rules and practices. The strategy of Coronation Asset Management's Fixed Income Dollar Fund on the other hand, strives to provide unit holders with long-term capital growth and regular income by investing primarily in a diverse portfolio of fixed income securities. The fund is suitable for investors with moderate risk appetite looking to invest for the medium to long term.

All fund strategies are guided by an investment philosophy. The philosophy behind Coronation Asset Management's Money Market Fund, for example, blends a diversified portfolio of high-quality money market securities aimed at delivering steady returns while also providing for liquidity needs. The Money Market Fund's bottom-up credit selection and tactical trading approach combines the most liquid instruments and fundamental process with robust, top-down risk management tools designed to meet the objectives of liquidity and consistent excess returns.

All Coronation Asset Management funds are published along with audited evidence of past performance demonstrated by historical yield and including mark-to-market prices laid down by SEC rules in accordance with GIPS. The performance of these funds, for example, are published monthly in each funds' fact sheet. These are audited by the SEC every three months when quarterly financials are filed.

Coronation Asset Management's own Fixed Income, Balanced, Fixed Income Dollar, and Money Funds have experienced wide take up since their launch in the Nigerian market in 2017. Growth has primarily been driven by their inflation and interest-beating returns as well as their ability to pay investors out when they exit their funds. The transparency, clear objectives, strategy and philosophy guiding each fund also makes them easy to understand and builds confidence in their management and performance.

The ease of buying into and selling out of Coronation Asset Management's mutual funds has also been a big driver of take up.

Being five times more capitalised than required in the Nigerian market, Coronation Asset Management's mutual funds guarantee swift and efficient pay-out when investors need cash or wish to invest their investment earnings elsewhere. Compared with alternative investments like Bitcoin that require relatively sophisticated technical knowledge - and run much higher conversion risk - Coronation Asset Management's mutual funds offer managed, flexible and accessible returns fully regulated and professionally managed for risk.

As mutual funds continue to outperform other interest-bearing opportunities in Nigeria, Coronation Asset Management will be launching three new funds in 2022. The Coronation Asset Management Infrastructure Debt, HNI Fixed Income and Multi-Asset Dollar funds will add to the growing stable of transparent, easily accessible mutual funds available to investors in the country.

Coronation Asset Management strives to provide transparent, risk-managed, locally and globally compliant investment instruments to help Nigerian citizens to manage volatility and grow their incomes independently. Providing safe, accessible and easy-to-use investment tools also serves to deepen Nigerian capital markets, broaden economic inclusion and lay the foundations for long term prosperity.