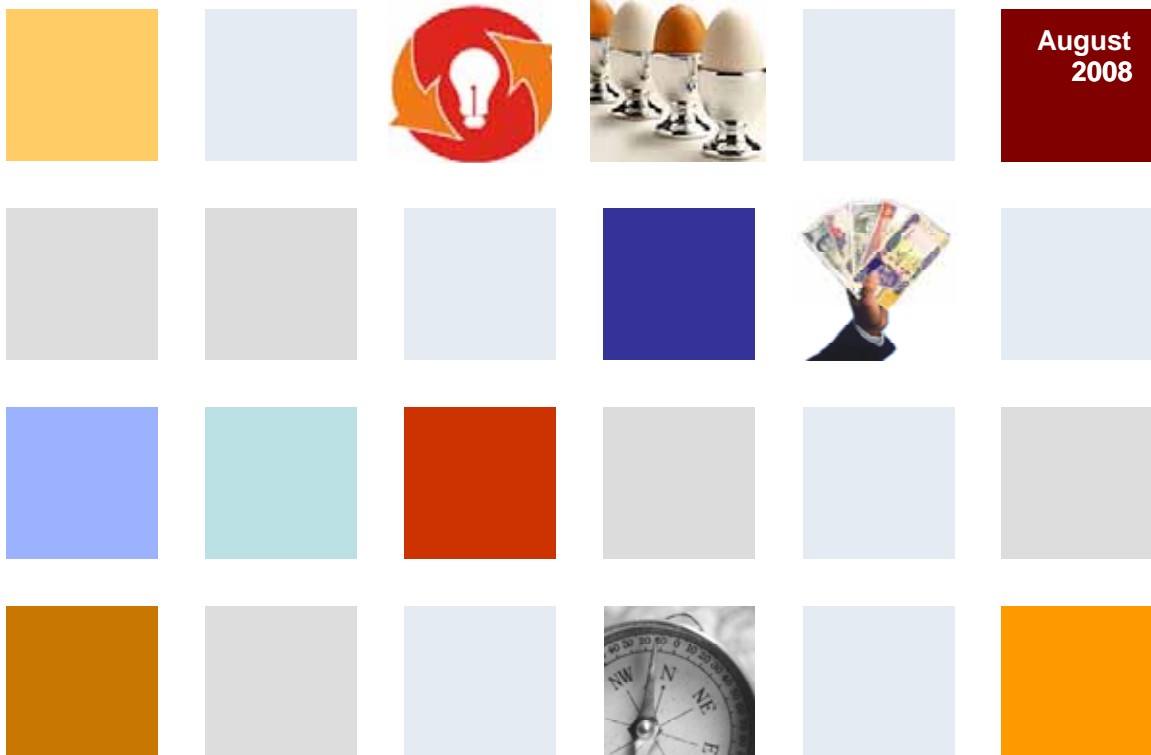




proshare
.....Intelligent Investing

Mutual Funds Operations in Nigeria



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Report on Mutual Funds Operations in Nigeria

1. The Basic Nature of Mutual Funds

Mutual funds are collective investments that join various individual contributions of investment capital to create a large pool of funds. It spreads the pool of funds across dozens of investment instruments in the stock market and other predetermined investment targets.

The investment target where the fund will be invested is clearly stated, which enables investors select the funds that meet their own desired investing characteristics. The stock market is the most popular target for mutual funds but there are funds that focus completely outside the stock market.

Stock market-based funds provide an alternative window for people who are not highly knowledgeable or confident enough to select stocks by themselves. Even for those who can pick stocks on their own but have limited equity portfolio, some blend of mutual funds is still needed to reduce the risk balance of the share portfolio.

A mutual fund invests the pool of funds contributed by individual subscribers in a number of blue chips or high grade investment options spread across the target market. Subscribers to the fund become unit holders, part owners of the fund proportionate to the volume of the fund units outstanding.

All rights and privileges of shareholders accrue to subscribers in respect of the funds they have bought their units. They will be invited to annual general meetings, take part in electing directors and receive dividend from profit made from the fund's investments.

Individual subscriptions made to a mutual fund are not identifiable within the investment assets of the fund itself. They do not attach directly to the underlying investments which the fund's management has made. The fund may have invested in dozens of shares in different companies, including government bonds and treasury bills. There is however no direct link between the funds contributed by subscribers to the shares and any other investments where the pool of resources has been invested.

Most mutual funds are open ended, which means there is no limit to the volume of units the managers can issue. Applications can be made to the fund managers any time for any volume of units the intending subscriber wants to buy on a continuing basis. Likewise, unit holders are free sell any volume of their holdings back to the fund managers any time they wish.

Mutual funds carry two price quotes – the selling or the offer price and the buying or the bid price. The offer price is the current price the fund managers will sell a unit of the fund to subscribers. The bid price is the price they will buy a unit of the fund from those intending to sell their holding. The quotes carry a spread of 3 to 5 per cent in between them, which covers fund manager's dealing expenses and commission.

The offer and bid prices change on a continuing basis just as share prices do. The price changes can create capital gains over and above the initial price quotation if the fund is doing well. They will create capital losses when the price declines below previous levels.

The rise and fall of the price of the units reflects changes in the net asset value of the fund's portfolio of investments, which mirror the overall quality of investments. Net asset value is the current market value of the portfolio less outstanding liabilities. The net value is divided by the volume of units outstanding to arrive at net asset value per unit. Generally, the bid and offer prices of mutual funds follow a long-term uptrend and tend to build huge capital gains over time.

Mutual funds come under the regulation of the Securities and Exchange Commission (SEC). In Nigeria, mutual funds are regulated under section 8(g) of the Investment and Securities Act No. 45 of 1999. They have to be registered as a trust or a trust company in accordance with the provisions of the Trustees Act, Investment and Securities Act and the Companies and Allied Matters Act 1990 as amended.

The Investment and Securities Act contains some provisions made to protect the interest of the investing public, including disclosure requirements, operating modalities that ensure transparency and other prudential norms that govern investments by mutual funds. The investments of a mutual fund should be managed by an asset management company registered under the companies act in accordance with the regulations of SEC.

A code of conduct is specified for mutual funds that governs advertisement of the funds. The regulatory objective here is to prevent mutual funds from making unfounded claims and use same to attract investments from the public. Fund managers are required to file a monthly return with SEC in a format specified to permit regular off-site surveillance.

Mutual funds are also required to submit their audited accounts to SEC every year and make full disclosures of their investment assets. SEC undertakes inspection and audit of their operations as well as valuation of their assets.

2. Mutual Funds: A Good Way To Start Investing

One major challenge that faces beginners in the field of investing is the fear of taking the wrong step in the choice of securities. A beginner usually buys one or two stocks and expects to make the good profit he has been made to believe that comes from stock market investing. Often short-term disappointments happen in place of the profit expected.

This leaves the beginner agonizing over the investments, regretting he has not chosen the more rewarding investment options. He may end up selling the investment and moving into another stock expected to do better than the earlier choices. Soon the stocks he thought were going to do better also begin to go down.

Mutual funds represent one major vehicle to get share investing right from the start and avoid possible initial disappointments killing the investment enthusiasm. Mutual funds create a balance between the expectations of returns in a rising market and possibilities of losses when the market falls.

The investment portfolio for a beginner requires being constructed around a diversified group of securities, spread broadly across the market. This will create a low portfolio risk advantage and thus guarantee the level of returns required to transform investments into great wealth over the years.

The financial capacity needed to achieve the standard portfolio diversification is clearly not within the reach of the small investors. Recent market developments have also tended to place new hurdles for the small investor in direct stock market investing. The main restrictive factor is the general increase in the minimum account opening amounts required by stock broking firms. This has spurred fresh attempts to establish mutual funds to create an alternative investing window for the small investor.

The investing activity requires the involvement of experts in deciding what to buy and when to buy or sell. Mutual funds provide a remedy for limited knowledge about stock market investing and inability to select good investments.

They create investing expertise through the appointment of professional managers and make it available to the general investing public. The fund managers are knowledgeable about the market and are in a better position than individual investors to build a portfolio of stocks and other securities and turn them over to take advantage of market developments.

Mutual funds therefore offer a big window of opportunity for beginners and it is available to both big and small investors. A mutual fund is a financial intermediary that creates instruments for a group of investors to pool their funds for investment in predetermined markets, usually equities, bond and money markets. The funds offer six key advantages to investors.

The first is the wide access to professional skills employed to invest and manage the funds. Beginners do not usually have the skills to analyse the prospects for individual companies and choose those that present the best investment options. A mutual fund appoints and pays a professional fund manager to do this job for its investors. What this means is that no matter the size of the investment in a mutual fund, it has the opportunity of sound professional management.

The second advantage is that mutual funds provide a device for the management of investment risk. The best way to manage risk in investment is to spread it by diversifying the portfolio. Investment in mutual funds gets instant diversification to achieve market-wide coverage, no matter its size. Since a mutual fund is a collection of stocks, bonds and money market securities held in a pool but then sliced into units sold to individual investors, any unit of the fund receives the diversification advantage of this large collection of different types of securities.

This makes it possible to share in the prosperity generated from any part of the market and minimize the net effect of losses from any market segment on the value of investment and the rate of return. Even if you invest only N100 in a mutual fund, you get an equivalent proportion of the diversification effect. This means it is better, for risk management purpose, to invest N100 in a mutual fund than hold equivalent amount of stocks in a single company.

Thirdly, there are usually quite a number of funds available in the market to choose from, especially in the advanced financial markets. In Nigeria, development of mutual funds has been slow but a growing number of new funds have been springing up since the past few years. There are 21 mutual funds presently quoted in the Nigerian Stock Exchange while a number of others are not quoted. A good number of new funds are also in various floatation and setting up processes.

The fourth advantage of mutual funds is the liquidity or flexibility that they offer. Selling the mutual fund investment is easy and they can also be bought back any time. The prices to buy and sell are quoted in the open market but dealing is exclusively with the fund managers. Not all mutual funds are normally quoted in the stock exchange.

Another advantage of mutual funds is in terms of comparatively lower transactions cost. Some statutory charges are fixed irrespective of the volume of transactions and mutual funds have an advantage of dealing in volume. With their large pool of investment capital, they are in a position to negotiate stockbroker's commission. They are therefore able to achieve a lower average cost of investment than people buying a couple of shares.

The ultimate advantage of mutual funds is the expectedly high rate of return, which reflects the favourable effects of diversification and economy of scale effect on cost. The funds are expected to show returns ahead of average stock or bond markets' returns. The ability to take up excellent investment opportunities should enable mutual funds to maximize returns while effective portfolio diversification permits them to minimize the risk.

3. Mutual Funds Operations in Nigeria

Mutual funds operations in Nigeria came to the limelight for the first time during the early 1990s, as a result of the rapid growth in the financial sector induced by the deregulation policy of the mid 1980s. They emerged as part of the financial markets innovations that followed the policy of deregulation. Banks engaged in competitive floatation and management of mutual funds then as is happening again presently.

A good number of them closed shop during the financial turmoil that followed. Banks were mainly the fund managers and the funds went down with the banks that were hit by financial distress.

Mutual funds began to re-emerge as from the mid 1990s but remained relatively insignificant with limited impact in the capital market until the recent banking consolidation reinforced the sector once again. Presently there are 21 mutual funds listed in the Nigerian Stock Exchange and another 16 not listed. A growing number of others are still in the process of being set up.



IBTC Nigerian Equity Fund is the biggest mutual fund in Nigeria with a net asset value in excess of N30 billion as at the end of 2007. The fund, which is managed by IBTC Asset Management Limited, commenced operations in 1997. The units of the fund were issued at an initial price of N1,000 per unit and the offer price is presently in excess of N11,000.

The equity fund is mainly capital market-based and requires a minimum subscription of N50,000. The principal investment is guaranteed for a minimum of three months.

The fund has a minimum target allocation of 75 per cent in stocks quoted in the Nigerian Stock Exchange and 25 per cent in money market instruments. A return on investment of 62.14 per cent was realized in 2007 and annual growth is estimated at an average of 53 per cent.

The primary objective of the fund is to achieve long-term capital appreciation by investing in high quality securities quoted on the Nigerian Stock Exchange and in other instruments approved by SEC.

IBTC Asset Management Limited also manages two other funds – **Stanbic IBTC Bank's Ethical Fund** and Stanbic IBTC Bank's Guaranteed Investment Fund. The ethical fund was floated in 2005 at a par value of N1.0 per unit. It has a minimum target allocation of 75% in stocks quoted in the Nigerian Stock Exchange and a maximum of 25% in money market assets.

Its choice of investments excludes stocks of companies that operate in the brewery and tobacco sectors or involved in the production of arms and ammunition, gambling or any other businesses considered harmful to society. The fund's focus is to permit a clear moral conscience by investing with the interest of society in mind. It is designed for those who do not want to make profit at the expense of their religious beliefs and principles

The minimum requirement for investing in the fund is N50,000 and the principal investment is guaranteed against diminution in value provided the investment is held for a minimum of three months.



The Stanbic IBTC Guaranteed Investment was launched in December 2007 at a nominal value of N100 per unit. The fund builds its assets around fixed income securities such as government bonds, money market securities and other securities approved by SEC. It has a minimum target allocation of 75 per cent in fixed income securities and a maximum of 25 per cent in securities, essentially blue chip companies listed on the Nigerian Stock Exchange.

Investment in fixed income securities is biased in favour of tax exempt assets and those that offer the best post-tax return. The principal investment is guaranteed against diminution subject to funds kept for a minimum of three months. The fund is designed to provide regular income and long-term capital appreciation.



ARM Discovery Fund was established in 1995 and was initially named equity growth fund. The open-ended fund is managed by Asset and Resources Management Company Limited [ARM]. The fund's investment targets are equities, fixed income securities and real estate.

The investment mix is designed to provide capital growth while achieving an optimum balance between risk and return. The fund's investments have allocated targets of a minimum of 40 per cent in equities and a maximum of 65 per cent. The fund achieved a return of 56 per cent in 2007. Minimum investment amount is N10,000 with minimum additional investment amount of N5,000.



ARM Aggressive Growth Fund is the second mutual fund managed by ARM and was established in 2004. It has a targeted allocation of 80 per cent of its investments in equities quoted in the Nigerian Stock Exchange and 20 per cent allocation to money market and other fixed income investments.

The fund is designed for investors with the primary goal of achieving capital appreciation and having above average appetite for risk for the possibility of higher returns in the long-term. The fund achieved an 86 per cent return in 2007 and an annual average of 41.4

per cent over the four years of its operations. Minimum investment in the fund is N50,000.



Coral Growth Fund was set up in 2001 and managed by FSDH Asset Management Limited [FAML]. The fund invests 65 per cent of its resources in equities quoted on the Nigerian Stock Exchange and the balance of 35 per cent on investment grade fixed income securities.

The minimum investment amount in the fund is N50,000 with a minimum additional investment of N10,000. The investment objective is to grow capital value over the long-term. It is designed to meet the needs of private pension/retirement plan, savings and investment plans and educational and contingency plans. The fund has recorded an annual average growth of 33.98 per cent by the end of 2006.

Coral Income Fund is the second of the three funds managed by FAML. The funds focus mainly on fixed income securities in both the money and capital markets. As much as 70 per cent of its investments constitute fixed income securities while the remaining 30 per cent is targeted at equities quoted on the Nigerian Stock Exchange.

The objective of the fund is to enable investors preserve the value of their capital and achieve a stable stream of income. It is designed for the less aggressive investors who are desirous of preserving their stock of capital.

Coral Ethical Fund is the third mutual fund managed by FAML and focuses on investing in equities quoted in the Nigerian Stock Exchange but which have been screened to meet specified ethical values. Qualifying equities exclude companies whose principal business is deriving interest income and those engaged in the production of alcoholic beverages.

Interest bearing securities are also excluded from the fund's investing focus. The objective of the fund is to provide investors with capital growth over the long-term through investment choices that do not offend their ethical and social values.



Intercontinental Integrity Fund emerged is the former A-Z Mutual Fund that was managed by Gateway Bank Plc. After the merger of the bank with Intercontinental Bank, the fund came under the management of Intercontinental Capital Markets Limited in 2006.

The fund's investment targets are company stocks quoted on the Nigerian Stock Exchange, government bonds, money market investments and real estate. Investing in the fund requires a minimum of 10,000 units at prevailing market price and multiples of

1,000 units thereafter. Investors can realize part or all of their investments in the fund subject to five working days notice and a minimum investment period of 90 days.



Oceanic Vintage Fund was launched in 2007 and is managed by Oceanic Bank International [Nigeria] Plc. The investment targets of the fund are mainly blue chip equities quoted on the Nigerian Stock Exchange and supported with moderate interests in real estate and fixed income investments.

The fund's objective is to optimize returns for investors from a portfolio of investments diversified into the main high growth sectors of the economy. The minimum qualifying investment in the fund is N50,000.



Legacy Fund was floated in February 2006 and is managed by CSL Stockbrokers Limited. The fund's objective is to achieve regular income for investors as well as capital gains in the long-term through a diversified portfolio of high quality assets. Its investment portfolio is structured to contain a maximum of 50 per cent of blue chip equities quoted on the Nigerian Stock Exchange and the balance mostly of money market assets with moderate interest in government bonds.

At the end of its first one year in operations, its net asset value stood at N1.37 billion with annualized total return of 55 per cent and a growth of 15 per cent. Minimum investment in the fund is N10,000.



UBA Equity Fund was set up in September 2006 and listed on the Nigerian Stock Exchange Memorandum quotations in December 2006. The fund's investment objective is to achieve high returns on investment and thus provide a hedge against inflation. It is managed by UBA Asset Management Limited.

Investment allocation targets are 80 per cent equities quoted on the Nigerian Stock Exchange and 20 per cent money market investments. It is ideal for high return seeking investors with above average appetite for investment risk.

UBA Balanced Fund is another mutual fund managed by UBA Asset Management Limited and was established in September 2006. The investment objective is to achieve competitive returns through a diversified portfolio of investments.

Investment portfolio components are allocated to equities listed on the Nigerian Stock Exchange - 40 per cent, money market instruments – 40 per cent and other securities – 20 per cent. The minimum investment in the fund is N50,000.

The third mutual fund managed by UBA Asset Management Limited is **UBA Bond Fund**, which was also set up in September 2006. The fund's investing objective is to concentrate on risk free assets to provide regular income on a long-term basis.

The fund's investment portfolio is structured to contain 80 per cent of bonds and 20 per cent of other securities. The minimum investment in the fund is N50,000. The fund is ideal for low risk oriented investors desiring to preserve the value of their capital and obtain a stream of regular income.



Fidelity Nigfund was established in 2002 and managed by Fidelity Bank Plc. Its investment objective is to achieve maximum return on investment capital through a balanced portfolio of investments. The fund's investment portfolio is structured to comprise 60 per cent of capital market assets, 35 per cent of money market instruments and 5.0 per cent real estate.

The fund had a net asset value of N2.0 billion as at February 2007 and accumulated yield of 248.74 per cent since inception. The minimum investment in the fund is 10,000 units at prevailing market price.

ICON

Paramount Equity Fund formerly known as ICON Unit Trust Scheme is one of the oldest mutual funds in Nigeria. It commenced operations in April 1991 and changed to its present name in June 2004. The fund, which is comprised of 500 million units of N1.0 par value each, is managed by Denham Asset Management Limited. The minimum investment is N20,000 and a minimum additional investment of N10,000.

The fund carries an aggressive equity portfolio aimed at fully exploiting growth opportunities in the stock market. It focuses on blue chip equities supplemented by opportunistic short-term trading activities.



Denham Asset Management Limited also manages two other funds not listed on the Nigerian Stock Exchange. These are the Nigerian Global Investment Fund and Denham Management Millennium Fund. The **Nigerian Global Investment Fund** is designed to achieve a balanced portfolio of equities, fixed income securities and money market instruments. The highly liquid fund has the objective of providing total security of funds and long-term capital growth.

Denham Management Millennium Fund carries an investment portfolio designed to defend the value of capital. The fund is invested largely in fixed income securities with the objective providing investors with capital preservation and steady growth.



The other members of the first generation of mutual funds in Nigeria are **First Interstate Unit Fund** registered in 1991 with an initial floatation of 40 million units of 50 kobo each and **Continental Unit Trust** also registered in 1991 with an initial floatation of 100 million units of N1.00 each. Other mutual funds registered in 1991 are **Devcom Mutual Fund** and **Indo Nigeria Trust Scheme**. The capital market is the main investment targets of the funds with a secondary interest in the money market.

Frontier fund was under the management of NAL Bank Plc and First Trustees Nigeria Limited before the amalgamation that formed Sterling Bank Plc. It was floated in 2003 with its main focus on equities market investing and limited interest in the money market.



A number of new mutual funds are presently in various stages of establishment. Zenith Bank floated three mutual funds in May 2008, which will be managed by Zenith Capital Limited. These are 500 million units of **Zenith Equity Fund**, 200 million units of **Zenith Income Fund** and 100 million units of **Zenith Ethical Fund** all of which are issued at N10 per unit. The funds have the usual distinct features that create varying risk and return preferences for investors.



Cashcraft Asset Management Limited floated two mutual funds in 2007 named Anchor Fund and Bedrock Fund. Each of the funds had an initial closing of 500 million units at N1.0 each. The **Anchor Fund** is a balanced fund with investment portfolio built around equities, mortgage instruments, real estate and opportunistic investments. **Bedrock fund** is essentially equity based with investment targets of 75 per cent equities and not more than 25 per cent money market assets. The fund is not listed in the Nigerian Stock Exchange.



Afrinvest [West Africa] Limited, formerly Securities Transactions & Trust Company [Nigeria] Limited [Sectrust], has floated **Afrinvest Equity Fund**. It is raising N5 billion through 50 million units at N100 each. The fund seeks to maximize returns from the equities market. It is forecast to achieve return on investment of 34.86 per cent in 2009, 30.43 per cent in 2010 and 27.22 per cent in 2011.



DVCF Oil & Gas Limited, a subsidiary of Deep Capital Plc is in the process of establishing **DVCF Oil & Gas Fund**. It is offering to the public one billion units of the fund at N1.0 each. The minimum subscription is N3,000.



Chapel Hill Denham recently launched Nigeria's first gender specific N2.5 billion mutual fund (Women's Investment Fund) through an initial public offer (IPO) at N100 per unit. With the Women's Investment Fund (WIF), it is believed that a bridge has been crossed in addressing female investors and entrepreneurs alike. The WIF will invest in a diverse portfolio of assets including quoted equities and fixed income securities, real estate and private equity investments.



PHB Asset Management is the fund manager for the Diaspora fund launched by Nigerians in Diaspora Europe (NIDOE) with the support of all NIDO organizations worldwide which should debut in October 2008. This fund has the unique appeal of attracting the highly informed Nigerians in the Diaspora and ensuring that returns match the average rate of return of the Mutual fund market, at a minimum.

4. Returns Prospects of Mutual Funds in Nigeria

The merit of investing in mutual funds depends on the ability of fund managers to produce the superior returns they normally claim. Research findings in Nigeria have not supported the claim that mutual funds can consistently produce superior returns that beat market average yield.

The ability to consistently produce superior returns is tested by comparing annual average yields of mutual funds over the years with the all-share index that represents average performance of a portfolio not so managed.

A five-year annual yield computation by Mr. M. Ibrahim of the research department of SEC between 1993 and 1997 [see table 1] shows a disappointing performance of mutual funds relative to the all-share index. None of the 9 mutual funds then in operation was able to match the 48.51 per cent five-year average stock market return. Besides there was no consistency in the year by year rates of return achieved by the mutual funds during the period.

This was the period when mutual funds operations just began and two factors are identified to have accounted for the disappointing performance. The first is lack of adequate skills in stock selection and trading. Financial analysis expertise and market intelligence skills were quite low at that time.

The second is the long period of depression the stock market experienced during the period. The experience is that average portfolio performances tend to fall below general market average when the stock market *faces a decline and tends to rise above market average in bullish markets.*

Table I: First 5 Years Annual Yield Rankings [1993-1997]

S/No.	Mutual Fund	5-year Annual Yield %	Average
1	ICON Unit Trust Scheme	35	
2	Continental Unit Trust	11	
3	First Interstate Unit Trust	4	
4	Denham Mgt Millennium fund	4	
5	Gloria Unit Trust Scheme	1	
6	Lead Unit Trust	1	
7	MBA Mutual Trust Fund	[1]	
8	Light House Asset Mgt Fund	[1]	
9	Devcom Mutual Fund	[18]	
10	NSE All-share Index	49	

Source: Computed from SEC Data

A review of year on year annual average yields of mutual funds was again made for a 10-years period – 1993 to 2002 [see table II] against the 10 year average return of the all-share index of the Nigerian Stock Exchange. During this period, only one of the eight

mutual funds slightly beat the average annual return of the all-share index. The year on year yield records of the funds still showed a lot of inconsistency, confirming the earlier research findings.

Table II: 10 Years Annual Yield Rankings [1993-2002]

S/No.	Mutual Fund	10-year Annual Yield %	Average
1	Denham Mgt Millennium fund	33	
2	ICON Unit Trust Scheme	27	
3	Continental Unit Trust	22	
4	Centre Point Unit Trust	16	
5	Gloria Unit Trust Scheme	15	
6	First Interstate Unit Trust	11	
7	Lead Unit Trust	1	
8	Devcom Mutual Fund	[11]	
9	NSE All-share Index	32	

Source: Computed from SEC data

In order to confirm whether inexperience was a major factor in the disappointing performance of mutual funds in the earliest period of their operations, their annual yield rates were also reviewed over the next following five years – 1998 to 2002 [see table III]. The exercise shows an improvement in the number of mutual funds that beat the all-share market index. Five out of the 14 mutual funds in the market earned above market average return.

While this record is still no confirmation that mutual funds consistently earn above market average return, it leaves a room for expectation that with improvement in financial analysis skills, securities selection expertise and strategies as well as increasing availability of tradable instruments, the returns prospects for mutual funds would improve.

A further review was made by considering the gross capital appreciation of mutual funds for a period of 10 years and comparing them with both the treasury issue rates and the all-share index growth during the years [see table III]. The funds were disaggregated to show the performances of equity, money market and bond funds.

On the aggregate, mutual funds nominally outperformed the yields from treasury bills and the stock market index with a 10-year average yield of 247.7 per cent compared to 15.7 per cent for treasury bills and 32.7 per cent for the stock market index. The analysis however needs to be read with caution in view of an outlying yield in 1997 that was due to a surge in money market sales rather than capital appreciation.

Table III COMPARATIVE ANNUAL GROWTH OF MUTUAL FUNDS [%]

Year	TBs Issue Rate	NSE Index Growth	Equity Funds	Money Mkt. Funds	Bond funds	Total NAVs N'000	Aggregate Funds
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MUTUAL FUND OPERATIONS IN NIGERIA

1992	22.0	41.46				25,198	
1993	28.23	39.38	101.09	136.95	-	54,303	115.5
1994	12.5	42.83	11.99	11.26	-	60,639	11.67
1995	12.5	130.93	47.78	48.74	-	89,869	48.20
1996	12.0	37.31	15.26	36.49	-	112,017	24.64
1997	12	[7.89]	357.42	2,121.57	-	2,335,233	1,984.71
1998	13	[11.92]	150.28	[40.48]	11.71	2,346,441	0.48
1999	19.7	[7.16]	[10.74]	33.72	5.87	2,573,921	9.69
2000	13	54.01	[64.18]	218.24	16.52	4,456,179	73.13
2001	20.5	35.16	202.02	8.98	15.64	5,352,855	20.12
2002	13.8	10.71	231.81	42.49	8.64	8,385,707	56.66
10-year Ave. yield	15.72	.32.34	105.07	261.80			247.70

5. Latest Performance of Mutual Funds in Nigeria

The latest annual and cumulative returns of mutual funds were reviewed to ascertain how current performances conform or deviate from earlier findings. The all-share index of the Nigerian Stock Exchange grew by an annual average of 32.57 per cent in 15 years to 2007. Rates of return generated by the market leading mutual funds are compared against the market average returns represented by the index.

While none of the funds was able to match the growth of the index in 2007, they all beat the index in terms of long-term average annual growth rate. This is a confirmation that the performance of mutual funds has improved further over the past five years compared with the position over the preceding 10 years. There is a clear indication that mutual funds provide greater stability of returns than the average market return in the long-term.

With improvement in fund investment selection and fund management skills, mutual funds have generally improved in terms of ability to generate above average returns over the long-term. They have not so far been able to beat the market average returns on a consistent basis.

The usefulness of mutual funds extends beyond the strict consideration of prospects for superiority of returns to the crucial issue reducing risk through portfolio diversification. They are part of the process of deepening the financial markets and therefore add to the variety of instruments available to investors.

It makes a lot of sense for investors to extend further the diversified effects of mutual funds by diversifying their choices of the funds among the various types available. In this way, investors can hope to extend the benefits of achieving above average return in the long-term even though annual growth rate are not very likely to beat the average market returns on a consistent basis.

Comparative Rates of Return - 2007

Year	NSE Index	Annual Growth %					
		NSE Index	IBTC Equity Fund	ARM Discovery	Coral Growth Fund	Nigfund	Paramount Fund
2007	57,990.22	74.86	62.14	56.0	39.32	58.65	NA
Average Annual Return		32.57	53.4	77.7	33.98	62.13	53.3

6. Summary of Findings

- Banks played and are still playing a key role in the development and operations of mutual funds in Nigeria
- Mutual funds operations tend to grow with rapid expansion in the financial markets and decline with a depression
- Low level of awareness accounted for the low level of subscriptions to mutual funds initially
- The subscription level of mutual funds has improved significantly as awareness has increased
- Mutual funds have increased in role and significance within the financial sector but still quite low relative to the size of the financial services industry
- Most mutual funds are equity market focused with limited investment interests in the money and bond markets
- Mutual funds performance in terms of return has improved over the years and further improvement can be expected with financial markets sophistication and development of trading expertise
- Mutual funds have not established a track record of superior returns on a consistent basis but their average annual returns have beaten average stock market return in the long-term.

7. Conclusion

Mutual funds operations in Nigeria require to be supported in terms of aggressive promotion of awareness and greater commitment to the development of human capital. The present environment of rapid promotion of new entrants provides an opportunity to recruit the re-emerging middle class households.

Despite some improvement, the operations of mutual funds are still undermined by the limited availability of financial sector skills. The nation's base of capable professionals in the fields of financial analysts, appraisers, investment consulting and insolvency experts is seriously lacking in depth.

Mutual funds, like banks need to command the best of the nation's manpower resources to be able to bring in innovation that has preserved the banking industry through the thick and thin.

Year	NSE Index	Annual Growth %
		NSE Index
2003	20,128.9	65.8
2004	23,844.5	18.5
2005	24,085.8	1.0
2006	27,880.5	15.8
2007	57,990.22	74.86

New types of funds are also needed to achieve diversification outside the main focus of equity investments. The annual growth of the all-share index of the Nigerian Stock Exchange has always shown a wide fluctuation.

Even if mutual funds are able to beat the market's average return during equity market correction, they are not likely to

offer investors a decent return compared with the rate of inflation.

Since most of the existing mutual funds are focused mainly on the equity market, it can be expected that their returns will fluctuate with the rise and fall of equity markets. For the in-coming funds to attract good attention in the environment of the present stock market crash, they will need to provide a hedge against adverse market trends. The development of new financial instruments is a necessity, particularly derivatives, which will enable mutual funds secure profitable deals in uncertain markets.

The growing influx of mutual funds into the market will soon set this market segment on test once again. Since the investment focus of the newcomers is in no way different from that of existing funds, the market is set for saturation very soon. This is in the light of the current slow down in the financial sector growth, the heavy losses sustained by investors in the present market meltdown and the apparent withdrawal attitude of the hitherto flourishing foreign portfolio investors.

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In delivering this service, the firm works with and through organisations with distinct service competencies in stock investment analysis, investor tools and solutions and capital market practices; all designed to provide investors with a credible resource for intelligent decision making.

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