OPERATIONAL FRAMEWORK FOR CO-INVESTMENT BY PENSION FUND ADMINISTRATORS

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1.0 INTRODUCTION

1.1 PREAMBLE

1.1.1 Nigeria's pension fund assets have remained concentrated in Federal Government Securities as the rapid growth of the assets has not been matched by a corresponding increase in domestic investment outlets. The current concentration of pension assets in government securities could lead to distortions in asset prices within the domestic market as Pension Funds continue to chase the same limited investible asset classes within the domestic market. Innovative solutions are therefore required to address the dearth of investment outlets and encourage the diversification of pension fund portfolios.

1.1.2 One of the asset classes with the lowest asset allocation by pension funds is Private Equity (PE). This asset class has remained significantly below the maximum limits of 10% for Fund I and 5% for Funds II & VI Active, respectively. Consequently, investing in specific transactions under a Co-Investment arrangement has been identified as a viable option to improve pension funds' allocation to this asset class. Co-Investing alongside the main PE Fund is expected to provide PFAs flexibility and greater choice in the type of projects/companies in which pension funds are invested, thereby further enhancing returns and increasing exposure to PE.

1.2 OBJECTIVES OF THE FRAMEWORK

1.2.1 To establish standards and procedures for Co-Investment of Pension Funds by licensed PFAs.

1.2.2 To further enhance the diversification of Pension Fund Assets under management.

1.2.3 To improve returns on pension fund investments in PE.

2.0 STRUCTURE OF CO-INVESTMENT

2.1.1 PFAs shall only enter into Co-Investment arrangements for a specific transaction(s) following a PFA's investment in the main PE Fund.

2.1.2 Co-Investment arrangements shall be made through Special Purpose Co-Investment Vehicles (SPCV). The SPCV shall be set up by the General Partner (GP) of the PE Fund with clearly defined legal status, rights and rules of the SPCV.

2.1.3 The Governance Agreements under Co-Investment shall clearly delineate the roles and responsibilities of the GP and the investors in the Co-Investment arrangement. This includes governance rights, risk management, pre-emotive rights, liquidity and exit arrangement in the Co-Investment arrangement.

2.1.4 Co-Investment arrangements for pension fund investments shall not be on less favourable terms than the main PE fund.

2.1.5 PFAs shall not be allowed to buy off the Co-Investment interest of other investors who may want to exit before maturity

3.0 INVESTMENT LIMIT

3.1.1 A PFA's exposure under any Co-Investment arrangement shall not exceed 50% of its investment in the main fund.

3.1.2 Notwithstanding Section 3.1.1 above, a PFA's exposure under any Co-Investment arrangement shall form part of its global PE exposure and be subject to the maximum limits stipulated by the Regulation on Investment of Pension Fund Asset (the Investment Regulation).

4.0 DISCLOSURE REQUIREMENTS

4.1.1 All categories of fees under the Co-Investment PE arrangement shall be clearly defined in the Co-Investment Agreement.

4.1.2 The Pension Fund shall not be liable for any cost or fee not stated in the Co-Investment Agreement.

4.1.3 PFAs shall ensure that relevant documentation required for the initial and ongoing due diligence is provided by the GP, including but not limited to board meeting minutes, human capital information and deal pipeline development to enable the PFA to undertake its due diligence.

4.1.4 Issues related to conflict of interest shall be in line with Section 6.0 of the Investment Regulation.

5.0 REPORTING REQUIREMENTS

5.1.1 The PE Fund manager shall provide a quarterly valuation of pension fund investments under any Co-Investment arrangement, clearly stating the value of a PFA's investments.

5.1.2 The valuation of pension assets deployed under a Co-Investment arrangement shall be based on quarterly valuations reported by the PE Fund Manager

5.1.3 The PE Fund Manager shall also provide the valuation methodology alongside the valuations of pension fund investments under any Co-Investment arrangement

6.0 AUTHORIZATION OF CO-INVESTMENT TRANSACTIONS

6.1.1 Due to the additional risks involved in Co-Investment arrangements, PFAs shall ensure adequate due diligence before committing Pension Funds to Co-Investment arrangements.

6.1.2 PFAs seeking to enter into a Co-Investment arrangement with an eligible PE Fund Manager shall write to the Commission for a "No Objection".

6.1.3 Co-Investment arrangement shall only be executed with a Fund whose key principals are, at least, on their second PE Fund.

6.1.4 The key principals of the PE fund must have successfully exited at least one investment from the previous PE Fund. The key principals shall include the Chief Executive Officer, Chief Investment Officer and any other applicable Principal Officer of the PE Fund.

6.1.5 PFAs shall ensure that all requirements for PE investments stipulated in the Regulation on Investment of Pension Fund Assets and those specified in this operational Framework have been duly satisfied before any application for "No Objection".

7.0 REVIEW AND ENQUIRIES

This Framework shall be subject to review by the Commission from time to time.

All enquiries regarding this Framework shall be directed to:

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