CORONATION

Investing successfully in Nigeria's Capital Markets

Investors are paid – or make money – in proportion to the level of risk they take. As such, successful investment is essentially about how well risk is understood, anticipated, and managed.

Investor psychology, unsurprisingly, seeks high returns with a guarantee that capital invested will not be lost. This is not, however, 100% possible, as there is an element of risk in any investment. In fact, it is the element of risk that drives returns in investment.

As a rule of thumb, investors are generally paid in accordance with the level of risk they take. The higher the risk, the greater return. The challenge of investment, therefore, becomes balancing risk with returns so that investors are not dazzled into taking unreasonable risks by the glitter of implausibly high returns.

The level of risk that any individual is prepared to take is known as their risk appetite. Any potential investor should decide whether they are prepared to risk losing money for a higher return or adopt a less risky strategy with a lower chance of losing money, by settling for lower or moderate returns.

Once an investor has established their risk appetite, they should match their investments to this appetite. To construct the right investment strategy, investors can research various instruments themselves and put together their own portfolios. While many investors have learned a great deal over the years by trial and error, a better option for first time active investors is to approach an asset manager, like Coronation Asset Management, for advice.

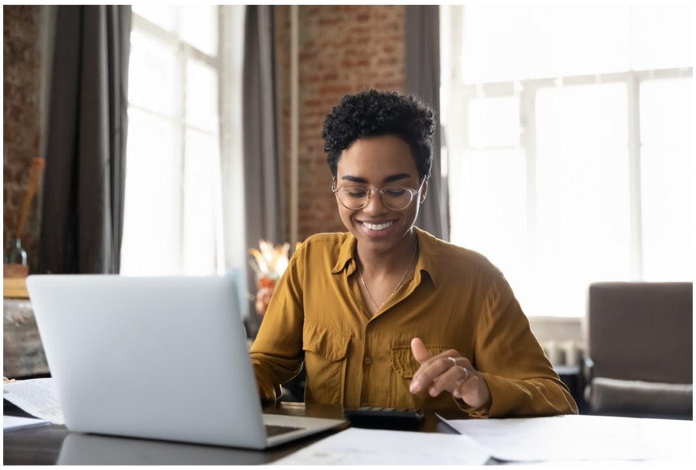
Asset managers are able to help individual investors assemble a portfolio of investments that match their risk appetite. For active investors wanting to track the performance of their investments in real time, it makes sense to work with an asset manager able to regularly report on performance, advise and guide responses. Since this involves 24/7 hands-on, tracking, reporting and advice specific to individual investors' portfolios, active investment support comes at a cost.

Today, there are also online investment options supported by digital platforms allowing individual investors to buy, track and sell investment instruments and funds online. While the effectiveness of these platforms varies, most require some level of investment knowledge and experience. Despite the hype and all the advice and guidance they provide, these platforms are not for first time investors.

Alternative investments, like cryptocurrencies, while appealing to younger generations, have limited performance track records, are harder to understand and research, and, currently, represent significantly high risk.

So, while there are a lot of investment options, instruments, advisors and platforms out there for aspiring investors, getting it right - by understating and managing the risks involved in investments - takes a lot of time, attention and knowledge. It also takes experience.

The average woman or man in the street looking to invest discretional cash to augment their income simply does not have the time, knowledge or insight to operate as an independent active investor. People have day jobs. Most too, can not afford the fees associated with appointing a bespoke wealth manager.



This is where collective investment schemes, usually delivered through group or mutual funds managed by investment professionals, become important. Most first-time investors simply do not have the time or research capability to actively construct and manage bespoke portfolios – or pay a bespoke wealth manager to do this for them. Instead, the best way to start on the investment journey is with mutual funds.

Mutual funds are investment instruments that allow investors to place money in investment structures representing a collection of companies whose profile and performance matches their own risk appetite. Coronation Asset Management, for example, has four mutual funds appealing to different risk appetites. Coronation **Conservative Portfolio** (Money Market Fund), for example, is made up of treasury bills, fixed deposit placement, commercial paper (CP) and cash.

Commercial papers are unsecured short term debt instruments issued by corporations. While we have preponderance of CPs in the market, doing the due diligence to investing in high rated instruments and issuers is also important. On the other hand, treasury bills are short term debt instrument issued by the federal government, with tenors varying between 92, 181 and 365 days. Combining a CP issued by a corporate with a high investment grade rating, with FGN issued treasury bills and fixed deposit placement presents a portfolio that can be rated 2 on a scale of 10, with returns reflecting the confidence provided by the high investment grade rating.

As such, Coronation **Moderate Portfolio** (Fixed Income Fund & Fixed Income Dollar Fund) includes allocation to short duration FGN Bonds and Equities, in addition to Treasury Bills, CPs and Placements. While these higher earning FGN Bonds and Equities allocations provide the portfolio a better return rate, they also introduce a moderately higher level of risk, presenting a portfolio that can be rated 5 on a scale of 10.

Bonds (FGN, State and Corporate) are long dated instruments (higher than 1 year) issued by either the federal government, state government or corporations. Because they are longer dated, they offer competitive rates than that applicable on short dated instruments.

Finally, Coronation **Growth Portfolio** (Balanced Fund) includes high performing long duration FGN Bonds, investment in high grade Corporate Bonds, Structured Products and Money Market Instruments in addition to Equities. As such, Coronation's Growth Portfolio is suited to investors with higher risk appetite, with a risk rating scale of 7 on a scale of 10.

Investment trajectories are also important when considering investments. While Coronation Asset Management advises investors to remain in their investments for a minimum of six months or a year depending on the composition of their portfolio, the longer the better remains an excellent investment philosophy.

That said, investors have different trajectories. Investors looking for a quick, though high-risk, return over six months or a year, should consider a portfolio weighted towards a conservative portfolio. Those with a two-year to five-year horizon would do well with a moderate portfolio. Those with a higher than five-years investment trajectory can also comfortably reduce risk with a growth portfolio.

While individual Nigerians can approach asset managers like Coronation Asset Management for advice on mutual funds or more active participation in the country's capital markets, Coronation Asset Management also works with institutional investors. Like individuals seeking to augment their incomes, institutional investors like insurance companies, pension funds and even government parastatals also use capital markets to manage risk and increase income. Coronation Asset Management assists investors to develop investment strategies that optimally balance growth and risk in line with their own investment mandates.

Anyone can set up an investment portfolio with Coronation by signing up on the Coronation Investment Management Portal. To get started, visit www.coronation.ng/self-service/