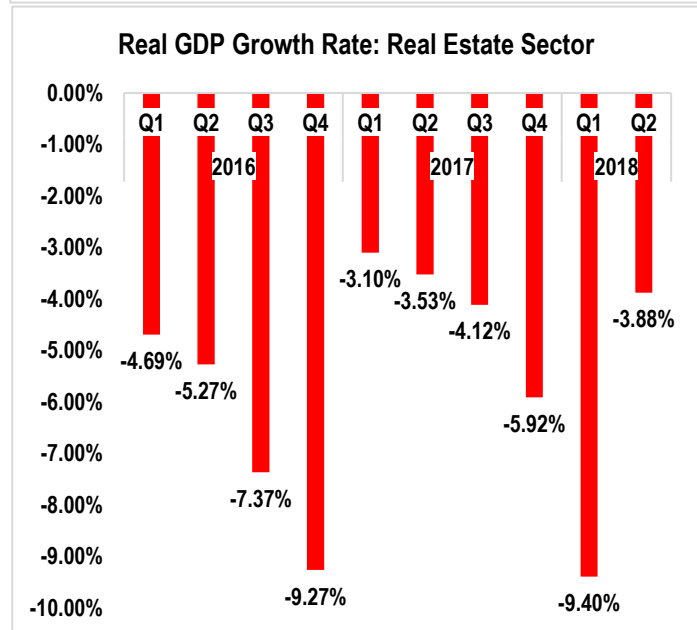
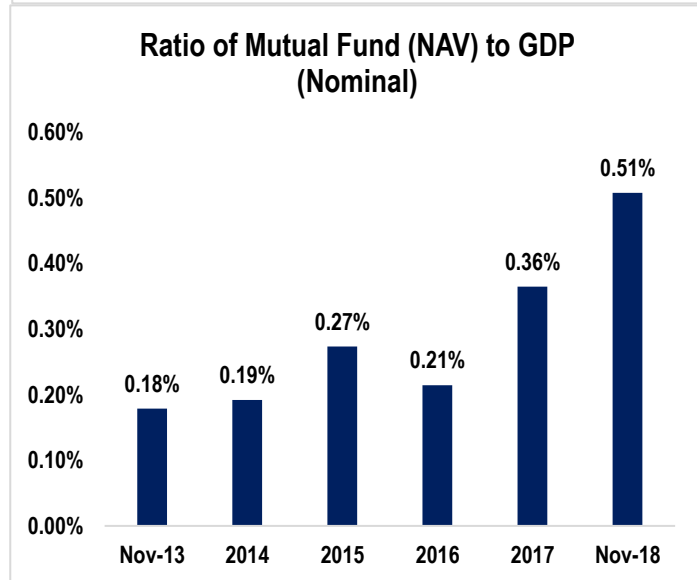
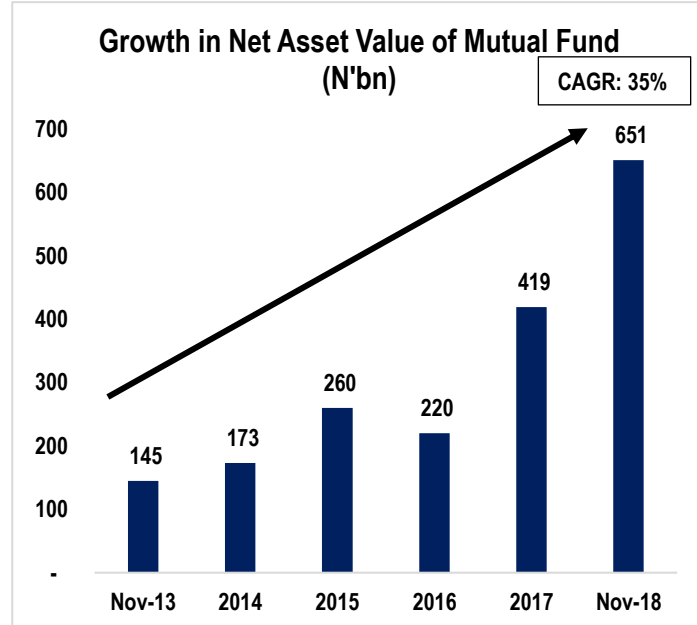


Mutual Funds Can Create Wealth and Fund Critical Infrastructure – FSDH Research

FSDH Research’s analysis shows that mutual fund investment can create wealth for investors and that funds pooled together can be used to finance critical infrastructure and expand business operations. Investors in mutual funds do not necessarily need to have expert knowledge about investment management to enable them to create wealth, as there are investment management experts whose primary role is to grow the value of investments under their management. Money that is pooled together through mutual funds can be channelled to address critical infrastructure either directly or indirectly. This would promote the competitiveness of the economy, enabling businesses to expand operations and employ more people, and would assist government at all levels in generating more tax revenue. FSDH Research warns, however, that mutual funds need more support than is currently available to enable potential investors to fulfil their wealth creation and developmental roles.

A mutual fund is a pool of funds brought together by a professional fund manager from several investors to invest in selected underlying securities. The underlying securities can be one or a combination of the following: stocks, fixed income securities, real estate, and commodities. A mutual fund portfolio is structured and maintained to match different investment objectives. The type of mutual fund an individual invests in depends on their financial objectives and appetite for risk. Most mutual funds are open-ended investment schemes. This means that the fund manager can create additional units for new investors on demand. The fund manager is also able to provide active liquidity by redeeming units from existing investors who want to sell units for cash. Through this pool of funds, an investor creates wealth over a long period of time by making the money work for him through regular saving and investment.



In addition to liquidity, mutual funds offer a range of benefits to investors including portfolio diversification and lower transaction costs. The existence of a Trustee and Custodian to a mutual fund ensures the safety of investments, as the Trustee ensures that the fund is managed in line with approved investment guidelines, and the Custodian holds the fund assets. Mutual fund investments are affordable for low-income investors, as some funds require an initial investment of only N5,000.

The mutual fund assets in Nigeria have grown significantly in the last five years. This is an indication of the growing interest in this class of investment. Data from the Securities and Exchange Commission (SEC) on the Net Asset Value (NAV) of all registered mutual funds in Nigeria shows that the collective NAV grew by 349% between 01 November 2013 and 02 November

2018. This translates to a Compound Annual Growth Rate (CAGR) of 35% between the periods. Despite the impressive growth rate, FSDH Research notes that there is significant room for growth in mutual fund assets as we estimate the ratio of mutual funds to the country's Gross Domestic Product (GDP) at 0.51%.

Governments and corporates may access the required long-term funds to finance critical infrastructure and business expansion through the growth of mutual funds. With appropriate structures in place, mutual funds can also be used to revive the real estate sector, which is currently in depression. As fund managers mobilise funds and invest in Bond Funds, Real Estate Funds and Equity Funds, they are providing long-term capital for developmental purposes. They also provide short-term working capital through investment in Money Market Funds. The growth in investable funds has positive multiplier effects on the economy. However, FSDH Research's findings show that Government, regulators and the operators in investment management need to give the mutual fund additional support. Government could offer tax incentives to investors who are committed to a regular investment plan in mutual funds. It should also create an enabling environment that will lead to job creation in the country in order to increase savings and investable funds. Regulators could promote innovative legislation to increase investment in mutual funds and expand investment channels to increase returns on the funds invested. The Fund Managers Association of Nigeria (FMAN) should continue to create public awareness on the benefits of mutual funds in order to generate interest from the investing public.

Classification of Mutual Funds by Underlying Securities - 02 November 2018		
Fund Type	Amount (N'bn)	Contributions
Ethical Funds	5.27	0.8%
Mixed Funds	24.35	3.7%
Fixed Income Funds	55.65	8.6%
Equity Based Funds	12.22	1.9%
Real Estate Funds	47.27	7.3%
Money Market Funds	492.14	75.6%
Bond Funds	13.71	2.1%
Total	650.60	100.0%

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