

NATIONAL PENSION COMMISSION

REGULATION ON INVESTMENT OF PENSION FUND ASSETS

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1.0 Institutional Framework

- 1.1 Pension Fund Custodians (PFCs) can only take instructions from the licensed Pension Fund Administrators (PFAs) on the investment and management of Pension Fund Assets held in their custody, on behalf of the Contributors.
- 1.2 The PFAs in discharging their contractual functions to Contributors, shall not contract out the investment/management of Pension Fund Assets to Third Parties.
- 1.3 The PFCs in discharging their contractual functions to PFAs, shall not contract out the custody of Pension Fund Assets to Third Parties.
- 1.4 PFAs shall maintain a single fund for the investment of Pension Fund Assets, until multiple funds are approved by the Commission. The Commission, in collaboration with the PFAs, shall provide the necessary guidelines on the operation of such multiple funds, in the near future.
- 1.5 Each PFA is required to establish an Investment Strategy Committee, as well as, a Risk Management Committee, in compliance with Section 66 of the Pension Reform Act 2004.
- 1.6 The Investment Strategy Committee shall formulate internal investment strategies to enable compliance with the investment regulations issued by the Commission, determine an optimal investment mix consistent with risk profile of the PFA, evaluate the periodic performance of their portfolios and carry out all other functions deemed necessary in meeting investment objectives.
- 1.7 The Risk Management Committee shall determine the acceptable risk profile of the investment portfolio, draw up risk assessment and measurement systems, monitor their portfolio against risk tolerance limits, as well as, all other functions relating to risk management to be determined by the PFA Board and the Commission, from time to time.
- 1.8 Each of the Committees in Sections 1.6 and 1.7 above shall have at least one Non-Executive Director as a member.

2.0 Authorised Markets for Trading

- 2.1 All trading of securities carried out with Pension Fund Assets, shall take place on the floor of a Securities Exchange, registered or recognized by the Securities and Exchange Commission (SEC) or a Money Market Electronic Platform open to the public and approved by the Central Bank of Nigeria (CBN) or Money Market Association of Nigeria.
- 2.2 Exceptions to paragraph 2.1 of these regulations are applicable when;
- a) Acquiring bonds and securities (in form of bonds) issued and fully guaranteed by the Federal Republic of Nigeria or the CBN, directly from the issuer. The Prospectus for offering such Bonds, shall specifically state that such securities shall be listed for trading on the floor of a registered Securities Exchange.
 - b) Trading with Participation Units of Open-End Investment Funds or Specialist Open-End Investment Funds on the memorandum list of the Nigerian Stock Exchange (NSE), from/to the Investment Fund or the Managing Company.
- 2.3 Registered Securities Exchanges consist of all Securities Exchanges recognized by the Securities and Exchange Commission.

3.0 Quality of Shares, Bonds and other Securities

- 3.1 Rating Requirements
- a) All debt instruments in which Pension Fund Assets are invested must have a minimum investment grade level rating of **'BBB'** by, at least, one (1) recognized Risk Rating Company.
 - b) Any bank/discount house in whose money market instruments, Pension Fund Assets are invested, shall have a minimum corporate rating of **'A'** range by, at least, one (1) recognized Risk Rating Company.

- c) Any company/Issuer in whose ordinary shares Pension Fund Assets are invested shall have a minimum corporate rating of “BBB” by, at least one (1) recognized Risk Rating Company.
 - d) For any debt instrument proposed for listing on the floors of any recognized Securities Exchange through an initial public offer to enjoy pension fund investment, it shall have a minimum acceptable rating of ‘A’ range by, at least, one (1) recognized Risk Rating Company.
 - e) All ratings shall be undertaken by Rating Companies registered by the Securities and Exchange Commission under the Investment and Securities Act 1999. The Commission shall provide the lists of the recognised Rating Companies at regular intervals.
- 3.2 Pension Fund Assets may be invested in Bonds issued by the Federal Government of Nigeria or Central Bank of Nigeria, if such securities;
- a) Have the full guarantee of the issuer.
 - b) Are readily marketable, that is, listed/proposed for listing on a registered Securities Exchange.
 - c) Are issued in accordance with existing relevant legislation.
- 3.3 Pension Fund Assets can be invested in Nigeria Treasury Bills (NTBs) and certificates issued by the CBN, in meeting the liquidity needs of the PFAs.
- 3.4 Pension Fund Assets may be invested in bonds/debt instruments issued by any State Government, provided such securities:
- a) Have the full guarantee of the issuer.
 - b) Are readily marketable i.e. listed/proposed for listing on a registered Securities Exchange.

- c) Satisfy the rating requirements in Section 3.1 (a), subject to the limits in Section 5.2 of this Regulation.
- 3.5 Pension Fund Assets may be invested in debt securities, redeemable preference shares and other debt instruments issued by corporate entities if;
- a) They have clearly defined term/maturity features, periodic and terminal payout, as well as, interim, terminal and contingent redemption features except for zero coupon and convertible bonds.
 - b) They must have been lawfully issued.
 - c) They are listed/quoted on a registered Securities Exchange.
 - d) They are new issues that satisfy the requirements in 3.1 (d).
- 3.6 Pension Fund Assets can be invested in ordinary shares of public limited companies if:
- a) The public limited company has made taxable profits and paid dividends/issued bonus shares for at least three (3) in the five (5) years preceding the investment of the funds.
 - b) The issuing companies' shares are listed/quoted on a registered Securities Exchange.
 - c) The Company/Issuer floating an Initial Public Offer satisfies the requirement in 3.1(c).
- 3.7 Pension Fund Assets can be invested in bank deposits and bank financial instruments (Bankers Acceptances and Certificates of Deposit) if:
- a) They meet the various requirements of these Regulations;
 - b) Such deposits and financial instruments issued by the bank on its own behalf, are traded on a Money Market Electronic Platform open to the public and approved by the CBN or Money Market Association of Nigeria;
 - c) Such financial instrument issued by the bank on behalf of a third party, carries the guarantee of such bank.

- 3.8 A bank in whose instruments any Pension Fund Assets are invested, shall from the moment of purchase onward, fulfill the requirements stated in Section 3.1 (b) of these Regulations.
- 3.9 If the bank fails to fulfill the requirements stated in Section 3.1 (b) of these Regulations, the PFA should divest itself of all deposits or securities issued by that bank, in the following 3 months.
- 3.10 Pension Fund Assets can be invested in real estate, only through instruments such as Mortgage Backed Securities (MBS) and Real Estate Investment Trusts (REITs).
- 3.11 Such MBS in Section 3.10 above, shall satisfy the following requirements:
- a) Meet the provisions of Section 3.1 (a).
 - b) The face value of the issue is not less than N1 billion.
 - c) The market value of the mortgages securitizing the issued MBS, shall not be lower than the ratio 1.5:1.
 - d) They must be quoted and listed on a registered Securities Exchange.
 - e) Where such MBS is a new issue, it shall meet the requirement of Section 3.1(d) .
- 3.12 Such REITs in Section 3.10 above, shall satisfy the following requirements:
- a) The company managing the funds has minimum of three (3) years continuous experience managing assets of third parties.
 - b) The face value of the issue is not less than N1 billion.
 - c) The Prospectus shall specifically state that the securities shall be subject to memorandum listing on a recognised Securities Exchange.
 - d) The fund has made taxable profits for, at least, three (3) years immediately preceding the investment.
 - e) The fund has paid dividends or distributed profits or issued bonuses for, at least, 3 years immediately preceding the investment.
 - f) Where such REITs is a new issue, it shall meet the requirement of Section 3.1 (d).

- 3.13 Pension Fund Assets can be invested in asset-backed securities, if the issuer and the securities meet the requirements stipulated in Section 3.11 above.
- 3.14 Pension Fund Assets can be invested in investment certificates of Close-End investment fund or hybrid investment funds if;
- a) The company managing the funds has minimum of three (3) years continuous experience managing assets of third parties.
 - b) They have memorandum listing on a registered Securities Exchange.
 - c) The fund has made taxable profits for at least three (3) years immediately preceding the investment.
 - d) The fund has paid dividends or issued bonuses for at least 3 years immediately preceding the investment.
- 3.15 Pension Fund Assets can be invested in units sold by open–end funds or specialist open–end funds if;
- a) The company managing the funds has minimum of three (3) years continuous experience managing assets of third parties.
 - b) Net asset value of the fund should not be less than N2billion.
 - c) A maximum of 65% of the fund should be invested in quoted equities on a registered Securities Exchange.
 - d) The fund has made taxable profits for, at least, three (3) years immediately preceding the investment.
 - e) The fund has paid dividends or issued bonuses for, at least, 3 years immediately preceding the investment.
- 3.16 Exception to Section 3.15 (c) shall apply provided that the volume of investment in such an open end fund, which invests beyond 65% of its portfolio in equity (Ordinary shares), shall count towards the maximum investment limit (as % of Pension Fund Assets) allowed in Ordinary Shares in Section 5.14 of this Regulation, for such PFA.

- 3.17 Pension Fund Assets can be invested in the Certificate of Deposits and Bankers acceptances issued by a licensed Discount House on its own behalf subject to the following conditions:
- a) Such a Discount House shall maintain a minimum corporate rating of “**A**” range as in Section 3.1(b) of this Regulation.
 - b) No more than 2.0% of Pension Fund Assets managed by a PFA can be invested in Certificates of Deposit and Bankers Acceptances of any one Discount House, and traded on a Money Market Electronic Platform open to the public and approved by the CBN or Money Market Association of Nigeria.
 - c) Notwithstanding paragraphs (a) and (b) above, the maximum investment in Money Market Instruments as a percentage of total Pension Fund Assets, through a Bank or Discount House, shall not exceed the limit in Section 5.14 of this Regulation.

4.0 Conflict of Interest Issues

- 4.1 PFAs shall not invest Pension Fund Assets in instruments that are subject to any type of prohibitions or limitations on the sale or purchase of such instrument.
- 4.2 PFAs cannot trade on margin accounts or take positions with Pension Fund Assets.
- 4.3 A PFA managing Pension Fund Assets is not permitted to keep “short positions” (short selling), i.e., borrowing of securities.
- 4.4 PFAs shall not trade in financial instruments with Pension Fund Assets at prices that are prejudicial to the Pension Fund Assets. A prejudicial price is a price that is different from the market price allowable on the Exchange on the day the transaction is effected, regardless whether the purchase or sale price is higher or lower than the market price.

- 4.5 PFAs are prohibited from investing any Pension Fund Assets in the shares or any other securities issued by the following;
- a) A Pension Fund Administrator.
 - b) A Pension Fund Custodian.
 - c) A shareholder/ director of the PFA or PFC holding Pension Fund Assets on its behalf.
 - d) Securities/assets not listed /traded at a registered Securities Exchange.
- 4.6 Exceptions to 4.5 (c) above, shall apply to Money Market Instruments, specifically, Certificates of Deposit and Bankers Acceptances, issued by a Bank/Discount House on its behalf, and traded on a Money Market Electronic Platform open to the public and approved by the Central Bank of Nigeria or Money Market Association of Nigeria.
- 4.7 PFAs shall not sell Pension Fund Assets to the following;
- a) Itself.
 - b) Any shareholder, director or affiliate of the PFA.
 - c) Any employee of the PFA.
 - d) The spouse of any persons referred to in (a) to (c) of this paragraph or those related to the said persons.
 - e) Affiliates of any shareholder of the PFA.
 - f) The PFC holding Pension Fund Assets to the order of the PFA.
- 4.8 The PFA, or any of its agents, shall not;

- a) Purchase any Pension Fund Assets under its management.
- b) Apply Pension Fund Assets under its management by way of loans and credits, or as collateral for any loan taken by any person.
- c) Divulge or utilise confidential information regarding Pension Fund Assets investment decisions, for any personal, corporate or related benefit.

5.0 Investment Limits and Performance Benchmarks

- 5.1 Pension Fund Assets can be invested in bonds and other securities issued by the Federal Government of Nigeria without any limitation.
- 5.2 Up to 5% of pension fund assets can be invested in eligible bonds/debt instrument issued by any one State Government, subject to the limit of 3% of the issue for a bond with risk rating of 'BBB'; 4% of the issue for a bond with risk rating of 'A'; and 5% of the issue for a bond with risk rating of 'AA' and above
- 5.3 Up to 5% of pension fund assets can be invested in eligible bonds, REITs, MBS, ABS and debentures of any corporate entity, subject to the limit of 3% of the issue for such debt instrument with risk rating of 'BBB'; 4% of the issue for such debt instrument with risk rating of 'A'; and 5% of the issue for such debt instrument with risk rating of 'AA' and above.
- 5.4 Pension fund assets managed by a PFA can be invested in Certificates of Deposit and Bankers Acceptances of any one bank issued on its own behalf and traded on a Money Market Electronic Platform open to the public and approved by the CBN or Money Market Association of Nigeria, subject to the limit of 3% for a bank with risk rating of "A"; 4% for a bank with risk rating of "AA"; and 5% for a bank with risk rating of "AAA".

- 5.5 Pension Fund Assets managed by a PFA can be invested in ordinary shares of any one (1) company quoted on the Nigerian Stock Exchange (NSE), subject to a limit of 2% of the total pension assets for a company/Issuer with a corporate rating of “BBB”; 3% for a corporate rating of “A”; and 4% for a corporate rating of “AA” and above.
- 5.6 No more than 3% of the issued ordinary share capital of any one corporate Entity, may be purchased by a PFA.
- 5.7 PFAs shall set maximum sub-sectoral limits and ensure that no more than 60% of total value of investments in ordinary shares is committed to any one (1) sub-sector of the economy.
- 5.8 No more than 1% of the value of Pension Fund Assets, managed by a PFA, shall be invested in Close end, Open end and Hybrid investment funds issued by any one Corporate Entity.
- 5.9 No more than 1% of any issued Close end fund can be purchased by a PFA.
- 5.10 No more than 1% of the value of Pension Fund Assets, managed by a PFA, can be invested in any Open end and Hybrid investment fund.
- 5.11 Limits imposed by these regulations may be temporarily violated in cases of asset revaluation, etc. However, where such violation results from market appreciation in the value of securities, the PFA shall immediately notify the Commission and make no further purchases of such security until the portfolio is rebalanced.
- 5.12 The actual allocation of Pension Fund Assets in the allowable instruments, must make due allowance for the liquidity required to meet maturing obligations of the funds under management.
- 5.13 The Commission in collaboration with the PFAs shall provide the necessary guidelines on the investment of Pension Fund Assets outside the territory of the Federal Republic of Nigeria in the near future.

5.14 The Investments Limits and Performance Benchmarks shall be as follows:

INVESTMENT LIMITS AND PERFORMANCE BENCHMARK

	ASSET CLASS	MAXIMUM INVESTMENT AS % OF PENSION FUND ASSETS	PER ISSUER	PER ISSUE	MINIMUM BENCHMARK
1	Government Securities (includes Infrastructure/ Municipal Bond and Inflation – protected Bonds)	FGN 100%	Maximum of 100% of total issue of FGN bond.	No Limit	Weighted Average Govt. 5-year bond (issued by Debt Management Office) rate (on bonds only).
		States 30%	Maximum of 5% of Pension Fund Assets in one State Govt.	Based on the risk rating of the bond/ debt instrument thus: i)Risk Rating: BBB; Per Issue Limit: 3% ii) Risk Rating: A; Per Issue Limit: 4% iii)Risk Rating: AA and above ; Per Issue Limit: 5%	
2	Corporate Bonds /Debt (including REITs, Mortgage and Asset Backed securities and debentures)	30%	Maximum of 5.0% of pension fund assets in any one corporate entity.	Based on the risk rating of the bond/ debt instrument thus: i)Risk Rating: BBB; Per Issue Limit: 3% ii) Risk Rating: A; Per Issue Limit: 4% iii)Risk Rating: AA	Weighted Average Govt. 5-year bond rate + 1%.

				and above ; Per Issue Limit: 5%	
3	Money Market Instruments	35%	<p>a)Maximum investment of pension fund assets in all instruments issued by one bank shall be subject to its risk rating thus:</p> <p>i)Risk Rating: "A" Per Issuer Limit: 3%</p> <p>ii)Risk Rating: "AA" Per Issuer Limit: 4%</p> <p>iii) Risk Rating: "AAA" Per Issuer Limit: 5%</p> <p>b) Maximum of 2.0% of Pension Fund Assets in all instruments issued by one Discount House.</p>	Not applicable	364/365 day T Bill Rate.
4	Ordinary Shares	25%	<p>(a) Maximum investment of Pension Fund Assets in any one corporate shall be subject to its risk rating thus:</p> <p>i)Risk Rating: "BBB" Per Issuer Limit: 2%</p> <p>ii)Risk Rating: "A" Per Issuer Limit: 3%</p>	Maximum of 3% of issued capital.	NSE all share index (ASI).

			<p>iii) Risk Rating: "AA" and above Per Issuer Limit: 4%</p> <p>(b) However, not more than 60% of the total investment in ordinary shares shall be committed to any one (1) sub- sector.</p>		
5	Open and Close – end Funds	5%	Maximum of 1% of Pension Fund Assets to one issuer.	<p>a) Maximum of 1% of any issued Close end fund.</p> <p>b) Maximum of 1% of Pension Assets in any Open/Hybrid Fund.</p>	NSE All Share Index (ASI)

6.0 Closed Pension Funds and Approved Existing Schemes

- 6.1 Pursuant to Section 39 (1) (f) of the Act, all investments made in assets prior to the commencement of the Act, which are contrary to Section 73 of the Act, and these regulations, by entities whose existing schemes have been approved to continue to exist by the Commission, may be maintained. This is, however, subject to any other regulations that may be made by the Commission.
- 6.2 From the commencement of the Act, all investments to be undertaken by Pension Fund Administrators, on behalf of such schemes, shall be subject to these and all other regulations and rules to be issued by the Commission.
- 6.3 **CPFAs and Approved Existing Schemes can continue to invest in approved asset classes and securities provided they do not exceed the investment limits specified in their internal investment policies as approved by the Commission.**

6.4 Any amendment(s) to the internal investment policy of a CPFA/Approved Existing Scheme shall have prior approval by the Commission before implementation.”

6.5 If a Closed Pension Fund or Approved Existing Scheme had invested up to the investment limit prescribed for that asset class in its investment policy, it can only make new investments in that asset class if it divests its current investment or part thereof for the purpose of reinvestment.

7.0 Investments no Longer Authorized

7.1 At any time an existing investment is no longer authorized, as a result of credit rating downgrades, resulting in a new rating that is not more than one grade below the stipulated minimum, the fund may retain such investment to maturity.

7.2 If at any time an existing investment is no longer authorized, as a result of either a credit rating downgrade by more than one grade or for any other reason, then such investment must be disposed off within 90 days.

7.3 If at any time a Pension Fund Administrator (PFA) willfully violates any of the limits so prescribed in Sections 5.0 and 5.13 of this Regulation, the PFA shall be made to correct the violation within five (5) working days of notice of such infraction. In addition, any resultant losses arising thereon shall be borne by the PFA.

8.0 Voting Rights

8.1 PFAs shall observe due diligence and instruct the PFCs in the exercising of voting rights acquired as a result of Pension Fund Assets held on their behalf by PFCs. Regulations in this regard would be issued in due course.

9.0 Reviews

9.1 These Investment Regulations are subject to regular reviews by the Commission.