CORONATION

Comparing Mutual Funds II

Apples & Oranges, and a Hand Grenade

Research | Nigeria | Fund Comparison

29 June 2022

Introduction

Analyst(s):
Guy Czartoryski
Head of Research
gczartoryski@coronationam.com

Ope Ani
Senior Analyst
oani@coronationam.com

Adebayo Adebanjo
Analyst
aadebanjo@coronationam.com

Gbemisola Adelokiki
Analyst
adelokikig@coronationsl.com

One year after our publication 'Comparing Mutual Funds - Apples & Oranges', we return to the subject of comparing the performance of Nigeria's mutual funds. This year we take a deep dive into the differences between the amortised accounting method, which most funds in Nigeria use, and the international mark-to-market accounting method, as applied to Fixed Income funds.

We find that the amortised accounting method has a fundamental flaw when it comes to dealing with interest rate fluctuations; so much so that we think it could lead to systemic risk in future. Hence the title of our report this year, 'Comparing Mutual Funds II – Apples & Oranges, and a Hand Grenade'.

The mark-to-market method of accounting for Fixed Income funds is not simply a matter of following Global Investment Performance Standards (GIPS). Mark-to-market is by far the safest method of accounting for Fixed Income securities in a mutual fund, guaranteeing that fund managers only show a Unit Price (UP) to investors that reflects what can be realised in the market.

This year, and after a 10.6% decline in total assets under management (AUM) during 2021, the mutual fund industry is growing again, with total AUM up 8.7% in the first five months of the year to N1.52 trillion (US$3.64bn). The compound annual growth rate for the industry between 2015 and 2021 was 33%, or 14% per annum in inflation-adjusted terms. We are convinced that Nigerian savers are making the long-term transition from building savings with banks to a culture of saving with mutual funds.

At just 11% of the size of the pension fund industry, we believe that the mutual fund industry needs to support its momentum with confidence-building measures, first among them the adoption of market-to-market accounting and Global Investment Performance Standards (GIPS).

Adopting GIPS would enable a true comparison between the performance of funds rather than the Apples & Oranges we have now. GIPS would open the door to credible fund comparison services such as Morningstar, Yodelar and the Financial Times fund comparison service. These advances would pave the way to significant industry expansion and international investor participation.

Contents

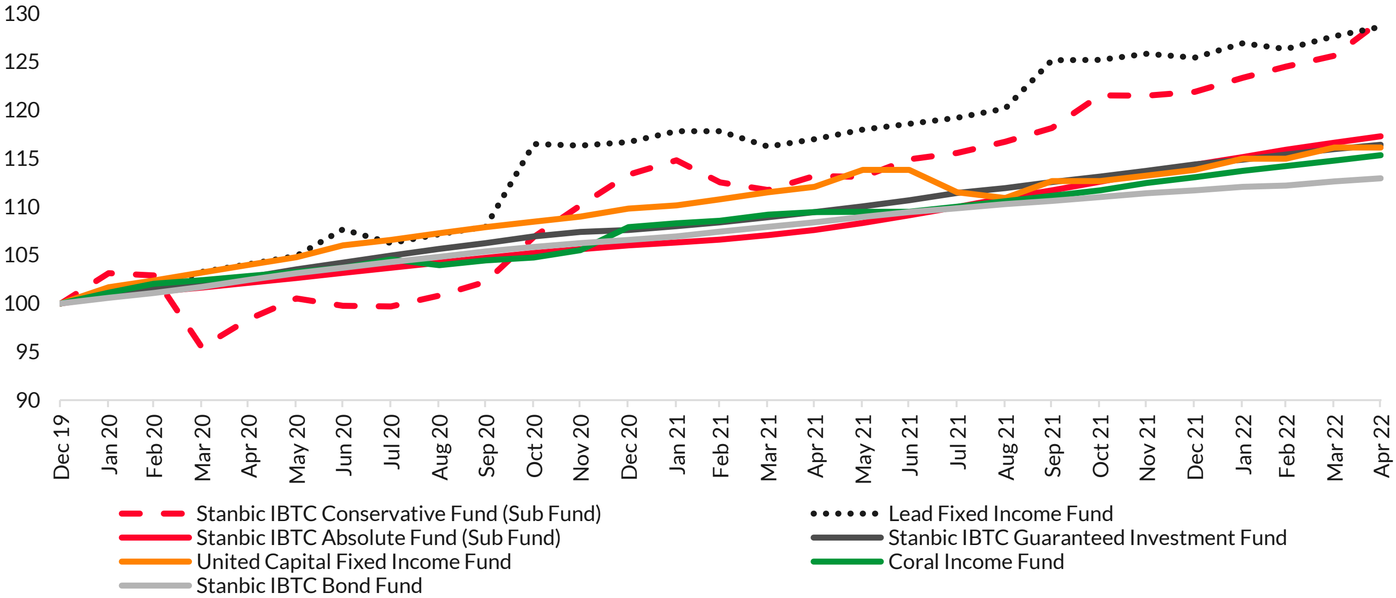
How does an investor select a mutual fund?

We put ourselves in the shoes of a retail investor who wants to buy units in a Fixed Income mutual fund today. To judge how well these funds are managed, our mutual fund investor downloads data from the Securities and Exchange Commission (SEC) and compares historical performance, even though past performance is not necessarily a guide to future performance.

SEC data is readily available on its website, and our investor decides to study performance from the end of December 2019 to end-April 2022, a 28-month period. And he/she decides to break the data into three groups according to unit price performance, top to bottom.

(Note that fund buyers are interested in unit price performance rather than a fund's Net Asset Value, NAV: the unit price is the one at which investors buy and sell funds, while the NAV gives the fund's overall size. The website of the Fund Managers Association of Nigeria, FMAN, carries data for unit prices.)

Chart 1: Top-7 performing Fixed Income Funds, end-2019 to date, 31 December 2019=100



Source: Securities and Exchange Commission (SEC), Coronation Research

According to performance, our investor decides to break down the 21 Fixed Income funds into three groups of seven. In addition, there are a further seven Fixed Income funds in operation, but these have not been operating continuously since December 2019, and we will discuss these later.

Indeed, making three groups of Fixed Income funds, ranked by performance, appears to be a good choice. There is a group of funds that apparently return upwards of 12%, in nominal Naira, over the period; a group of funds that apparently return between 2% and 12%; and a group that apparently returns less than 2%. See the three charts on these pages.

Non-comparable unit prices: comparing apples with oranges

Why do we write 'apparently' in connection with unit price valuations? The problem is that unit prices currently are impossible to compare because of four issues:

a) classification of funds;
b) accounting methods used (whether market-to-market or amortised cost);
c) whether or not a fund pays dividends;
d) fund management style, particularly the use of guarantees and formal commitments to preserve capital.

We will discuss all four but concentrate on the issue of accounting methods because we believe it is the biggest source of discrepancy and must be addressed.

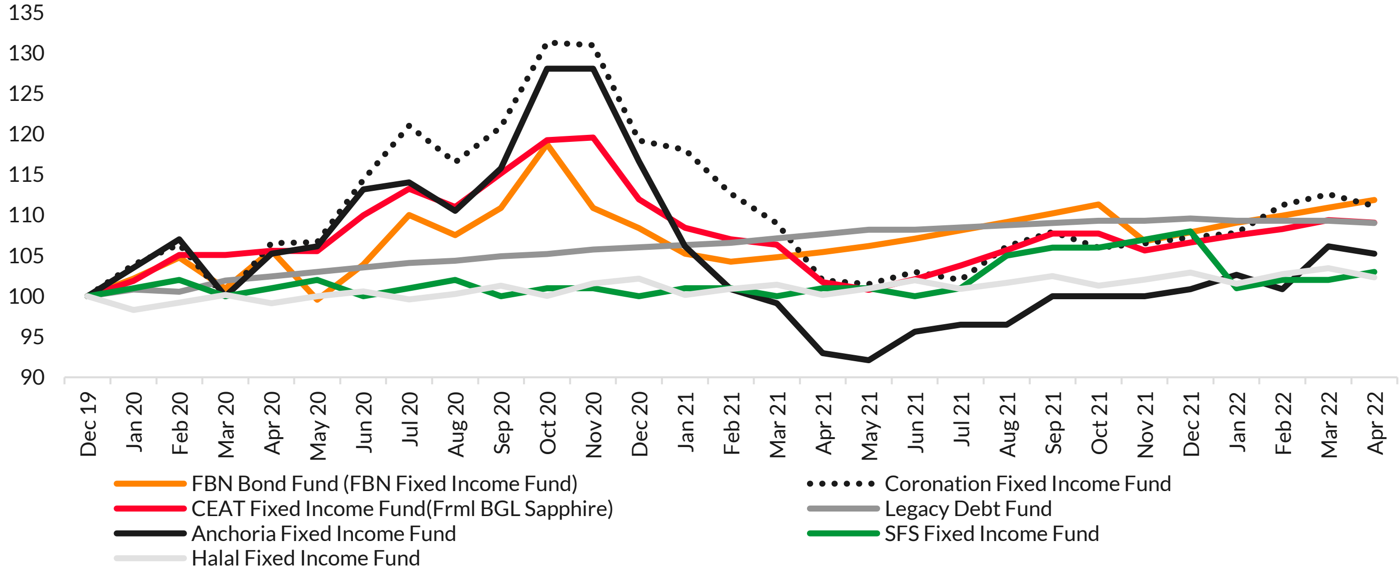
In our first group of Fixed Income funds, there is an example that we would cite as a classification issue. The Stanbic IBTC Conservative Fund (Sub Fund) has a unit price return of 29.2% over the study period, in excess of its peers. However, up to 30% of this fund can be invested in equities, and exposure to equities brought significant returns during this period (the NGX All-Share Index rose by 84.9% from 1 January 2020 to 30 April 2022). This fund is classified as a Fixed Income fund.

Our fund investor also observes something very obvious: five funds (the Stanbic IBTC Absolute Return Fund, the Stanbic IBTC Guaranteed Investment Fund, the United Capital Fixed Income Fund, the Coral Income Fund, and the Stanbic IBTC Bond Fund) not only have very similar performance data to each other but mainly (four of them) have unit prices progressing steadily month by month. This is a tell-tale sign of fund managers using the amortised accounting method (also known as the effective interest rate method). In the next section, we will discuss the amortised accounting method and its shortfalls.

Mark-to-market accounting versus amortised cost

In the next group of performers are more volatile lines, lines which we associate with price movement of bonds. In other words, there are funds in this group following the internationally-accepted mark-to-market method of accounting. Our own Coronation Fixed Income fund features here. Its unit price rises with falls in market interest rates (e.g. in 2020) and falls with rises in market interest rates (e.g. during the first half of 2021) while making steady progress overall. At any reporting date, its reported unit price accurately represents what its underlying holdings will fetch in the market, plus coupon and interest payments made to the fund. The reported unit prices of the Anchoria Fixed Income fund also follow a pattern consistent with mark-to-market accounting.

Chart 2: Next-7 best-performing Fixed Income Funds (8 to 14), end-2019 to date, 31 December 2019=100



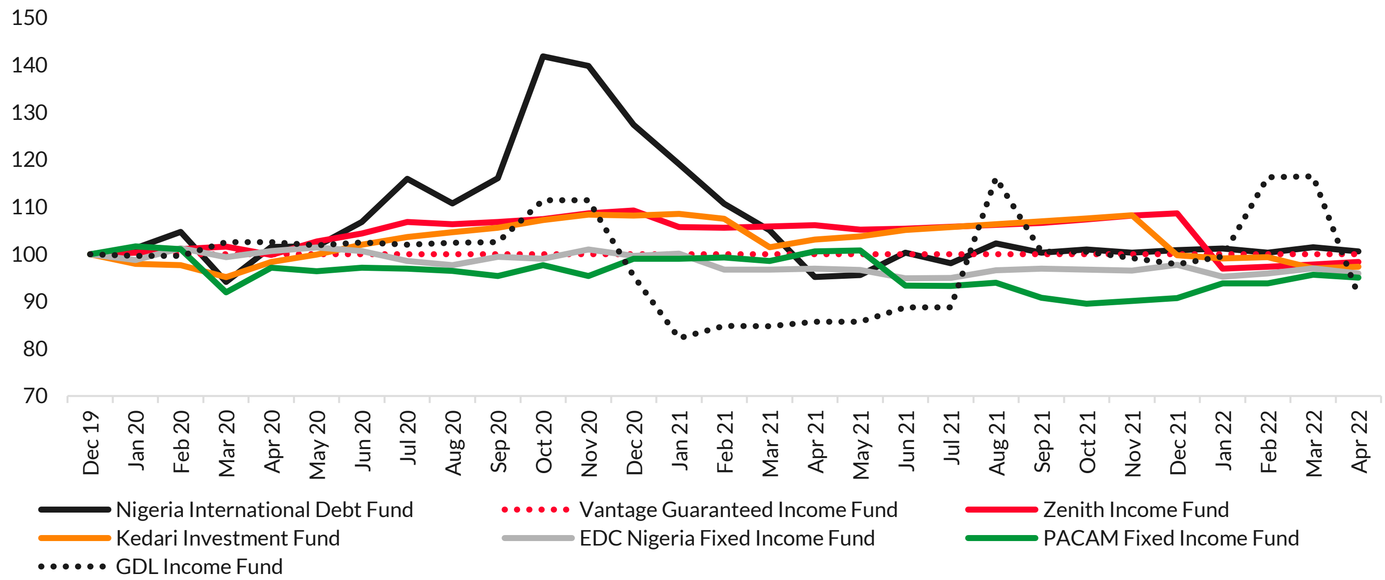
Source: SEC, Coronation Research

In this group, there is also the case of the FBN Bond Fund (FBN Fixed Income Fund). The unit prices of this fund begin the period under study following mark-to-market prices of bonds and therefore fluctuate in the period up to December 2020. After that, however, the unit price performance then moves in straight lines, as with the amortised accounting method. This happens from the beginning of 2021 (when interest rates began to rise and bond prices began to fall) onwards, with one downward adjustment in November 2021. The data suggest that the fund changed its accounting method.

The effect of dividends

By now, our investor is a little confused. How is it that the unit prices of some funds follow straight lines, and others follow wavy lines? It cannot be that the fund management styles of different fund managers (i.e. the selection of which bonds and durations to buy and sell) account for the differences. It is due to differences in accounting for funds, and it makes unit price performance incompatible.

Chart 3: Next-7 best-performing Fixed Income Funds (15 to 21), end-2019 to date, 31 December 2019=100



Source: SEC, Coronation Research

The next source of discrepancy, which likely explains most of the data for the next group of seven funds (and some of the differences among the preceding 14 funds), comes from dividend policy. A fund that pays a large proportion of its income to its unit holders as dividends will earn money for those unit holders without a substantial increase in its own unit price. The more it pays out, the less it gains in unit price, and the unit price performance may even be negative over time, even if the underlying performance of the fund is in line with its peers.

To correct this issue, the data needs to be adjusted for past dividends paid so that they can be retrospectively added to unit price performance data. This historical data, in our view, needs to be supplied by each fund manager though, during our study of fund factsheets for the Fixed Income funds in this study, little data was forthcoming.

Management style and guarantees

To a considerable degree, a fund's performance will reflect its fund manager's skill in selecting appropriate bonds and market durations, given the different risks posed by different bond issuers and day-to-day changes in market interest rates. The only way to compare fund managers' performance is if all funds mark-to-market their positions, but, as we have seen, few of them do. The absence of uniform mark-to-market implementation across the industry is an obstacle to competition.

Marketing a fund versus managing a fund

One also has to account for the savings culture of Nigeria, which is an important differentiating factor. In Nigeria, the word 'guarantee' has particularly strong connotations and can be used as a powerful marketing tool. Witness the Fixed Income funds with the word 'guarantee' in their name. The existence of a guarantee, whether implied in the name or made explicit in the documentation, conditions both fund management style and accounting policy. A fund manager which needs to live up to its fund's 'guarantee' is likely to prefer government-issued bonds over other bonds and, more importantly, is almost certain to use the amortised accounting method over the mark-to-market method.

Yet, as we shall see in the next section, the amortised accounting method does not necessarily guarantee investors the unit values it generates. There can arise situations where the amortised price exceeds what can be realised in the market. We explain this in the next section.

Chart 4: Fixed income funds: how they report, dividends and guarantees

Fund name	Sponsor / manager	Mark-to-Market (MTM)?	Pay dividends?	Capital preservation, or guarantee?	Fund size, NAV, Nm	Unit Price Performance 2019-to-date**
Coral Income Fund	FSDH Asset Management	Appears not to	Yes	"To preserve capital"	2,891	15.33%
Vantage Guaranteed Fixed Income Fund	Investment One Funds Management	Appears not to	Yes	"Pre-stated return"	10,040	0.00%
CEAT Fixed Income Fund	Capital Express Asset and Trust	No	Yes	"Safeguarding capital"	459	9.08%
Stanbic IBTC Guaranteed Fixed Income Fund	Stanbic IBTC Asset Management	Appears not to	N/a	"Guarantees principal amount"	22,623	16.41%
SFS Fixed Income Fund	SFS Capital Nigeria	No	Yes	"No loss"	6,747	3.00%
Stanbic IBTC Absolute Return Fund	Stanbic IBTC Asset Management	Appears not to	N/a	"Ensure preservation of capital"	60,798	17.29%
Stanbic IBTC Conservative Fund	Stanbic IBTC Asset Management	Appears not to	N/a	"Ensure safety of funds"	252	29.24%
PACAM Fixed Income Fund	PAC Asset Management	Appears not to	Yes	N/a	55	-4.93%
Lotus Halal Fixed Income Fund	Lotus Capital	No	Yes	"Ensuring Capital Preservation"	14,648	2.31%
GDL Income Fund (Formerly ACAP Income fund)	Growth & Development Asset Management Limited	No	Yes	"Ensuring Capital Preservation"	23	-8.73%
EDC Nigeria Fixed Income Fund	EDC Fund Management	Yes	Yes	"Capital Preservation"	411	-4.05%
Kedari Investment Fund	Investment One Funds Management	Yes	Yes	"Provide safety of capital"	162	-2.64%
Anchoria Fixed Income Fund	Anchoria Asset Management	Yes	Yes	"Preserve Capital"	452	5.26%
Coronation Fixed Income Fund	Coronation Asset Management	Yes	Yes	N/a	432	11.12%
Lead Fixed Income Fund	Lead Asset Management	Yes	Yes	"Capital Preservation"	777	28.62%
Zenith Income Fund	Quantum Zenith	Yes	Yes	"Stable Capital Appreciation"	4,059	-1.65%
Legacy Debt Fund	FCMB Asset Management	No	Yes	"To Preserve Capital"	5,043	9.04%
United Capital Fixed Income Fund	United Capital Asset Mgt. Ltd	Appears not to	Yes	"Long term capital preservation"	127,780	16.1%
Stanbic IBTC Bond Fund	Stanbic IBTC Asset Management	Yes	Yes	"Capital Preservation"	66,774	12.9%
FBN Bond Fund (FBN Fixed Income Fund)	FBNQuest Asset Management	N/a	Yes	N/a	58,070	11.9%
Nigeria International Debt Fund	Afrinvest Asset Management	No	Yes	"Preserve investor's capital"	1,370	0.6%

*NB: **Data not comparable. Fund size, NAV, is given for 30 April 2022*

Source: SEC, FMAN, Companies, Coronation Research.

Apples & oranges, and a hand grenade

Why is mark-to-market accounting important? Why is it better than the amortised method (also known as the effective interest rate method)? Is it just a case of following international fashion because mark-to-market is the principle behind Global Investment Performance Standards (GIPS)? Is there any more to it than that?

In this section, we will show that mark-to-market accounting is vital to managing funds safely. We will show that the amortised method is fundamentally flawed. The amortised method creates a significant pitfall in risk management which may lead to systemic risk. We are not just talking about comparing apples with oranges: we are talking about apples, oranges and a hand grenade.

Mark-to-market and amortised accounting. The difference

To begin with, we take the example of a Naira-denominated bond issued this year, for instance, on 1 July, with a life (maturity) of five years, a face value of N10 million, paying an annual coupon of 15%. Two different Nigerian fund managers will value it in two different ways. One will use the amortised accounting method and the other will use mark-to-market.

Both methods will eventually agree on one thing: by the end of the bond's life, on 1 July 2027, the cash flows earned by the two funds will be the same. The cash flows will be the face value of N100 million plus five annual cash flows of N15 million, in other words N175 million. What is really important is how the two fund managers value the bond between 1 July 2022 and 1 July 2027.

Chart 5: Value (to par) of a 15% 5-year Naira bond, amortised method

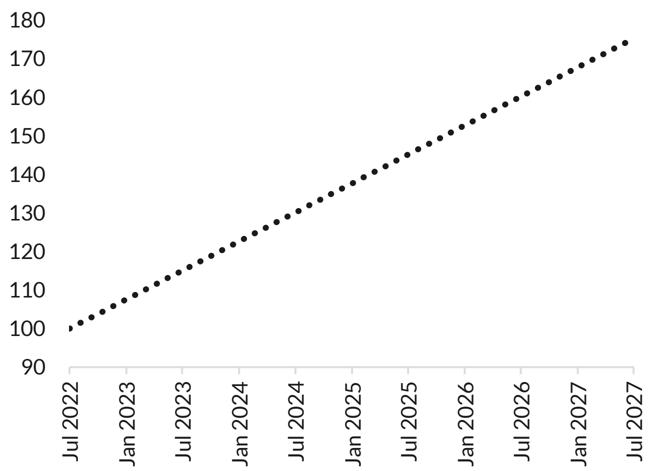
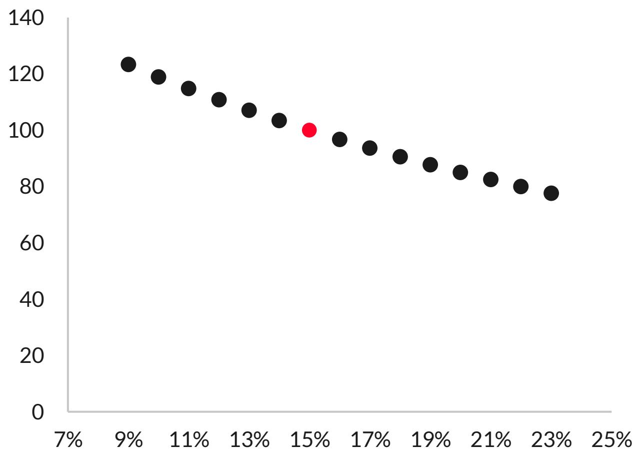


Chart 6: Sensitivity analysis: Value (to par) of a 15% coupon 5-year Naira bond initially at N100 using a 15% discount rate



Source: Coronation Research

To begin with, the fund manager using the amortised method, plots the course of the bond, starting with a par value of N100, the price at which the bond is purchased. Each month (or other regular period), it is possible to account for a fraction of the first coupon payment of N15 million, which is due on 1 July 2023. On that date, the amortised value of the bond will be N115 million, or N115 to par. The following month (or other regular interval), a fraction of the next coupon payment will be added to N115, and so on. This appears simple and safe. We will demonstrate that it is not safe.

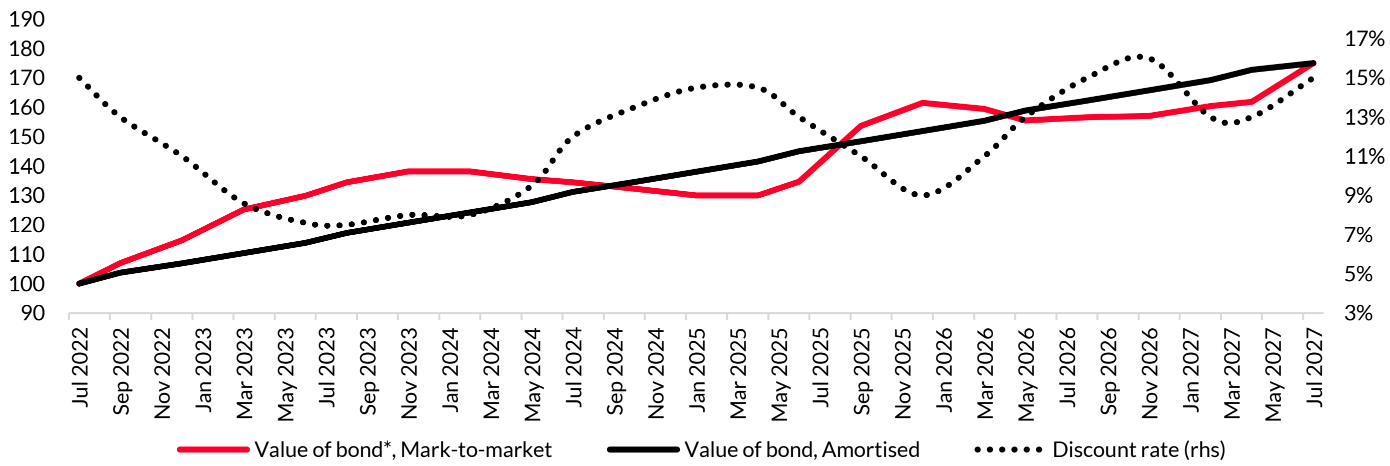
The fund manager using the mark-to-market method makes an entirely different computation. Let us say that on the day the bond was issued, the discount rate (for example, the interest yield of comparable bonds of the same five-year duration) was 15%. The bond coupon is 15%, so the mark-to-market value of the bond is N100 million, or N100 to par. This is the value of the bond on the day it is entered into the fund manager's accounts.

Then things change. The fund manager using mark-to-market understands that the value of the bond will now change every time the discount rate changes. For example, the prices of comparable bonds may change, implying a change in the discount rate. This might happen because of changes in market interest rates or because of changes in perception of the issuer's risk. Either way, the market price of the bond will change. The fund manager understands that the mark-to-market value of the bond will fluctuate and will likely have a sensitivity analysis at hand like the one presented in the chart above, showing the bond's market price for a given discount rate.

Two paths: amortised and mark-to-market

The two fund managers are now set on two different paths. Which has the advantage? Let us say, for example, that each fund manager runs a Naira-denominated Fixed Income mutual fund and that this bond is the only holding that each fund manager holds and will hold over the coming five years. The fund manager which follows the amortised accounting method will report steadily increasing values to the fund's unit holders. The fund manager which follows the mark-to-market method will report fluctuating values to its unit holders.

Chart 7: Values to an investor of a 15% coupon 5-year Naira bond, mark-to-market and amortised



**Mark-to-market price plus accrued coupons*

Source: Coronation Research

Note that the line in the chart for the mark-to-market method is not just the mark-to-market value of the bond (as we might see quoted on a daily report from FMDQ) but the mark-to-market value plus the value of the coupons collected over time. In this way, the value reaches N175 to par by the end of the bond's life.

The fund manager using mark-to-market will sometimes report quite high values to unit holders (when discount rates fall) and sometimes quite low values (when discount rates rise). There may even be occasions when the mark-to-market value of the bond falls below par, which is likely to cause discomfort to the fund's unit holders. The fund manager using the amortised method, by contrast, will report a steadily-increasing value of its holding to its unit holders. As a result, this fund manager might argue that the amortised method is good for business and the logical way to value a bond.

A fundamental flaw

The amortised method may be good for business because it gives a steadily rising increment in value, but it is fundamentally flawed. Take a situation where the unit holder wishes to sell some or all of their units in the future. In the chart above, we have plotted the value of the bond over the coming five years, using both the amortised accounting method and the mark-to-market method. We have assumed that market interest rates fluctuate during this period (as they always do) and that the discount rate changes in line with these fluctuations, causing the market value of the bond in the two funds to move up and down. Which accounting method now proves to be the safe one?

Let us say that two unit holders decide to sell portions of their units in mid-November 2023. One has a holding in the fund using the amortised accounting method, and the other has a holding in the fund using mark-to-market. The unit value under the amortised method is some N121. However, the fund manager is able to sell at the market price, plus accrued coupon payments, thereby realising N138. So what happens to the extra N17? Presumably, it is not handed to the unit holder, whose valuation report only reads N121, but is reinvested into the fund to the benefit of all the other fund holders. By contrast, the fund manager using mark-to-market accounting can sell at the market price, add accrued coupon payments and deliver N138 to the unit holder.

(Note that this example is simplified because, in reality, both funds will have bid-offer spreads in unit prices, so the amounts received by the unit holders will be slightly less than the amounts given above.)

Now let us say that the two unit holders decide to sell some more units in early April 2025. The unit value under the amortised accounting method is now some N142. Therefore, the unit holder expects to receive something close to this amount at sale. The problem is that, by this point, when the discount rate has risen, the fund manager of the fund using the amortised accounting method will be unable to raise N142 for this client because the market price is too low. Selling at the market price and adding accrued coupon payments will not raise N142, only N130. The only way to obtain enough money is to use the excess proceeds of previous sales (as in the example in the paragraph above), but this cannot be relied upon. By contrast, the fund manager using the mark-to-market method has only reported a unit price of N130 and can sell in the market, add accrued coupons and pay this sum (or something close to it, when allowing for the fund's bid-offer spread) to the unit holder.

Risk management and mark-to-market

Proponents of the amortised accounting method will argue that, of course, real life is not like this. Fixed Income mutual funds typically have diversified holdings of bonds of different maturities. Repeated maturities provide cash flows, and reinvestment of coupons enables them to generate sufficient funds to service their clients' unit sales, even when market prices are unfavourable.

Our issue with this argument is that is it not possible to quantify and test it; the information published by Fixed Income mutual funds does not have sufficient detail and depth. And no major international market for Fixed Income funds, outside Nigeria, allows the amortised accounting method, rather following the mark-to-market method as required by Global Performance Investment Standards (GIPS).

Systemic risk

To continue with our critique, we can demonstrate some extreme examples of flaws in the amortised accounting method. Let us re-run our example above of the two funds invested in a Naira-denominated bond with a 15% coupon of five years' maturity, accounted for in two different ways.

Chart 8: Values to an investor of a 15% coupon 5-year Naira bond, mark-to-market and amortised, with declining discount rates

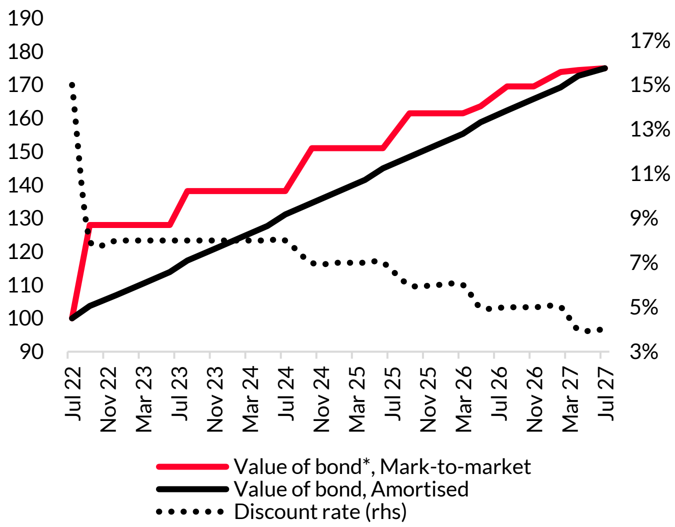
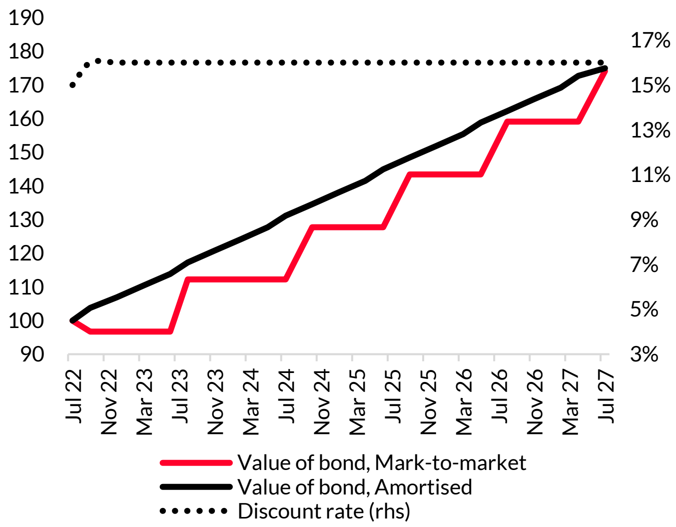


Chart 9: Values to an investor of a 15% coupon 5-year Naira bond, mark-to-market and amortised, with elevated discount rates



**Mark-to-market price plus accrued coupons*

NB: These charts assume holding to maturity. In the event of a fund selling between coupon payments dates, the fund would receive a clean price plus accrued coupons: however, these cashflows would neither match nor exceed the amortised prices shown in Chart 8.

Source: Coronation Research

Now let us suppose that, after the bond is issued in July 2022 at a discount rate of 15%, market interest rates fall, and so too does the discount rate. Discount rates continue to fall during the life of the bond. The market-to-market value of the bond, adding accrued coupon payments, will always be higher than the value of the bond achieved by the amortised method until the end of the bond's life in July 2027.

In the real world, this would be characteristic of bonds issued during periods of high interest rates (e.g. in Nigeria between 2012 and the third quarter of 2019), followed by periods of relatively low interest rates (since the third quarter of 2019). Mark-to-market values will, in general, be higher than values reached by the amortised method for bonds issued during the period of high interest rates.

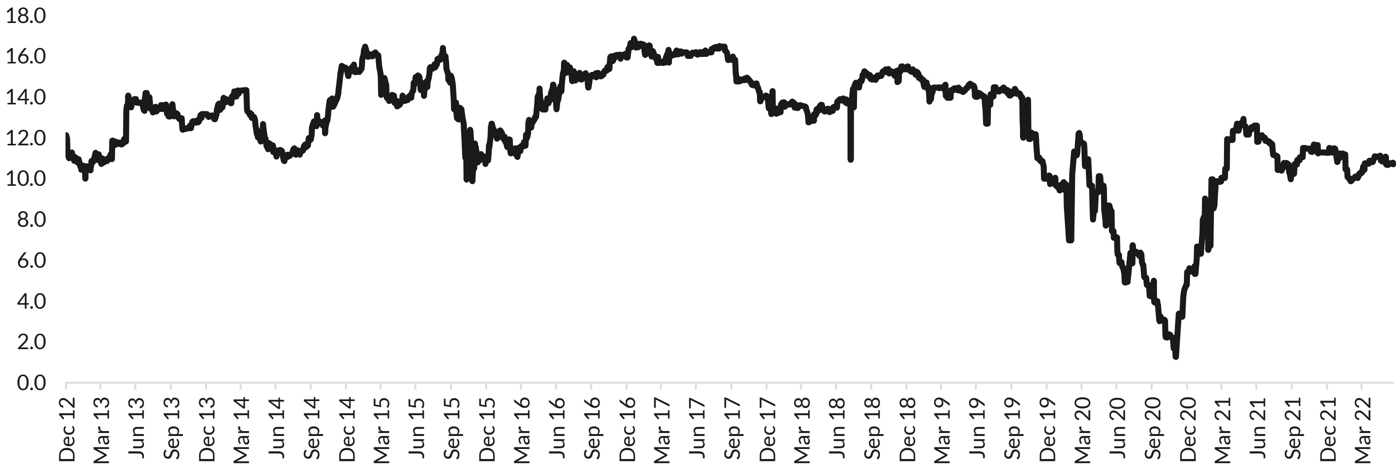
Now consider the opposite. In the next example, we model what would happen to the bond issued at a discount rate of 15% in July 2022 if market interest rates move up and discount rates move up with them, staying at 16% for the life of the bond. The fund manager using the amortised method would report unit values higher than market values, plus accrued interest, for the entire life of the bond, except at the end of its life (when the two valuations converge). When, during the life of the bond, unit holders sell units at the stated unit price reached by the amortised method, what is the fund manager going to do? There may not be enough money to pay out at the published unit price. This is what we mean by a hand grenade.

This example may have some relevance for Fixed Income mutual funds today which use the amortised accounting method and which purchased bonds during the period of very low interest rates in 2020, for example. It may also be relevant for Fixed Income funds using the amortised method that buy bonds now when benchmark five-year rates are in the region of 11%, if market interest rates rise significantly in future.

Interest rate risk, the hand grenade

As we note at the beginning of this section, market interest rates never stay the same for long. The period from 2012 to the third quarter of 2019 was characterised by fluctuating five-year Federal Government of Nigeria (FGN) bond rates (five years being a typical benchmark for a Fixed Income mutual fund), but on average they trended around 14%. After severe market disruptions in the fourth quarter of 2019, 2020 and the first half of 2021, they have trended (for the past year) at around 11%.

Chart 10: Nigerian sovereign 5-year generic bond yield (%)



Source: Bloomberg, Coronation Research

In other words, we are in a period (the past year) of relatively low five-year FGN bond rates, around 11%, compared with the 2012 - Q3 2019 average of around 14%. What would happen if five-year FGN bond rates move up in future, say to around 14% again? In the example given above, it does not take much of a rise in market interest rates and associated discount rates to put unit values for Fixed Income mutual funds using the amortised method out of step with what can be realised in the market. There is a strong suggestion of systemic risk here.

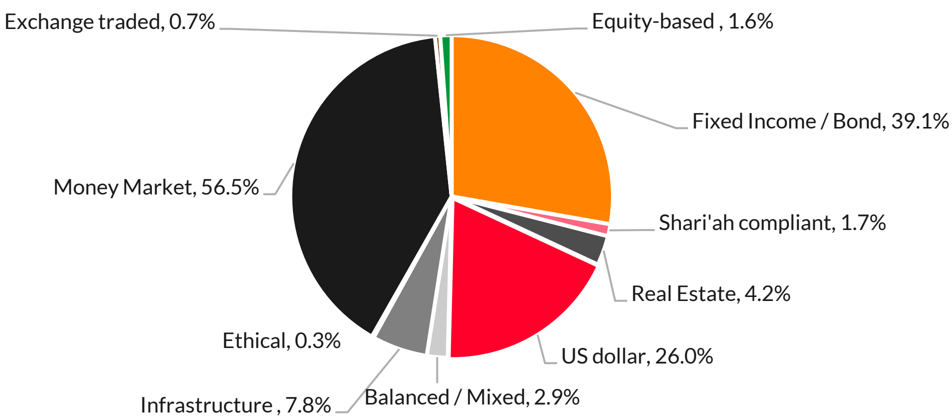
This is a simple matter of interest rate management. In our view, the amortised accounting method exposes mutual fund management to interest rate risk. On the other hand, the mark-to-market method informs the unit holder of the effect of changes in interest rates and discount rates and effectively neutralises interest rate risk. Therefore, mark-to-market accounting is safer than the amortised accounting method.

A note on our methods

In this report, we put ourselves in the shoes of a person looking to invest in a mutual fund, and we ask how this person can evaluate the different mutual funds on offer. We began by looking at the websites of the Securities and Exchange Commission (SEC) and the Fund Managers' Association of Nigeria (FMAN). We then contacted fund managers, asking them for factsheets and prospectuses. This report updates and expands our earlier report on the same subject, '<u>Comparing Mutual Funds – Apples & Oranges' (11 May 2021).</u>

We did not ask for interviews with fund managers, nor did we ask them for an in-depth description of their accounting methods and dividend records. Instead, we put ourselves in the position of a retail investor and obtained documents which we would expect a retail investor to receive. This report is not an examination of the data which a professional consultant, or regulator, would receive.

Chart 11: Mutual Funds by type, May 2022



Source: SEC, Coronation Research

We choose to look at Fixed Income funds in particular because there is a strong argument that their reported Unit Prices (UP) should be comparable over time (though clearly, there will be differences originating in the ability of each fund manager to select the best-performing securities). Other funds, such as Balanced Funds (also known as Mixed Funds), contain different types of securities in varying proportions (in this case, bonds and equities), and one would expect big differences in their performance due to fund management style (e.g. the proportion of equities they chose to hold, and which ones); therefore, variations in UP due to differences in accounting methods would be difficult to detect.

Much of the growth in mutual funds over the past few years is attributable to subscriptions from retail investors. Indeed, this appears to be the key to future growth as the culture of building a savings pot with a bank is supplanted by a funds-based savings culture. Therefore, the industry must understand how things look from the retail investor's point of view.

Coverage of Fixed Income funds

As mentioned earlier in this report, we have not included seven Fixed Income funds in our performance study simply because they were not publishing unit price data at the beginning of our study period in December 2019. They are: ARM Fixed Income Fund (data is available from July 2020); the AVA GAM Fixed Income Naira Fund (data from May 2021); the CardinalStone Fixed Income Alpha Fund (ditto); the Stanbic IBTC Enhanced Short-Term Fixed Income Fund (data from August 2021); the Emerging Africa Bond Fund (ditto); the Chapel Hill Denham Nigeria Bond Fund (data from January 2022); the Cordros Fixed Income Fund (data from March 2022).

Chart 12: New fixed income funds: how they report, dividends and guarantees

Fund name	Sponsor / manager	Mark-to-Market (MTM)?	Pay dividends?	Capital preservation, or guarantee?	Fund size, NAV, Nm	Unit Price Performance year-to-date**
ARM Fixed Income Fund	Asset & Resources Mgt. Co. Ltd	Appears not to	Yes	"Long term capital preservation"	1,256	2.34%
Emerging Africa Bond Fund	Emerging Africa Asset Management Limited	Appears not to	Yes	"Capital preservation"	636	-1.90%
Cordros Fixed Income Fund	Cordros Asset Management Limited	Appears not to	Yes	N/a	280	*0.53%
Chapel Hill Denham Nigeria Bond Fund	Chapel Hill Denham Mgt. Limited	Appears not to	Yes	"Preserving Capital"	1,252	*1.71%
Stanbic IBTC Enhanced Short-Term Fixed Income Fund	Stanbic IBTC Asset Mgt. Limited	Appears not to	N/a	"Capital preservation"	29,814	2.37%
AVA GAM Fixed Income Naira Fund	AVA Global Asset Managers Limited	Appears not to	Yes	"Preservation of investors wealth"	261	3.06%
CardinalStone Fixed Income Alpha Fund	CardinalStone Asset Mgt. Limited	Appears not to	Yes	"Capital preservation"	1,601	-1.01%

*NB: * Inception-to-date for funds launched after January 2022. **Data not comparable. Fund size, NAV, is given for 30 April 2022*

Source: SEC, FMAN, Companies, Coronation Research

We have dealt with data from the Coronation Asset Management Fixed Income Fund in the same way as all other data under review, i.e. using publicly-available SEC and FMAN data and factsheets. We note that Coronation Asset Management uses mark-to-market accounting.

Readers of this report are asked not to consider the evidence presented on Unit Price (UP) and NAV (NAV) performance as evidence that the performance of any one fund is superior to any other. The purpose of this report is to demonstrate the opposite, namely that current diversity in reporting practices disables any such comparison. This report is not intended to facilitate comparison between funds' performance. Nor does it amount to a recommendation to participate in any of the featured funds.

GIPS and international fund comparison sites

What are the benefits of Nigeria adopting Global Investment Performance Standards (GIPS), which demand, as a minimum, mark-to-market accounting of traded securities? The answer is that, with mark-to-market and GIPS, true comparison between funds unit price performance can occur. And once this takes place, several things happen:

a) Nigerian Fixed Income mutual funds, and other classes of mutual funds, can be featured on the websites of international fund comparison companies, notably Morningstar, Yodelar and the Financial Times fund comparison service;
b) Investors, including international investors, can make informed and reliable comparisons between the performance of Nigerian funds;
c) Confidence in the Nigerian mutual fund system is almost bound to increase, speeding up the adoption of mutual funds as the default destination for discretionary savings.

In short, the adoption of GIPS, though time-consuming and perhaps expensive for small funds, is likely to supply a significant boost to the fund management industry in Nigeria.

Chart 13: UK industry* funds under management (£ billion)

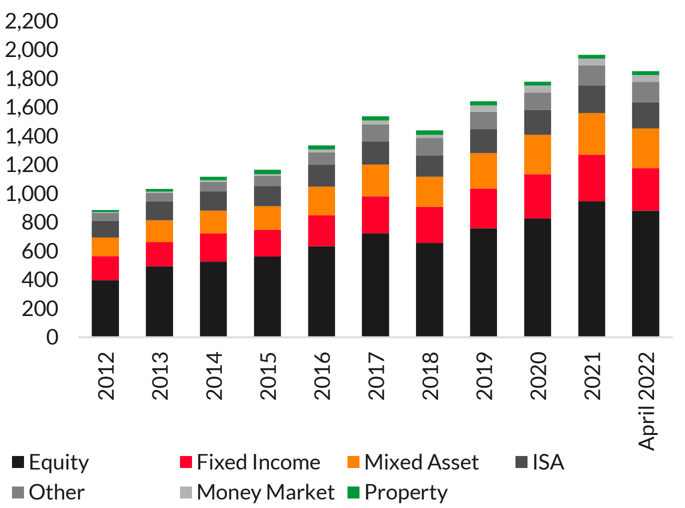
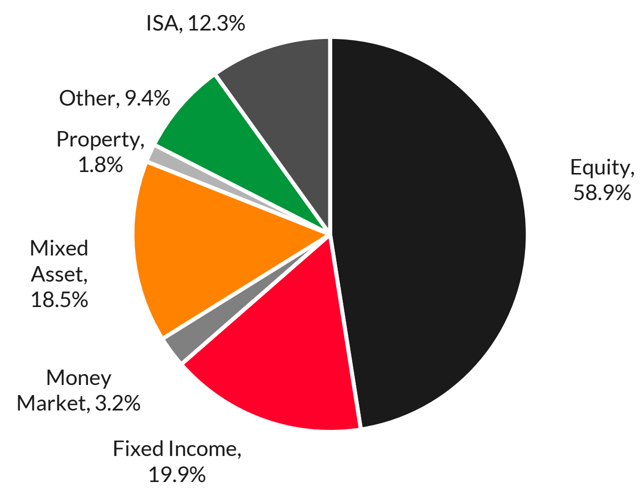


Chart 14: Distribution of selected* UK managed funds, April 2022



**All member firms of the Investment Association. **Individual Savings Accounts*

Source: The Investment Association (of the UK).

Morningstar and its peers

The power of Morningstar, Yodelar, and the Financial Times fund comparison service would be difficult to exaggerate. Their fund comparison services are used daily by the financial advisory industry worldwide. Their data are essential to assessing fund manager performance and making recommendations to pension funds, foundations and individual investors. Accurate comparison forms the basis for lively discussion and selection of fund managers.

Morningstar's UK website has data on over 60,000 funds, Yodelar ranks the performance of over 70,000 investment funds, and the Fund Comparison service of the Financial Times facilitates straightforward and useful graphic comparisons between up to five different funds at a time from its database. Most of these are subscription services but are frequently available freely for a trial period. Not being featured on the Morningstar, Yodelar, and the Financial Times funds comparison websites is generally considered a distinct disadvantage in the industry.

The good news is that in Nigeria, there are seven Fixed Income funds among the 28 surveyed in this report, that use mark-to-marketing accounting, according to their factsheets, and they are heading in the direction of GIPS (which requires several years' track record). The task for the industry, in our view, is to have all mutual funds follow their lead.

Disclaimer & Disclosures

The analyst(s) and/or Head of Research has (have) produced this report independently of the company or companies, and independently of the issuer of security or securities, covered in this report, and (has) have done so using publicly-available information. Information used in the preparation of this report is believed to be accurate at the time of going to press, though not verified independently. No liability is accepted for errors nor omissions of fact, nor is any warranty given for the reasonableness, accuracy or completeness of the information presented. Market information may have been gathered from different sources, including official and government sources, and processed in arriving at the opinion(s) expressed in this report.

This report is intended as background information for clients of Coronation Asset Management Ltd and clients of its subsidiaries and affiliates and is not to be read as a solicitation, approval or advice to buy or sell securities.

Neither Coronation Asset Management Ltd, its directors, employees and contractors, nor its subsidiaries and affiliates, nor the directors, employees and contractors of its subsidiaries and affiliates, accept(s) responsibility for losses or opportunity costs, whether direct or consequential, that may be incurred as a result of trading, or not trading, in securities covered in this report, or other securities, as a result of any decision taken after reading this report. Clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, who read this report, should not rely on it for the purposes of making investment decisions and should make their own evaluation of the potential performance of securities; the risks involved in buying or selling securities; the volatility and liquidity of securities; and of other factors such as interest rates, exchange rates, exchange rate liquidity, trading costs, settlement and custody. Clients of Coronation Asset Management Ltd and of its subsidiaries and affiliates, who read this report, should assess their own investment objectives and financial capacities when taking investment decisions and should consult a relevant financial adviser in these respects.

This report is intended for the clients of Coronation Asset Management Ltd and of its subsidiaries and affiliates. Copying and reproduction of this report, and onward forwarding, is only allowed with the specific permission of Coronation Asset Management Ltd, its subsidiaries and affiliates. Receipt of this report does not qualify you as a client of Coronation Asset Management Ltd, its subsidiaries and affiliates. If you are in unauthorised receipt of this report, you are requested to notify Coronation Asset Management Ltd, or one of its subsidiaries or affiliates, and to return or delete the report.

This report is intended for corporate and institutional clients of Coronation Asset Management Ltd and of its subsidiaries and affiliates, where those clients are regulated and professional investment customers and market counterparties. This report is not intended for individual investors.

This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations.

Coronation Research is a department within Coronation Asset Management Ltd which supplies research services to Coronation Asset Management Ltd and is ring-fenced with regard to the activities of Coronation Asset Management Ltd. The Head of Research, contractors and employees of Coronation Research do not receive any non-public information regarding the investments or investment objectives of Coronation Asset Management Ltd and do not take part in its internal meetings.

Coronation Asset Management Ltd and its subsidiaries are incorporated under the laws of the Federal Government of Nigeria and are licensed by the Central Bank of Nigeria and by the Securities and Exchange Commission of Nigeria.

Your attention is brought to the fact that the analyst(s) and/or Head of Research, mentioned at the beginning of this report is (are) employed by Coronation Asset Management Ltd in the Federal Republic of Nigeria, and while subject to the laws of the Federal Republic of Nigeria is (are) not subject, as the author(s) of this report, to the laws of other countries, notably the United States of America ('US'), the member states of the European Union ('EU'), or the United Kingdom ('UK', during and after its membership of the EU) as these laws may affect the production, publication and distribution of this report.

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report, is (are) not registered or qualified as research analysts with the Financial Industry Regulatory Authority in the US, nor registered with the Financial Conduct Authority of the United Kingdom. No liability for compliance with those laws with respect to this report is accepted by Coronation Asset Management Ltd, its directors, staff and contractors, or those of its subsidiaries and affiliates.

Where this report is distributed to clients and potential clients of Coronation Asset Management Ltd, and of its clients and affiliates, in the European Union ('EU'), including the United Kingdom ('UK'), during and after its membership of the EU, this report is either: a) distributed by virtue of a contract between Coronation Asset Management Ltd, its subsidiaries and affiliates, and the client for research services, or: b) distributed as a free sample, for a given period of time, pursuant to a future contract for the sale of research services.

The opinions expressed in this report concerning the company(ies) and securities covered accurately represent the personal views of the analyst(s) and Head of Research, whose names are given at the beginning of the report. No part of the compensation of the analyst(s) and Head of Research mentioned at the beginning of this report is, or will be, related to the views or recommendations(s) given in this report.

Conflicts of Interest

The compensation of the analyst(s) and/or Head of Research, mentioned at the beginning of this report is not linked to the recommendations, forecasts, estimates or opinions expressed in this report, nor to commissions or spreads or other gains generated in trading securities, whether covered in this report or not.

This report is produced by the Research Department of Coronation Asset Management Ltd and may be used, after its publication, by other departments of Coronation Asset Management Ltd for advisory or trading purposes, or otherwise for the assessment of companies and securities. However, it is the policy of Coronation Asset Management Ltd that no department influences the opinions, estimates, forecasts or recommendations of the Research Department, nor is privy to the contents or recommendations of the Research Department's reports and recommendations ahead of their publication. It is also the policy of Coronation Asset Management Ltd that members of the Research Department are not privy to knowledge of advisory mandates, or other fiduciary relationships, engaged in by other departments. Coronation Asset Management Ltd, its directors, contractors and staff, and its subsidiaries and affiliates and their directors, contractors and staff, and connected parties may have positions in the securities covered by this report and may have advisory and/or other fiduciary relationships with companies covered in this report. As such, this report should not be considered free from bias.

Disclosures for companies cited in the report

The table below outlines currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Coronation Asset Management or any of its direct or indirect subsidiaries or affiliates with respect to any issuer or the issuer's securities.

A) The analyst(s) responsible for the preparation and content of this report (as shown on the front page of this report) holds personal positions, directly or indirectly, in securities of the company(s) to which this report relates.

B) The analyst(s) responsible for this report, as indicated on the front page, is a board member, officer or director of the company (ies)

C) Coronation Asset Management or its affiliates have recently been the beneficial owners of 1% or more of the securities mentioned in this report.

D) Coronation Asset Management or its affiliates have managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.

E) Coronation Asset Management or its affiliates have received compensation for investment banking services from the issuer of these securities in the past 12 months.

F) Coronation Asset Management or its affiliates expects to receive compensation for investment banking services from the issuer of these securities within the next three months.

G) The company (s) covered in this report is a client of Coronation Asset Management or its affiliates.

H) Coronation Asset Management has other financial or other material interest in the company

Security Name	Available Disclosure
Zenith Bank	
Guaranty Trust Holding Company	
Access Bank	D, E, F, G
FBNH Holdings	E, F, G
United Bank for Africa	
Stanbic IBTC Holdings	
MTN Nigeria Communications	D, G
Airtel Africa	G
Dangote Cement	

Coronation Research's equity research rating system

Coronation Research's Investment ratings are a function of the research analyst's expectation of a stock's performance relative to relevant indices or peers. The benchmark used in deciding our stock rating is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest per cent.

Coronation Asset Management uses the following rating system:

Buy:	The analyst considers the stock undervalued and expects the stock to outperform the benchmark over the next 12 months or the stated investment horizon.
Hold:	The analyst considers the stock to be fairly valued and expects the stock to perform in line with the benchmark over the next 12 months or the stated investment horizon.
Sell:	The analyst considers the stock overvalued and expects the stock to underperform the benchmark over the next 12 months or the stated investment horizon.
Under Review (UR):	Where the company covered has a significant material event with further information pending or to be announced, it may be necessary to temporarily place the investment rating Under Review. This does not revise the previously published rating but indicates that the analyst is actively reviewing the investment rating or waiting for additional information to re-evaluate the expectation of the company's performance.
Not Rated:	This applies when the stock is either not covered by Coronation Research or the rating and price target has been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances, including when Coronation Asset Management is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts' ability to provide forecasts for the company in question.
Price Targets:	Price targets reflect the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends and by other risks related to the company or the market and may not occur if the company's earnings fall short of estimates.

In cases where issuing of research is restricted due to legal, regulatory or contractual obligations, publishing investment ratings will be restricted. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If the investment rating on a stock has not been reviewed for a period of one year, coverage of the stock will be discontinued by Coronation Research. Investment decisions should be based upon personal investment objectives and should be made only after evaluating the security's expected performance and risk. Coronation Research reserves the right to update or amend its investment ratings in any way, and at any time it determines.

Ratings and Price Target History

Ticker	Date	Recommendation	Date	Recommendation	Date	Recommendation	Target price, Naira/s
ZENITHBANK	22-Feb-22	Buy	8-Apr-22	Buy	16-May-22	Buy	30.86
GTCO	22-Feb-22	Buy	8-Apr-22	Buy	16-May-22	Buy	36.63
ACCESS	22-Feb-22	Buy	8-Apr-22	Buy	16-May-22	Buy	12.88
FBNH	22-Feb-22	Sell	8-Apr-22	Sell	16-May-22	Sell	8.34
UBA	22-Feb-22	Buy	8-Apr-22	Buy	16-May-22	Buy	11.72
STANBIC	22-Feb-22	Buy	8-Apr-22	Buy	16-May-22	Buy	45.00
MTNN	22-Feb-22	Buy	8-Apr-22	Buy	16-May-22	Buy	274.41
AIRTELAFRI	22-Feb-22	Sell	8-Apr-22	Sell	16-May-22	Sell	1,051.07
DANGCEM	22-Feb-22	Not Rated	8-Apr-22	Buy	16-May-22	Buy	328.65

Coronation Research Investment Rating Distribution	
Buy	78.0%
Sell	22.0%
Hold	0%
Under Review	0%

By accepting this document, you agree to be bound by all the preceding provisions. The information contained in this document is confidential and is solely for the use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose without the written consent of Coronation Asset Management.

CORONATION

Coronation Asset Management,
10 Amodu Ojikutu Street,
P.O. Box 74853, Victoria Island,
Lagos, Nigeria.