NATIONAL PENSION COMMISSION

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CIRCULAR

REF: **PenCom/INSP/Surv/2025/795**

DATE: **9 May 2025**

TO: **All Licensed Pension Fund Operators**

SUBJECT: CALCULATION AND REPORTING OF RATE OF RETRUNS

1.0 Introduction

1.1 This Circular provides guidance to Pension Fund Operators (PFOs) on the acceptable methodology for calculating and reporting performance on investment portfolios. Furthermore, the Circular is to ensure transparency and encourage sustainable, long-term investment strategies by minimizing short-term decision-making.

2.0 Calculation of Rate of Return

2.1 The rate of return shall be calculated for 36 months (3 years) and then converted into an equivalent annual rate of return, expressed as a percentage up to four decimal places.

2.2 The calculated rate of return over the periods, converted in the equivalent annual rate of return, is equal to the n^{th} root of the value of the accounting unit at the end of the period for which it is calculated, divided by the value of the accounting unit as at the beginning of the periods, less one and expressed in percentage as stated in the formula below:

$$\textbf{Annual Rate of Return} = \left[\left(\sqrt[n]{\frac{\textit{current value of accounting unit}}{\textit{valueof accounting unit at the beginning of period}}}\right) - \mathbf{1}\right] * \mathbf{100}$$

2.3 For non-unitised funds, such as Approved Existing Schemes (AES), Closed Pension Fund Administrators (CPFAs), and Additional Benefit Schemes (ABS), the PFA shall calculate the rate of return using Time-Weighted Returns (TWR). The result shall be expressed as a percentage. Refer to the formula provided below:

$$\mathbf{TWRR = (1+R1) \times (1+R2)....(1+Rn) - 1}$$

2.4 The computation shall be performed on a month-on-month basis, maintaining a 36-month interval between the opening and closing months. This rolling approach ensures the calculation reflects a 36-month cumulative period. For example, to calculate the equivalent annual rate of return for 36 months as of 30 November 2024, the value of the accounting unit as of 30 November 2024 will serve as the current value, while the value as of 31 October 2021 will serve as the beginning period value.

2.5 The opening value of an accounting unit for unitised funds, as well as the opening fund value for non-unitised funds, used for the calculation of the rate of return, shall relate to a period, which has been audited and approved by the Commission.

2.6 Additionally, Pension Fund Administrators (PFAs) shall report the performance of the fund alongside the Sharpe Ratio for the respective funds, using the three years average yield of the **10-year FGN bond** as the **risk-free rate (benchmark rate)** and the fund's **standard deviation**, as outlined in the formula below:

$$\mathbf{S = Rp - Rf / \sigma p}$$

Where:

- S = Sharpe Ratio
- Rp = Portfolio return
- Rf = Risk-free rate
- σp = Standard deviation of portfolio returns (total risk)

3.0 Reporting Requirements

3.1 The rate of return/performance shall be reported monthly, as outlined in Section 2.4 above, and must be published on the website of each PFO not later than the 10th day of each month.

4.0 The content of this Circular supersedes the provisions of Section 6.0 to Section 6.4 of the Regulation on Valuation of Pension Fund Assets.

5.0 This Circular takes effect from **1 July 2025**.

6.0 All enquiries regarding this Circular should be directed to the Head, Investment Supervision Department.

Thank you.

A. M. Saleem

Head, Surveillance Department