



## **STABILISATION FUND**

### ***INVESTMENT POLICY STATEMENT***

#### **1. Introduction**

This Investment Policy Statement (“IPS”) is issued by the Board of Directors (the “Board”) of the Nigeria Sovereign Investment Authority (“NSIA”). It provides a framework for management of the Stabilisation Fund (“Fund”). The IPS sets out to identify the Fund’s investment objectives and constraints. It establishes a structure of guidelines and policies within which the Fund’s Executive Management can exercise their delegated authority and against which recommendations to the Investment Committee can be judged. The IPS is designed to be a strategic document and remains in effect unless revisions are agreed by the Investment Committee and subsequently ratified by the Board. Specific investment policies pertaining to asset allocation are documented in *Annex A* to the IPS.

#### **2. Purpose and Background Of The Fund**

The Stabilisation Fund is intended to help increase the credibility of the Federal Republic of Nigeria’s macro-economic framework and to act as a buffer against short term macro-economic instability. As such, the Fund’s assets should be invested conservatively, striking a balance between generating a modest positive return and preserving capital in nominal terms. Additionally, given the unpredictable and short-term nature of the Fund’s potential liabilities, immediate liquidity is required.

#### **3. Investment Objectives**

##### **3.1. Time Horizon**

For the reasons explained in Paragraph 2, the time horizon of the Fund is short. Consequently, the Fund is restricted to investing in investment grade sovereign and corporate fixed income assets with a maturity of up to three years.

##### **3.2. Base Currency**

The base currency in which the Fund shall be denominated is the US dollar.

#### **Board Members**

Mahey Rasheed, OFR – *Chairman*; Uche Orji – *Managing Director & CEO*; Stella Ojekwe-Onyejeli – *Executive Director/Chief Risk Officer*; Ibukun Awosika; Arnold Ekpe; Olabisi Soyebode, SAN; Hassan Usman; Jide Zeitlin

### **3.3. Risk Tolerance**

Given the time horizon and return target already described, the principal risk to the Fund's objectives is losing money in nominal terms at a given point in time and consequently being forced to sell assets at depressed prices.

### **3.4. Return Target**

3.4.1. The Fund's primary objective is to generate income while preserving capital in nominal terms. However, the Fund should also seek to earn an incremental nominal return, provided that earning such return does not materially jeopardise the Fund's ability to achieve its primary objective of preserving capital.

3.4.2. To facilitate performance monitoring, the Fund's performance shall be judged against a Strategic Benchmark. This Strategic Benchmark shall be a composite of fixed income components chosen to implement the portfolio.

### **3.5. Asset Allocation**

3.5.1. To achieve its investment objectives, the Fund shall be invested in a combination of *Hedge Assets*, defined as short term US government debt (T-Bills and 1-3 year US Treasuries) and *Growth Assets*, defined as short term, high quality investment grade corporate bonds.

3.5.2. The portfolio shall be diversified in order to reduce concentration risk among government money market funds, ETFs and managed accounts. The purpose of diversification is to provide reasonable assurance that no one fund can have a disproportionate exposure to the Fund's assets that may adversely impact the aggregate results of the Fund or impede its liquidity.

3.5.3. The Investment Committee shall review the investment policy periodically and may make changes from time to time, recorded in changes to *Annex A*. These changes must subsequently be ratified by the Board. It is anticipated that changes will be infrequent. Long term strategic changes may result in modifications to this IPS.

## **4. Restrictions**

### **4.1. Acceptable Investments**

The following are considered acceptable investments for the Fund:

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- US Treasury Bills
- US Treasury bonds with a maturity of less than three years
- Investment grade debt from corporate issuers with a maturity of less than three years. If a 'buy and hold' strategy is implemented, the maturity of such securities can be extended to five years.

Investments may be made through money market funds, ETFs, and managed accounts, provided that such vehicles are invested in the above. Additionally, NSIA may invest directly in the above securities.

#### **4.2. Manager Concentration**

In order to minimize concentration risk, the Fund shall not invest more than 50% of the portfolio in any one fund or manager. Also, investment by the Fund in any particular fund shall not constitute more than 2.5% of a particular fund's assets.

#### **4.3. Corporate Issuer Restrictions**

The Investment Committee acknowledges that liquidity in the investment grade corporate bond market can be significantly reduced in periods of market stress. To safeguard against this, the Fund shall (at time of purchase):

- Invest in no security with a rating below 'BBB'
- Invest in no more than 5% of a single issue
- Invest a maximum of 3% in a single issue rated AA- or above (excluding US Treasuries)
- Invest a maximum of 2% in a single issue rated A-, A and A+ rated securities
- Invest a maximum of 1% in a single issue rate BBB+ and below

### **5. Benchmarking and Monitoring**

- 5.1. The purpose of benchmarking is to enable monitoring of the success of investment strategies or managers in meeting both the return objectives and risk guidelines of the Fund.
- 5.2. The Strategic Benchmark shall be documented in Annex A to this IPS.

#### **Board Members**

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## **6. Review and Revision of this Investment Policy Statement**

The Investment Committee shall propose to the Board periodic changes to the Investment Policy Statement and associated annexes if necessary. In any event, the Investment Policy Statement shall be re-confirmed annually by the Board.

Recommended by

The Board of the Nigeria Sovereign Investment Authority

Chairman

Chair of Investment Committee

Managing Director

### **Board Members**

Mahey Rasheed, OFR – *Chairman*; Uche Orji – *Managing Director & CEO*; Stella Ojekwe-Onyejeli – *Executive Director/Chief Risk Officer*; Ibukun Awosika; Arnold Ekpe; Olabisi Soyibo, SAN; Hassan Usman; Jide Zeitlin

**ANNEX A**

**Allocation Guidelines**

	Policy Target	Range		Benchmark
		High	Low	
<b>Growth Assets</b>	75%	85%	0%	Barclays 1-3 Year Corporate Bond
IG Corporate Bonds 1-3 years		85%	0%	Barclays 1-3 Year Corporate Bond
<b>Hedge Assets</b>	25%	100%	15%	Barclays 1-3 Year Treasury Bond
US T-Bills		25%	0%	91-Day Treasury Bill Index
US Treasuries 1-3 yrs		100%	15%	Barclays 1-3 Year Treasury Bond

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