REGULATION
ON INVESTMENT OF PENSION FUND ASSETS

www.pencom.gov.ng
National Pension Commission
The requirements of this Regulation are consistent with the provisions of the Pension Reform Act, 2004. The purpose of the Regulation is to provide uniform rules and standards for the investment of pension fund assets.
REGULATION ON INVESTMENT OF PENSION FUND ASSETS

1.0 Institutional Framework

1.1 Pension Fund Custodians (PFCs) shall only take written instructions from licensed Pension Fund Administrator (PFAs) with respect to the PFAs investment and management of pension fund assets held in the custody of the PFCs on behalf of the Contributors.

1.2 The PFCs, in discharging their contractual functions to PFAs, shall not contract out the custody of pension fund assets to third parties, except for allowable investments made outside Nigeria. The PFC shall obtain prior approval from the Commission before engaging a global Custodian for such allowable foreign investments.

1.3 The PFAs, in discharging their contractual functions to Contributors, shall not contract out the investment/management of pension fund assets to third parties, except for open/close-end/hybrid funds and specialist investment funds allowed by this Regulation.

1.4 The PFAs shall maintain RSA ‘Active’ and ‘Retiree’ Funds, as provided in this Regulation, to govern the investment of pension fund assets until effective implementation of the Multi-Fund Structure.

1.5 In addition to the requirements of other guidelines issued by the Commission on corporate governance, ethics and business practices, each PFA shall establish an Investment Strategy Committee as well as a Risk Management Committee, in compliance with Section 66 of the Pension Reform Act, 2004 (“the Act” or “PRA 2004”).

1.6 The Investment Strategy Committee, in addition to other functions specified in the Act, shall formulate internal investment strategies to enable compliance with this Regulation, taking into cognizance the macro-economic...
environment as well as the investment objectives and risk profile of the respective PFA Funds. The internal investment strategies shall be approved by the PFA in a formal Board Meeting at least once every year or as frequently as changes occur in the macro-economic environment that may affect pension fund assets.

1.7 The Risk Management Committee shall determine the acceptable risk profile of each 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’s Board and the Commission, from time to time. The Risk Management Committee shall render a report of its activities to the PFA’s Board and the Commission, at least once every quarter.

1.8 Each of the Committees in Sections 1.6 and 1.7 above shall have at least one Non-Executive Director with relevant skills and experience, as a member. In addition, an Independent Director shall chair the Risk Management Committee.

1.9 The Commission shall provide the necessary guidelines on the investment of Pension Fund Assets outside the territory of the Federal Republic of Nigeria as and when the need arises.

1.10 In this Regulation:

‘The Commission’ means the National Pension Commission.

"Securities" mean-

(a) debentures, stocks or bonds issued or proposed to be issued by a government;
(b) debentures, stocks, shares, bonds or notes issued or proposed to be issued by a body corporate;
(c) any right or option in respect of any such debentures, stocks, shares, bonds or notes; or
(d) commodities futures, contracts, options and other derivatives, and the term securities includes those securities in the category of the securities listed in (a) - (d) above which may be transferred by means of any electronic mode approved by SEC and which may be deposited, kept or stored with any licensed depository or custodian company as provided under the Investment & Securities Act 2007.
'Securities Exchange' means an exchange or an approved trading facility as defined in Section 315 of the Investment and Securities Act (ISA) 2007.

'Exchange Traded Fund' (ETF) means a unit trust scheme or an open-ended investment company that issues unleveraged securities or units listed on a securities exchange recognized or registered by the Securities & Exchange Commission (SEC) in Nigeria and tracks the performance of specified securities or assets, which includes but is not limited to equities, basket of assets, indices, commodity prices, foreign currency rates or any other appropriate benchmark approved by SEC from time to time.

'State/Local Governments' means all the State and Local Governments of the Federal Republic of Nigeria, including the Federal Capital Territory Administration (FCTA) and Area Councils in the FCT, which are listed in the Constitution of the Federal Republic of Nigeria, 1990 (as amended).

'Primary Market' means a market for new issues of securities wherein the proceeds of sales go to the issuer of the securities sold.

'Secondary Market' means a resale market where securities originally issued in the primary market are bought and sold.

'Related Persons' includes father, mother, child, brother, sister, uncle, aunt and cousins where applicable, their spouses and any other relationship that can be reasonably construed as related persons or a corporate entity where any of the aforementioned holds 5% or more beneficial interest.

'Margin Account' means an account maintained with a lender, (Bank or Broker) which records transactions on margin trade.


'Supra-national Bonds' means debt instruments issued by Multilateral Development Finance Organizations, of which Nigeria is a member.
“Private Equity Fund” means any designated pool of investment capital targeted at all stages of private equity investment from start-ups to large buy-outs, including those held by corporate entities, limited partnerships and other investment vehicles including PE Funds of Funds.

‘Multilateral Development Finance Organizations’ (MDFOs) means organizations formed between three or more nations to work on development issues that relate to all the countries in the organization e.g. World Bank Group, African Finance Corporation, African Development Bank or such other MDFOs recognised by the SEC from time to time.

‘PFA’ means Pension Fund Administrator licensed by the National Pension Commission, and includes Closed Pension Fund Administrator (CPFA).

‘PFC’ means Pension Fund Custodian licensed by the National Pension Commission.

‘Pension Fund Assets’ means pension assets under management and custody with licensed pension operators.

‘Bank’ means a commercial or merchant bank licensed by the Central Bank of Nigeria.

2.0 General Principles

2.1 PFAs shall invest pension fund assets with the objectives of ensuring safety and maintenance of fair returns.

2.2 PFAs shall recruit and retain highly skilled personnel in their investment departments.

2.3 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, except for open/close-end/hybrid funds and specialist investment funds allowed by this Regulation.

2.4 PFAs shall not trade on margin accounts with pension fund assets.
2.5 A PFA shall not engage in borrowing or lending of pension fund assets.

2.6 PFAs shall not trade in financial instruments with pension fund assets at prices that are prejudicial to the pension fund assets.

2.7 When investing in eligible bonds/debt instruments issued by State/Local Governments and Corporate Entities, pension fund assets shall be invested only in eligible bonds/debt instruments issued by State/Local Governments and Corporate Entities that have fully implemented the Contributory Pension Scheme. The Commission shall provide periodic lists of compliant State/Local Governments and Corporate Entities.

2.8 PFAs are to ensure that appropriate legal and financial due diligence are undertaken on all Prospectus/Offer Documents of eligible bonds/debt securities and other allowable instruments prior to investment.

2.9 The Commission attaches great importance to sound corporate governance practices in corporate entities or specialist investment funds seeking pension fund investments. Accordingly, PFAs must take into consideration the following issues, amongst others, in corporate entities or specialist investment funds in which pension fund assets are to be invested:

i. Rules governing the Board of the corporate entity or Fund.

ii. Ongoing disclosure rules of material events in the corporate entity or Fund.

iii. Adequate disclosures of the financial condition of the corporate entity or Fund, as stated in the annual financial statements, which must be audited by a reputable firm of chartered accountants.

3.0 Authorized Markets

3.1 All primary market investments by PFAs in ordinary or preference shares of eligible corporate entities shall only be through public offerings approved by the Securities & Exchange Commission (SEC).
3.2 All primary market investments by PFAs in bonds, debentures and other debt instruments (excluding Commercial Papers) issued by corporate entities shall be through public offering or private placement arrangements approved by SEC. PFAs may invest in bonds issued by publicly listed companies through private placement arrangements provided they fulfill the requirements in section 5.2.3 of this Regulation.

3.3 All primary market investments by PFAs in participation units of Open, Close-End, Hybrid Investment Funds, including ETFs, and Specialist Investment Funds (REITs, Infrastructure Fund and Private Equity Fund), shall be through public offering or private placement arrangement.

3.4 All secondary market trading of pension assets, shall take place in a securities exchange (Local and Offshore) recognized by SEC or a trading facility recognized by the Central Bank of Nigeria (CBN).

3.5 Exceptions to paragraph 3.4 of this Regulation are applicable when:

a) Acquiring bonds and securities issued or fully guaranteed by the Federal Government of Nigeria or CBN or eligible MDFO.

b) Trading with participation units of Open/Closed-end or Hybrid Investment Funds on the memorandum list of a securities exchange registered by SEC or a trading facility recognized by CBN; or Specialist Investment Funds (Infrastructure and Private Equity), registered by SEC.

c) Acquiring or trading in eligible securities of a Nigerian corporate entity, which are listed or quoted in an offshore securities exchange, based on prior approval by SEC.

4.0 Allowable Instruments

Pension fund assets shall be invested in the following allowable instruments:

4.1 Bonds, treasury bills and other securities (including bonds denominated in foreign currencies) issued by the Federal Government
and CBN or their agencies as well as special purpose vehicles and companies created/owned by the Federal Government, provided that the securities are fully guaranteed by the CBN or Federal Government.

4.2 Bonds issued by eligible State and Local Governments or State Government Agencies or wholly owned companies of the State Government, provided that such securities are fully guaranteed by Irrevocable Standing Payment Orders (ISPOs) or external guarantees by eligible banks or development finance institutions or MDFOs with a minimum credit rating of ‘A’.

4.3 Bonds, debentures, redeemable/convertible preference shares and other debt instruments issued by listed corporate entities; bonds and debt securities issued by eligible unlisted companies; and Asset Backed Securities including Mortgage Backed Securities and Infrastructure Bonds.

4.4 Ordinary shares of public limited liability companies listed on a securities exchange registered by SEC.

4.5 Money market instruments of banks and discount houses as well as Commercial Papers issued by corporate entities.

4.6 Open/Close-ended/ Hybrid Investment Funds, including Exchange Traded Funds, which are registered with SEC.

4.7 Investment Funds whose underlying assets are tangible physical assets. These includes:

i. Real Estate Investment Trusts (REITs) registered by SEC.

ii. Private Equity Funds registered with SEC.

iii. Infrastructure Funds registered with SEC.

4.8 Supranational Bonds issued by eligible MDFOs.

4.9 Global Depositary Receipts/Notes (GDRs/Ns) and Eurobonds issued by listed Nigerian companies, as certified and approved by SEC.
5.0 Quality Requirements of Allowable Instruments

5.1 Rating Requirements

The following rating requirements shall apply:

5.1.1 All ratings shall be undertaken by Rating Companies registered or recognized by the Securities and Exchange Commission (SEC).

5.1.2 State Government Bonds, Local Government Bonds, Corporate Bonds, Infrastructure Bonds, Supra-national Bonds and other allowable debt securities in which pension fund assets are to be invested shall have a minimum credit rating of ‘A’ by one SEC-registered or recognized Rating Agency.

5.1.3 Notwithstanding the provisions of Section 5.1.2, PFAs may invest a maximum of 20% of pension assets under management in State/Local Government Bonds, corporate bonds, infrastructure bonds, supranational bonds and other allowable debt securities, with credit rating of BBB by one registered or recognized Rating Company.

5.1.4 Any bank in whose money market instruments pension fund assets are to be invested shall have a minimum credit rating of ‘BBB’ by a registered or recognized Rating Company. However, a discount house or corporate entity in whose money market instruments or commercial paper, respectively, pension fund assets are to be invested shall have a minimum credit rating of ‘A’ by one registered or recognized Rating Company.

5.1.5 The minimum rating specified above shall be maintained throughout the tenor of the investments.

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

5.1.7 If at any time an existing investment is no longer authorized, as a result of either a credit rating
withdrawal or a credit rating downgrade by more than one grade or for any other reason, the PFA shall forward its exit strategy to the Commission within 10 working days.

5.1.8 PFAs shall not rely only on ratings assigned by Rating Companies, as they are only complementary to PFAs internal due diligence and analysis, before investment in any instrument or issuer.

5.2 Other Quality Requirements

5.2.1 Pension Fund Assets can be invested in bonds/debt instruments issued by any State/Local Government or its agencies or wholly-owned companies of the government as stipulated in Section 2.7 of this Regulation, provided that such securities:

i. Are approved by SEC.

ii. Meet the rating requirements in Section 5.1

iii. Have sinking funds that are backed by legislation as well as Irrevocable Standing Payment Orders (ISPOs) or external guarantee by a bank, development finance institution or MDFOs or a minimum credit rating of ‘A’ issued by a registered/recognized rating company.

iv. Without prejudice to Section 4.2 and 5.2.1(iii), where the bond/debt instrument is not backed by ISPOs, it shall have a sinking fund backed by legislation and an Irrevocable Letter of Guarantee of Repayment of the instrument, supported with adequate Internally Generated Revenue and a trust arrangement with a reputable Trustee registered with SEC.

v. Are currently traded or are trade-able on a securities exchange registered by SEC or trading facility recognized by CBN.

5.2.2 Pension Fund Assets can be invested in bonds, debentures, redeemable/convertible preference shares and other debt instruments issued by corporate entities, subject to the following conditions:

i. They have been duly issued.

NATIONAL PENSION COMMISSION
ii. They meet the rating requirements in Section 5.1

iii. They have clearly defined term/maturity features, periodic and terminal payout.

iv. Where such securities have any embedded options e.g. call option, put option etc, they must be clearly stated in the offer document/prospectus.

v. The securities are to be listed on a securities exchange registered by SEC or tradable on any trading facility approved by the Central Bank of Nigeria.

5.2.3 Pension Fund Assets can be invested in infrastructure projects through eligible bonds or debt securities, subject to the following requirements:

i. The infrastructure project shall be:

   a.) not less than N5 billion in value.
   
   b.) awarded to a concessionaire with good track record through an open and transparent bidding process in accordance with the due process requirements set out in the Infrastructure Concession and Regulatory Commission Act (ICRC Act) and any regulation made pursuant thereto and certified by the Infrastructure Concession and Regulatory Commission (ICRC) and approved by the Federal Executive Council (FEC).

c.) core infrastructure projects, whose business plans and financial projections indicate that they are viable as well as economically and financially rewarding for investment by pension funds.

ii. The bonds or debt instruments issued to finance the infrastructure project shall in addition to the requirements of Section 5.2.2 above:
a.) have robust credit enhancements e.g. guarantees by the Federal Government or eligible bank/ development finance institution or MDFOs;

b.) have a maturity date that precedes the expiration of the concession; and

c.) have a feasible and enforceable redemption procedure in the event of project suspension, cancellation or, in the case of regulated sectors, when changes in regulatory or policy decisions make the project to differ significantly from its original financial projections.

iii) Where infrastructure projects are financed through Infrastructure Funds, pension fund investments shall be subject to the following additional requirements:

a.) The value of the Infrastructure Fund shall not be less than N5billion.
b.) The Infrastructure Fund shall have well defined and publicized investment objectives and strategy as well as disclosures of pricing of underlying assets, including any other necessary information. All annual financial statements of the Fund shall be audited by reputable firms of chartered accountants.
c.) The Infrastructure Fund shall have satisfactory pre-defined liquidity/exit routes.
d.) The Funds shall be managed by experienced Fund Managers, versed in infrastructure financing and registered with the SEC as Fund Managers.
e.) A minimum of 75% of the Infrastructure Fund shall be invested in projects within Nigeria.
f.) The key Principals, namely the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), of the Fund Manager shall each have at least ten (10) years relevant
and continuous experience in infrastructure financing or investment management; and shall not exit the Fund without prior notice to the PFAs, which shall not be less than 90 days from the exit date. This ‘exit clause’ shall be expressly stated as a condition in the investment agreement/covenant between the PFA and the Fund Manager.

g.) Where an Infrastructure Fund does not have development finance institutions or MDFOs as co-investors, but the Fund Manager has a minimum Investment Manager rating of BBB issued by a rating company registered or recognized by SEC, the Fund Manager shall retain a minimum investment of 3% of the Infrastructure Fund.

h.) Where the Infrastructure Fund has development finance institutions or multilateral development finance organizations as co-investors, the Fund Manager shall retain a minimum of 1% of the Infrastructure Fund.

i.) The Fund shall have an **Advisory Board** with independent representatives of institutional investors being in majority.

j.) Prior to investment as well as during the tenor of investment in any Infrastructure Fund, PFAs are to ensure that the above-mentioned Advisory Board has responsibility over audit functions regarding:

i. the evaluation of projects prior to investment;

ii. transactions with parties related to the Infrastructure Fund Manager;

iii. strategies concerning divestiture of investments in which the Private Equity Fund has interests.

5.2.4 Pension fund assets can only be invested in ordinary shares of public limited companies based on the following conditions:

i. the issuing companies’ shares are listed/quoted on a securities exchange registered by SEC.
ii. the public limited liability company has an operating track record of having made taxable profits for, at least, three out of the five years preceding the investment, and paid dividends or issued bonus shares for at least one year within the five years.

5.2.5 Pension Fund Assets can be invested in the money market instruments of banks/discount houses and the commercial paper of corporate entities, based on the following conditions:

i. The bank/discount house or corporate entity shall meet the rating requirements in Section 5.1.4.

ii. In the case of Bankers Acceptances (BAs) issued on behalf of a third party, they shall carry the full guarantee of the bank.

iii. Where the investment is in a Commercial Paper (CP), it shall be in compliance with the CBN’s guidelines on the issuance and treatment of BAs and CPs.

5.2.6 Due to reason of subjective valuation of real estate properties, RSA Funds under management with PFAs shall not directly invest in Real Estate; as investments shall only be through instruments such as Mortgage Backed Securities (MBS) and Real Estate Investment Trusts (REITS). However, CPFAs and Approved Existing Schemes that operate Defined Benefit Schemes are allowed to directly invest in Real Estate, subject to Guidelines issued by the Commission from time to time.

5.2.7 Such MBS in Section 5.2.7 above shall satisfy the following requirements:

i. Meet the rating requirements in Section 5.1

ii. The face value of the issue is not less than ₦1 billion.

iii. The market value of the mortgages securitizing the issued MBS shall not be lower than the ratio 1.3:1. Any shortfall in the value of the collateral can be made up by FGN Securities, with face value not exceeding 25% of the MBS.

NATIONAL PENSION COMMISSION
iv. They are trade-able on a securities exchange registered by SEC.

v. The Promoters/Originators shall retain a minimum of percentage of the Issue, as determined by SEC Rules, which shall be maintained throughout the tenor of the issue.

vi. Make full disclosure of information on the MBS to investors including corporate governance standards, annual valuation reports of underlying pool of assets backing the securities, and any other information necessary for assessing inherent risks in each investment, including issues of title to land and properties.

5.2.8 Such REITs in Section 5.2.7 shall satisfy the following requirements:

i. Meet the rating requirements in Section 5.1. However, where it is an Initial Public Offer, the Fund Manager shall have a minimum Investment Manager rating of ‘BBB’.

ii. The Principal Officers of the Fund Manager, namely, the Chief Executive Officer and Chief Investment Officer shall each have a minimum of 10 years relevant investment management experience or relevant project management experience, five years of which must have been in senior management positions.

iii. The face value of the issue is not less than ₦1 billion.

iv. The Prospectus shall specifically state that the securities shall subsequently be listed or have memorandum listing on a registered or recognized Securities Exchange within a stipulated period.

v. The Promoters shall retain a minimum of 5% of the Fund, subject to SEC Rule, issued from time to time.

vi. Make full disclosure of information on the Fund to investors, including corporate governance standards, annual valuation reports of underlying assets and any information necessary for assessing inherent risks in each
investment, including issues of title to land and properties.

5.2.9 Pension Fund Assets can be invested in Asset Backed Securities (ABS), if the issuer and the securities meet the requirements stipulated in Section 5.2.8 above.

5.2.10 Pension Fund Assets can be invested in the investment certificates of Open, Closed-End or Hybrid Investment Funds, including Indexed/Exchange Traded Funds (ETFs), based on the following criteria:

i. The Fund is approved and registered by SEC.

ii. The Fund has memorandum listing on a Securities Exchange registered by SEC.

iii. The Promoters shall retain a minimum percentage of the Fund, subject to SEC Rules. This shall however not apply to Open-end Funds.

iv. The Principals managing the Funds, namely, the Chief Executive Officer and Chief Investment Officer shall each have a minimum of 10 years relevant and continuous investment management experience, five years of which must have been in senior management positions.

v. There are full disclosures of information on the Fund to investors including investment and risk management strategies, corporate governance standards, yearly audited financial statements, amongst others.

vi. Where it is an ETF:

a.) The Sponsor and Fund Manager are registered with SEC.

b.) It shall be listed and tradeable on a Securities Exchange registered by SEC.

c.) The Fund Manager shall possess the relevant expertise to issue the ETF as well as establish and maintain a secondary market for the issuance.

d.) The underlying Index, basket of securities or physical assets whose performance the ETF intends to track shall be clearly stated in the prospectus/offer document.
e.) The underlying securities or assets of the ETF shall be held in a Custody or Depositary Account approved by SEC.

5.2.11 Pension Fund Assets can be invested in Private Equity Funds, subject to the following requirements:

i. The Fund shall have well defined and publicized investment objectives and strategy as well as disclosures of pricing of underlying assets; annual financial statements audited by reputable firms of chartered accountants; and any other necessary information.

ii. The PE Fund Vehicle shall have satisfactory pre-defined liquidity/exit routes such as Initial Public Offers; Dividends; Sale to industry buyers; and use of buy-out instruments in investing in the underlying companies or projects.

iii. The Funds shall be managed by experienced Fund Managers, versed in PE investments and registered with the Securities and Exchange Commission (SEC) as Fund Managers.

iv. The key Principals of the Fund Manager shall each have at least ten (10) years experience in investment and management of third party assets, or relevant project management experience in sectors of the economy in which the PE Fund shall invest, out of which five years shall be PE investment experience. The key Principals shall not exit the Fund without prior notice, of not less than 90 days, to the Commission through the PFA; and this ‘exit clause’ shall be expressly stated as a condition in the investment agreement/covenant between the PFA and the Fund Manager.

v. Where a PE Fund does not have development finance institutions or MDFOs as co-investors or Limited Partner, but the Fund Manager has a minimum Investment Manager rating of BBB issued by a rating company registered or recognized by SEC, the Fund Manager shall retain a minimum investment of 3% of the PE Fund.

vi. However, where there are reputable development finance institutions or multilateral...
development finance organizations as limited partners in the Fund or any other Pan-African /Multi-country PE Fund being managed by the Fund Manager, the Fund Manager shall retain a minimum investment of 1% of the PE Fund.

vii. A minimum of 75% of the Fund shall be invested in companies or projects within Nigeria.

viii. The Fund shall have an Advisory Board with representatives of institutional investors being in the majority.

ix. PFAs are to ensure at all times that the above-mentioned Advisory Board has responsibility over audit functions regarding:

a.) the evaluation of projects prior to investment;

b.) transactions with parties related to the Private Equity Fund Manager; and

c.) strategies concerning divestiture of investments in which the Private Equity Fund has interests.

5.2.12 Pension Fund Assets can only be invested in Supra-national Bonds and debt instruments if:

i. The bonds/debt instruments meet the rating requirements in Section 5.1.

ii. The issue is approved by the CBN and/or SEC.

iii. A minimum of 75% of the proceeds are utilized for projects within Nigeria.

iv. The amount on issue shall not be less than N5 billion.

5.2.13 Pension Fund Assets may be invested in Global Depositary Receipts/Notes (GDRs/GDNs) and Eurobonds. However, the following minimum qualifying requirements shall apply:

i. Eurobond instruments issued and guaranteed by the Federal Government of Nigeria shall be eligible for pension fund investments.

ii. Issuers of eligible GDRs, GDNs or Eurobonds shall be Nigerian corporate entities which are registered and operating in Nigeria, as evidenced by current relevant tax filings and other regulatory filings with the Corporate Affairs Commission and any relevant supervisory regulatory agencies. In situations where off-shore subsidiaries are the issuing entities of the GDNs and Eurobonds, they must be wholly owned subsidiaries.
with the full obligations of the borrowing underwritten by their parent companies who must be Nigerian corporate entities which are registered and operating in Nigeria as evidenced by current relevant tax filings and other regulatory filings with the Corporate Affairs Commission and any relevant supervisory regulatory agencies.

iii. To qualify as an eligible instrument for investment by PFAs, the GDR, GDN or Eurobond issuances shall, in addition to the required regulatory approvals that will be obtained in the country where the instruments are to be issued, be registered and approved for issuance to Nigerian investors by the SEC.

iv. Where the instrument is a GDN or Eurobond issued by a Nigerian corporate entity, such instrument shall have a minimum domestic credit rating of ‘A’, issued by a Credit Rating Agency registered or recognized by SEC.

v. Pension fund investments in GDRs, GDNs and Eurobonds shall be appropriately classified as follows:

<table>
<thead>
<tr>
<th>S/N</th>
<th>Issuer</th>
<th>Instrument</th>
<th>Underlying Asset Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Federal Government of Nigeria</td>
<td>Eurobond</td>
<td>FGN Securities</td>
</tr>
<tr>
<td>2</td>
<td>Corporate Entity</td>
<td>Eurobond</td>
<td>Corporate Bonds/Debt Securities</td>
</tr>
<tr>
<td>3</td>
<td>Corporate Entity</td>
<td>GDR</td>
<td>Ordinary Shares</td>
</tr>
<tr>
<td>4</td>
<td>Corporate Entity</td>
<td>GDN</td>
<td>Corporate Bonds/Debt Securities</td>
</tr>
</tbody>
</table>

vi. The following items shall be the minimum information to be disclosed in the portfolio valuation reports by PFAs:

a.) Global Depositary Receipts

- The number of underlying shares which represent one Unit of the GDR.
- The number of Units held as at each reporting date.
- The total purchase cost of the Units held.
- Daily market price of a Unit.
- Market Value of total Units held (in foreign currency).
- Market Value of total Units held (in Naira), converted at the Central Bank of Nigeria (CBN) official rate as at reporting date.
b.) Global Depositary Notes or Eurobonds

- The units of the underlying bonds which represents one unit of the GDN or Face Value of the Eurobond.
- Tenor and Maturity Date of the Issue.
- Coupon Rate.
- The number of Units of Issue held.
- The total purchase cost of the Units held.
- Market Value of Total Units held (in foreign currency).
- Market Value of Total Units held (in Naira), converted at the CBN official rate as at reporting date.

vii. The following maximum investment limits shall apply:

a.) **Portfolio Limit**: PFA’s total investment in all issued GDRs, GDNs and Eurobonds shall not be more than 10% of the value of pension fund assets under management.

b.) **Per Issuer Limit**: A maximum of 5% of pension fund assets under management may be invested in all GDRs, GDNs and Eurobonds issued by any one corporate entity.

c.) **Per Issue Limit**: Pension fund assets may be invested in the GDRs, GDNs and Eurobonds issued by any corporate entity, subject to a maximum limit of 2.5% of each issue.

viii. The following settlement and custody arrangements shall apply, subject to prior approval by the Commission before execution:

a.) PFCs may be required to establish accounts with Euroclear, Clearstream and the Depositary Trust Company (“DTC”) in order to ensure ability to provide a comprehensive and robust settlement platform for PFA transactions in GDRs, GDNs and Eurobonds.

b.) The accounts opened with Euroclear, Clearstream and the DTC would work in similar manner as the Central Securities Clearing System (“CSCS”) used for trading domestic securities in the Nigerian market, where each PFC will maintain sub-accounts for each PFA and will hold and trade all securities related to each PFA from their respective sub-accounts.

c.) Alternatively, PFCs can enter into settlement and sub-custody arrangements with Trustee/Nominee Companies in Nigeria that are registered with SEC and have professional arrangement with a global Custodian Bank or member of Euroclear, Clearstream and DTC.
ix. PFAs should refer to Section 3, Memorandum 20 of the CBN Foreign Exchange Manual for guidance on how to access the CBN authorized foreign exchange windows in order to convert their naira investment funds into the requisite foreign currency amount which they will require to effect an investment in GDRs, GDNs or Eurobonds.

6.0 Conflict of Interest Issues

6.1 The PFA or any of its agents are prohibited from investing Pension Fund Assets in the shares or any other securities, issued through public or private placement arrangements, by the following:

i. A Pension Fund Administrator.
ii. A Pension Fund Custodian.
iii. A shareholder, director or affiliate of the PFA or PFC holding Pension Fund Assets on its behalf.
iv. Affiliates of any shareholder of the PFA.
v. An employee of the PFA.
vi. The spouse or any relationship with persons referred to in (iii) to (v) of this paragraph that can be reasonably construed as a related person.

6.2 Exception to Section 6.1 shall only be in the case of PFA's investment in short-term money market instruments of an affiliate bank/discount house of the PFA or the PFC holding pension fund assets on its behalf.

6.3 The PFA or any of its agents shall not sell Pension Fund Assets to the following:

i. Itself.
ii. A Pension Fund Custodian.
iii. Any shareholder, director or affiliate of the PFA or PFC holding pension fund assets on its behalf.
iv. Affiliates of any shareholder of the PFA.
v. Any employee of the PFA.
vi. The spouse or any relationship with persons referred to in (iii) to (v) of this paragraph that can be reasonably construed as a related person.

vii. The PFC holding Pension Fund Assets to the order of the PFA.

6.4 The PFA or any of its agents shall not:

i. Apply Pension Fund Assets under its management by way of loans and credits, or as collateral for any loan taken by any person.
ii. Divulge or utilize confidential information regarding pension fund investment decisions for any personal, corporate or related benefit.

6.5 A PFA shall transact not more than 30% of its total trades in equities and debt instruments (purchases and sales valued in Naira terms) in a calendar year, with broker dealer firms that are related parties to the PFA, its Directors, and Shareholders. The Commission shall monitor compliance by PFAs on a quarterly basis.

6.6 Members of the Board, Chief Executive Officer and Chief Investment Officer of PFAs shall abstain from taking investment decisions in which they have conflicts of interest.

6.7 The Board Risk Management Committee shall develop a framework that would review Conflict of Interest issues and render quarterly reports to the Commission. The reports shall contain, amongst other necessary information, the nature of all conflict of interest issues and transactions concerning related persons within the period; values of such transactions; treatment of such issues/transactions; resolutions/decisions taken; and follow up actions, if any

7.0 Investment Limits

This Section stipulates the maximum investment limits.

7.1 Not more than 10% of the total pension assets under management shall be invested in all instruments/securities (equity, money market and debt) issued by a corporate entity.

7.2 PFAs shall ensure that not more than 45% of pension assets under its management are directly or indirectly invested in any one sector of the Nigerian economy.

7.3 For the purposes of Section 7.2 of this Regulation:

i. Sectors are as classified by the Nigerian Stock Exchange (NSE).

ii. Direct investment to a given sector consists of all securities issued by corporate entities operating in that sector.
iii. Indirect investment to a given sector consists of pension fund investments in eligible Specialist Investment Funds which are invested in that sector.

7.4 The overall maximum Investment Limits for the RSA ‘Active’ Fund shall therefore be as follows:
## RSA ‘ACTIVE’ FUND

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>GLOBAL PORTFOLIO LIMIT</th>
<th>PER ISSUER</th>
<th>PER ISSUE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Government Securities</td>
<td>FGN 80%</td>
<td>i.) Maximum of 80% of total issue of FGN Bond.</td>
<td>i.) 80% of the FGN Bond issue.</td>
</tr>
<tr>
<td>(including FGN Eurobonds)</td>
<td></td>
<td>ii.) Maximum of 5% of pension fund assets in total issues of FGN Eurobond.</td>
<td>ii.) Maximum of 2.5% of each issue of FGN Eurobond.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Maximum of 5% of Pension Fund Assets in total issues of any one State or Local Government.</td>
<td>Based on the credit rating of the bond/debt instrument thus:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>i. 20%, if issue is backed by ISPOs/Guarantees, as stipulated in Section 4.2</td>
<td>i) Rating of BBB: 16% of the issue</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ii. 3%, if issue is not backed by ISPOs/Guarantees, as stipulated in Section 4.2</td>
<td>ii) Rating of A: 18% of the issue</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>iii) Rating of AA &amp; above: 20% of the issue</td>
</tr>
<tr>
<td><strong>2</strong> Corporate Bonds /Debt Securities (including ABS, MBS, GDNs, Eurobonds and Infrastructure Bonds)</td>
<td>35%, subject to a maximum of 15% in Infrastructure Bonds.</td>
<td>Maximum of 5% of pension fund assets in total issues of any one corporate entity.</td>
<td>I) Based on the credit rating of the bond/ debt instrument thus:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>i) Rating of BBB: 16% of the issue</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>ii) Rating of A: 18% of the issue</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>iii) Rating of AA &amp; above: 20% of the issue</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>II) Maximum of 2.5% of each issue of GDN/Eurobond.</td>
</tr>
</tbody>
</table>

NATIONAL PENSION COMMISSION
|   | **Supra-national bonds** | 20% | Maximum of 5% of pension assets under management in total issues of any one multilateral development finance organization. | Based on the credit rating of the bond/ debt instrument thus:  
   i. Rating of \( \text{BBB} \) 16% of the issue  
   ii. Rating of \( \text{A} \) 18% of the issue  
   iii. Rating of \( \text{AA} \) & above 20% of the issue |
|---|---------------------------|-----|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| 4 | **Money Market Instruments**  
   (including Certificates of Deposits; Bankers Acceptances and Commercial Paper of Corporate Entities) | 35% | Maximum investment of pension assets under management in all money market instruments issued by one bank shall be subject to its credit rating thus:  
   i. Rating of \( \text{BBB} \) 3% of pension assets under management  
   ii. Rating of \( \text{A} \) 4% of pension assets under management  
   iii. Rating of \( \text{AA} \) & above: 5% of pension assets under management  
   II. A maximum of 3% of pension assets under management may be invested in all money market instruments of any one discount house with a minimum rating of \( \text{A} \)  
   III. For a Commercial Paper, maximum of 5% | Applicable to Commercial Paper issues only.  
   Based on the credit rating of the bond/ debt instrument thus:  
   i. Rating of \( \text{A} \) 18% of the issue  
   ii. Rating of \( \text{AA} \) & above 20% of the issue |
|   | Ordinary Shares (including GDRs) | 25% | Maximum of 5% of pension assets under management in any one corporate. | i.) Maximum of 4.5% of the issued capital of any one corporate entity.  
ii.) Maximum of 2.5% of the value of GDR issued. |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Infrastructure Funds</td>
<td>5%</td>
<td>Maximum of 5% of pension assets under management to one issuer.</td>
<td>Maximum of 20% of any one Fund.</td>
</tr>
<tr>
<td>6</td>
<td>Private Equity Funds</td>
<td>5%</td>
<td>Maximum of 5% of pension assets under management to one issuer.</td>
<td>Maximum of 20% of the value of any one Fund</td>
</tr>
<tr>
<td></td>
<td>Open, Close–end and Hybrid Funds (including REITs and ETFs)</td>
<td>20%</td>
<td>Maximum of 5% of pension assets under management to one issuer.</td>
<td>Maximum of 10% of any one Fund.</td>
</tr>
</tbody>
</table>

### 8.0 Performance Benchmark

8.1 The quarterly and annual rates of return on all RSA Funds shall be publicly disclosed by the PFAs and the Commission.

8.2 The annual rates of return shall be based on the audited financial statements of the Funds; and on a 3-year rolling average performance of the Fund.

8.3 The Commission shall issue further guidelines on performance measurements in the pension industry shortly.
9.0 RSA Retiree Fund

9.1 A Retiree Fund shall be maintained for RSA retirees who have chosen and are operating the Programmed Withdrawal Retirement option.

9.2 The general principles and criteria for investment of pension fund assets as outlined in Sections 2.0 to 6.0 of this Regulation shall also apply to the RSA Retiree Fund.

9.3 The RSA Retiree Fund shall be invested in allowable instruments, as outlined below:

i.) Bonds, treasury bills and other securities issued or fully guaranteed by the Federal Government or the Central Bank of Nigeria or eligible MDFOs.

ii.) Bonds issued by State/Local Governments, with legislated sinking funds backed by ISPOs/Guarantees, as stipulated in Section 4.2.

iii.) Bonds, debentures, redeemable preference shares and other debt instruments (including MBS, ABS, GDNs, Eurobonds and Infrastructure Bonds) issued by corporate entities.

iv.) Bonds issued by multilateral development finance organizations, of which Nigeria is a member.

v.) Money market securities of banks/discount houses and eligible Commercial Paper issued by corporate entities.

vi.) Ordinary shares and GDRs of companies listed/quoted on a securities exchange registered by SEC.

9.4 PFAs shall invest the pension fund assets of RSA Retiree Funds subject to the following maximum portfolio limits:
<table>
<thead>
<tr>
<th>S/N</th>
<th>Asset Class</th>
<th>Maximum Portfolio Limit (as % of Assets Under Management)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bills and Bonds issued or guaranteed by FGN/CBN (including FGN Eurobonds)</td>
<td>80%</td>
</tr>
<tr>
<td>2.</td>
<td>Bonds issued by State/Local Governments &amp; their agencies/wholly owned companies (backed by ISPOs/Guarantees, as stipulated in Section 4.2)</td>
<td>20%</td>
</tr>
<tr>
<td>3.</td>
<td>Corporate Bonds/Debt Securities (including MBS, ABS, GDNs, Eurobonds and Infrastructure Bonds)</td>
<td>35%</td>
</tr>
<tr>
<td>4.</td>
<td>Money market instruments of banks/discount houses and Commercial Paper of corporate entities</td>
<td>35%</td>
</tr>
<tr>
<td>5.</td>
<td>Supra-National Bonds</td>
<td>20%</td>
</tr>
<tr>
<td>6.</td>
<td>Ordinary Shares (including GDRs)</td>
<td>10%</td>
</tr>
</tbody>
</table>

9.5 Per issuer and per issue limits for the RSA Active Fund, as outlined in Sections 7.4 of this Regulation, shall also apply to the RSA Retiree Fund.

9.6 The Performance Benchmark of the RSA Retiree Fund shall be in line with the RSA Fund, as provided in Section 8.0.

10.0 Violations of Investment Limits

10.1 Limits imposed by this Regulation may be temporarily violated in cases of asset revaluation.

10.2 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.
10.3 If at any time a PFA willfully violates any of the investment limits so prescribed in Sections 8.0 and 9.0 of this Regulation, the PFA may maintain the investments but shall not make any additional investments in that instrument until there is rebalancing due to increase in portfolio value. In addition, the PFA shall pay a penalty for violation of the approved limit, as may be determined by the Commission.

10.4 If a bank/discount house fails to fulfill the rating requirements stated in Section 5.1.2 of this Regulation, the PFA shall divest itself of all money market instruments issued by the bank within the following 3 months.

11.0 Voting Rights

11.1 PFAs shall observe due diligence and instruct the PFCs with regards to the exercise of voting rights acquired as a result of Pension Fund Assets held on their behalf by PFCs.

12.0 Closed Pension Funds and Approved Existing Schemes

12.1 Pursuant to Section 39 (1) (f) of the PRA 2004, all investments made prior to the commencement of the Act in assets which are contrary to Section 73 of the Act and this Regulation, may be maintained by entities whose existing schemes have been approved by the Commission to continue to exist. This is, however, subject to appropriate Guidelines that may be issued by the Commission.

12.2 CPFAs and Approved Existing Schemes (AESs) may continue to invest in approved asset classes and securities (including real estate properties and foreign investments) provided that they do not exceed the investment limits specified in their Internal Investment Guidelines as approved by the Commission.

12.3 Notwithstanding the provisions of Section 12.2 above, CPFAs/AESs shall not convert Naira into foreign currencies for investments outside Nigeria, without compliance with Section 74(2) of PRA 2004 and Guidelines on Foreign Investment to be issued by the Commission from time to time.
12.4 Where a Closed Pension Fund or Approved Existing Scheme had invested up to the investment limit prescribed for that asset class in its Internal Investment Guidelines, it may only make new investments in that asset class if there is portfolio growth to accommodate the additional investments.

12.5 CPFAs and Approved Existing Schemes may directly invest in real estate properties, subject to their Internal Investment Guidelines and the Guidelines on Direct Real Estate Investments issued by the Commission.

12.6 CPFAs and Approved Existing Schemes operating defined contribution schemes may maintain separate Funds for Existing and Retired employees, which should be reflected in the Internal Investment Guidelines approved by the Commission.

12.7 Any amendment(s) to the Internal Investment Guidelines of a CPFA/Approved Existing Scheme shall have the Commission’s prior approval before implementation.

13.0 Reviews

13.1 This Regulation is subject to regular reviews by the Commission.