

Aigbovbioise Aig-Imoukhuede: Mutual Funds Are Unique Investment Instruments To Consider



In this interview with **Chibuzor Oluchi**, Aigbovbioise Aig-Imoukhuede, President, Fund Manager Association of Nigerian (FMAN), who is also Managing Director of Coronation Asset Management Limited, says mutual funds are winning investment instruments that all discerning investors should embrace with both hands. He also explained how the association is deepening the awareness of the mutual fund industry.

What makes mutual funds different from other forms of investments?

Mutual Funds or Collective Investment Schemes are investment programs that pool money from many investors to purchase securities such as stocks, bonds, and other money market instruments that are publicly traded in the financial markets. With mutual funds, an investor will be exposed to various underlying assets in a relatively low-risk environment at a minimum cost. In Nigeria today, investors can have access to the underlying assets for as low as N5,000 through a mutual fund. Mutual funds also provide diversification by investing in a wide range of assets. This diversification helps spread risk and thus reducing the impact of poor performance by individual securities on the overall portfolio. This contrasts with individual stock or bond investments where you might be exposed to the risk of a single company or issuer. Mutual funds are managed by professional fund managers who make investment decisions on behalf of investors. These managers have expertise in selecting and managing the portfolio of securities within the fund. This can be particularly beneficial for investors who lack the time or expertise to manage their investments actively.

Kindly break it down. How do I qualify to invest in mutual funds?

There are no requirements to invest in mutual funds. In terms of age, anyone can invest in mutual funds including minors (those below 18), although for minors, their parents or guardians will manage the investment on their behalf until they are of age. In terms of capital requirements, one doesn't need much to invest in mutual funds, with as low as N5000, you can invest in some types of mutual funds, for example, money market funds. However, we do recommend that investors request and read available information about the funds they are interested in, which include the fund's Prospectus, Trust Deed, and Fact Sheets about the fund, before investing.

How do you select the components of mutual funds?

The components of mutual funds are usually determined by the types of mutual funds and they are contained in each fund's Trust Deed. The type of mutual fund will dictate the underlying assets in the mutual fund while the Trust Deed states the allocation of assets in line with the Securities and Exchange Commission (SEC) rules and regulations. The process of selecting these components is a critical aspect of mutual fund management and is guided by the fund's investment objectives and

strategy. Some funds may focus on specific sectors or asset classes, while others may be more broadly diversified. Additionally, the specific investment process can vary from one fund management company to another. Investors interested in a particular mutual fund should review the fund's prospectus and related documentation to understand its investment objectives, strategy, and portfolio holdings. This information can help investors determine whether a particular fund aligns with their own financial goals and risk tolerance.

Given the fluctuating state of the Naira, are there Dollar-denominated mutual funds?

Yes, there are Dollar-denominated mutual funds in the market, and as of the 25th of August 2023, there were twenty SEC-licensed dollar funds with a combined Net Asset Value or NAV of N584.92 billion. The objective of Dollar-denominated mutual funds is to provide its investors with currency diversification, access to a consistent income stream, and long-term capital appreciation in dollars. In addition, it is pertinent to note that dollar funds are open-ended funds that invest in a broad range of tenure US Dollar-denominated debt securities issued by the Nigerian government and reputable corporate institutions. That is, sovereign Eurobonds, corporate Eurobonds, money market instruments, and other asset classes permissible by SEC.

How do I get involved in determining what is in my portfolio? I don't want to lose control totally.

One of the advantages of investing in mutual funds is that you have access to the fund's factsheet which is an easy-to-read report that covers the fund's performance, asset allocation, risk assessment, and fees. Most Fund Managers upload their fund's factsheet on their websites or are accessible upon request. Mutual funds are required to disclose their portfolio holdings regularly. You can access this information through the fund's prospectus, annual reports, or the fund manager's website. Reviewing the holdings will give you insights into the types of assets the fund owns. As I had earlier stated, by reading the fund's prospectus and documentation to understand its stated investment objectives and strategies, an investor will know if they align with their own investment goals and risk tolerance.

Compared with the returns on other investment instruments, how well have the mutual funds in Nigeria performed? Share the numbers.

Despite the challenging macroeconomic environment, when compared to FGN Bonds, fixed-income instruments and Equities, the Nigerian mutual funds have held their own. The marginal rates for the 10-Year FGN Bond as at the last auction in August 2023 stood at 15%, 25 basis points (bps) or 0.25% higher on a year-to-date basis. That is, from the 14.75% recorded at the end of December 2022. Five years ago, the marginal rate of the same tenor of FGN Bond was 13.21% by the end of December 2018. Meanwhile, in the last primary market auction, the stop rate of the 364-Day Nigerian Treasury Bill was 13.97%, indicating a surge of 548bps on a year-to-date basis from 8.49 (????) recorded in the last primary auction for December 2022. However, in the last five years, the recent stop rate indicates a decline from the 14.45% recorded in the last auction of 2018. For mutual funds, the average year-to-date yield on money market and bonds/fixed income funds as of the 25th of August 2023 stood at 8.79% and 7.09% respectively, which are about 179bps and 209bps higher than what was obtainable by the end of December 2021.

The weak macroeconomic environment evidenced by the perennial FX crisis, and surging inflation rates, among others, has remained a major challenge for fund managers.

It is also important to note that investors with less investment power, that is, investment sums of less than N5 Million, are earning a higher return by investing through a mutual fund compared to keeping their funds idle in their current account or earning at the savings rates being offered by commercial banks.

Can we Benchmark them (WHAT IS THEM? NIGERIAN MUTUAL FUNDS OR MUTUAL FUNDS?) Globally?

FMAN has been given the exclusive directive by the SEC to develop a benchmark for mutual funds in Nigeria. Whilst we consider other jurisdictions to see how well our market is doing, we cannot benchmark our mutual funds with a global benchmark. This is because the performance of our funds is benchmarked based on performances from FMDQ for fixed-income and NGX for equities. However, it is important to note that the performance of dollar-denominated mutual funds in Nigeria has performed better than similar products in foreign markets and fund managers can show a comparison of investing in Nigeria

and abroad. **Compared with the NGX index how have mutual funds fared?**

No doubt that the Nigerian stock market has performed creditably well, especially in the last few months. On Tuesday, the NGX's All Share Index (ASI) rose to an unprecedented 66,490.34 points, breaking a 15-year record of 66,371.20 set on the 5th of March 2008. As of the 25th of August, the NGX ASI returned 27.92% on a year-to-date basis, way higher than some of its peers in the continent including but not limited to Egypt (+24.72%), Morocco (+10.99%), South Africa (+1.08%), just to mention a few. It is imperative to highlight that the Nigerian market has benefited immensely from some of the pro-market policies initiated by the current regime. Comparatively, the Net Asset Value for all Collective Investment Schemes in Nigeria for the first time crossed N2trillion in the first week of July. As of the 25th of August, the NAV of all SEC-licensed Collective Investment Schemes stood at N2.047 trillion, growing by 34.8% on a year-to-date basis. Comparatively, mutual funds outperformed the equities market in the comparable period.

What is FMAN doing to address investors' apathy generally?

FMAN has been hosting several engagements aimed at addressing investors' apathy and driving capital market inclusion and financial literacy. We drive this through partnerships with regulators, such as the CBN, SEC, NGX, FMDQ, and other stakeholders within and beyond the industry, using different platforms such as radio appearances, TV programs, seminars, webinars, etc. The Nigerian capital market provides opportunities for democratizing access to and creation of wealth for Nigerians, both at home and in the diaspora, which will invariably lead to better social and economic development for the Country. Fund managers, through Mutual funds, play an important role in wealth access and creation, in short, they provide the opportunities for "Let My People Go!"

Comment freely on any other aspect you think we should know

I would mention that technology and partnership will play a large role in tapping the opportunities for the value being created by mutual funds, but that's a whole long discussion for another day, thank you.