

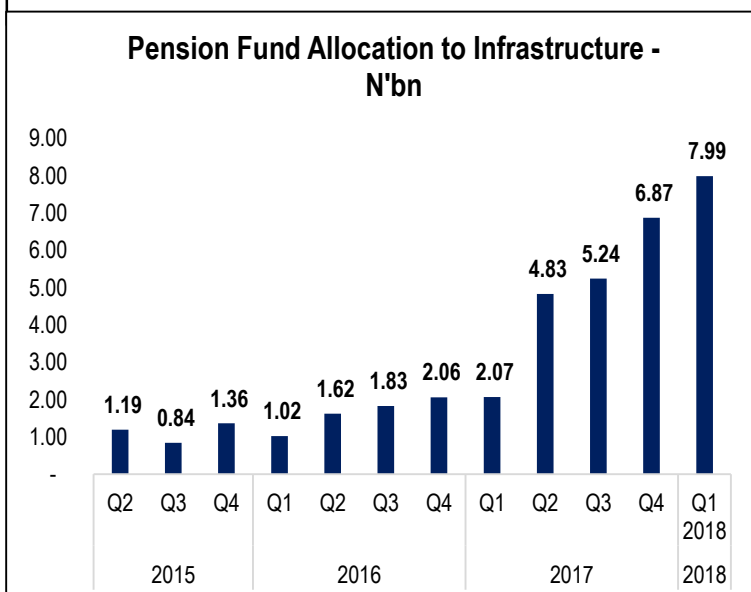
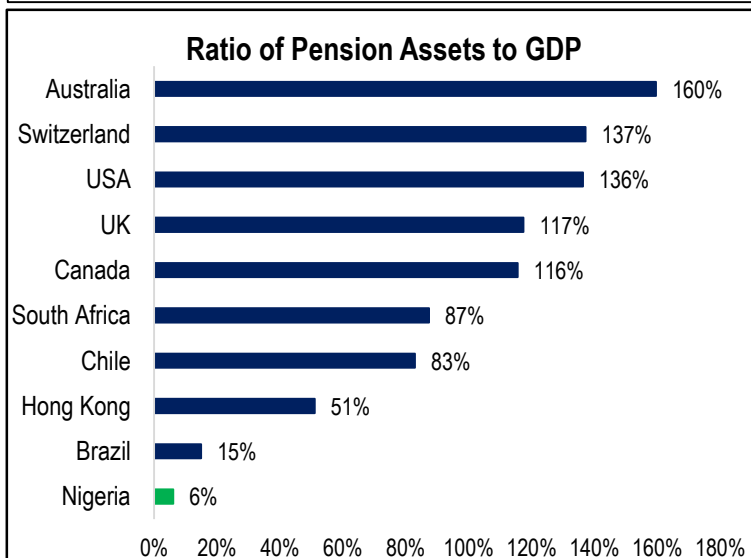
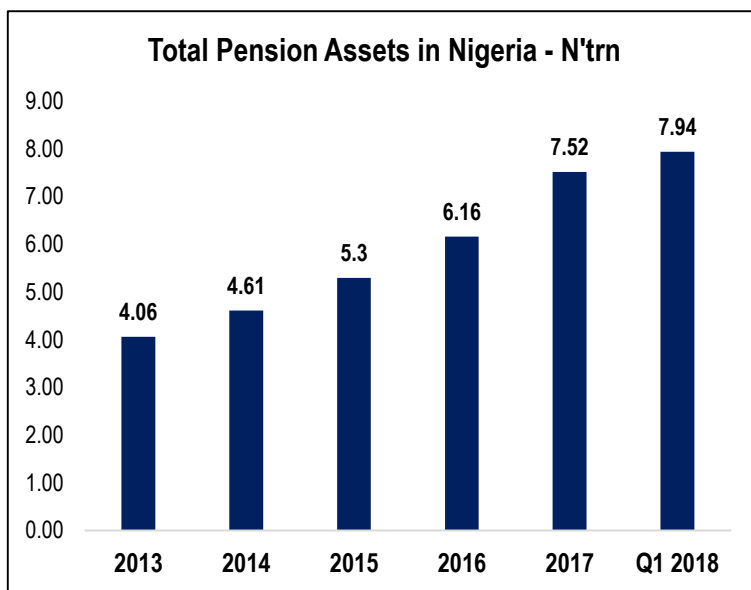
## Pension Assets Grow but Pension Penetration is Low:

Pension assets in Nigeria grew consistently between 2013 and Q1 2018 but, at 6%, its ratio to the Gross Domestic Products (GDP) remains one of the lowest amongst certain selected countries. In a similar development, the proportion of the pension assets that was allocated to infrastructure funds increased from 0.03% in 2015 to 0.1% in Q1 2018. Despite the increase, the allocation is lower than the limit of 10% to that asset category.

The high unemployment rate in the country at 18.8% as at Q3 2017 and low pension payment compliance level (particularly from the state government and informal sector) have limited the growth rate of the pension assets. Inadequate infrastructure funds are mainly responsible for the low allocation of the pension fund to the infrastructure funds. We see opportunities for the development of acceptable infrastructure funds in the market that pension assets can invest in.

Further analysis of the asset classes that PFAs held as at March 2018 shows that Federal Government of Nigeria (FGN) Securities accounted for 70.37% of total pension assets. This is followed by ordinary shares and money market instruments at 9.25% and 8.20% respectively.

Looking at the pension fund investment guidelines under the new multi-fund structure which the National Pension Commission (PenCom) will begin implementing on 1 July 2018, more funds may be



assigned to the equity investment. The allocation limits for equity investment (ordinary shares) under the Fund I, Fund II and Fund III structures, which are 30%, 25% and 10% respectively, are all higher than the current allocation of 9.25% in ordinary shares. The expected additional fund allocation to the equity market may change the current downward trend in the equity market as the market receives more liquidity. Stocks that have strong fundamentals and that pay interim dividend may attract the expected investment from the PFAs.

Regulation on Investment of Pension Assets					
Asset Class	Global Limit				Allocation**
	Fund I	Fund II	Fund III	Fund IV	
Government Securities (FGN and NTB)	60%	70%	80%	80%	70.37%
Money Market Instruments	30%	30%	35%	35%	8.20%
Ordinary Shares	30%	25%	10%	5%	9.25%
Infrastructure Funds	10%	5%	0%	0%	0.10%
Corporate Debt Securities	35%	40%	45%	45%	4.92%
Government Securities*	10%	15%	20%	20%	2.03%
Open, Closed end and Hybrid Funds	25%	20%	10%	5%	0.24%
Private Equity	10%	5%	0%	0%	0.35%
Supra-Nationals	20%	20%	20%	20%	0.09%
Real Estate and Others	-	-	-	-	4.45%

Source: PenCom

\*State and Local Governments. \*\*As at March 2018

Sources: National Bureau of Statistics, National Pension Commission, Wills Towers Watson, and FSDH Research Analysis.

The implementation of the Micro Pension Plan (MPP) should boost the growth of the pension assets in Nigeria. MPP is an initiative of the PenCom to provide pension services to the self-employed and individuals operating in the informal sector of the Nigerian economy. Also, as the Nigerian economy continues to recover and grow, creating and restoring lost jobs, contributions to the pension funds should increase.

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