

# Nigeria Sovereign Investment Authority

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## 2023 Final Rating Report

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 **Agusto&Co.**

*Research, Credit Ratings, Credit Risk Management*

# Nigeria Sovereign Investment Authority

Rating Assigned:

**Aaa (NGA)**

ESG Score:

**3**

**Outlook:** Stable

**Issue Date:** 21 Aug 2023

**Expiry Date:** 30 June 2024

**Previous Rating:** Aaa (NGA)

**Industry:** Government-Backed Institution

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*A Government-backed institution of the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other GBIs in the same country.*

## RATING RATIONALE

Agusto & Co. affirms the '**Aaa (NGA)**' rating of Nigeria Sovereign Investment Authority ('NSIA' or the 'Authority') which reflects its strategic importance in providing stability for the country in stress periods, enhancing the development of Nigeria's infrastructure and building a savings base for future generations. The Authority's strong capitalisation, good asset quality and well-diversified investment portfolio are also rating positives. However, constraining the rating is NSIA's exposure to the vagaries of the Nigerian political terrain and lingering global headwinds. We have also assigned a '**3**' ESG score denoting that environmental, social and governance (ESG) issues have material contributions to credit risk.

NSIA's core mandates include building a saving base for Nigeria's future generations, enhancing the development of domestic infrastructure and providing fiscal stabilisation support in periods of economic stress. The Authority aims to achieve these mandates by operating three ring-fenced funds namely the Stabilisation Fund ("SF"), Future Generations Fund ("FGF") and Nigeria Infrastructure Fund ("NIF"). The Authority's total capital contribution of US\$1.5 billion has been split between these funds. The investment philosophy for the SF is short-term, highly liquid and good credit quality securities and the FGF is aimed at longer-tenured assets with risk-adjusted returns while preserving value. The NIF is directed at developing domestic infrastructure. The NIF has birthed the creation of 19 active related entities either as subsidiaries, associates or joint ventures targeted at sectors including healthcare, gas industrialisation and agriculture amongst others.

NSIA's investment portfolio as at 31 December 2022 stood at ₦658 billion and was largely held in currency swaps with the CBN; hedge funds and long-only equity investments; private equity (PE); placements, fixed deposits and Eurobonds which accounted for a combined 80.2% (FYE 2021: 83.7%). Hedge funds, long-only equity investments and the private equity portfolio provides risk-adjusted returns but are most vulnerable to headwinds in the global economy as reflected by the 11% dip in their combined book value to ₦246.7 billion following the downturn in the global capital markets in FY 2022. To moderate valuation losses from these investments, NSIA maintains a well-diversified portfolio split amongst over 34 fund managers including top-tier institutions such as Goldman Sachs and JP Morgan. We believe this level of diversification moderates any significant deterioration in these portfolios. As at FYE 2022, NSIA's fixed deposits and placements were all with investment-grade Nigerian financial institutions on our national rating scale and a large proportion of its Eurobonds are FGN securities.

Overall, we consider the Authority's asset quality to be good hinged on its diversified investments, the calibre of pre-qualified asset managers and its thorough investment selection process.

According to the NSIA Act 2011, governance at NSIA is vested with the Governing Council and the Board of Directors. The appointment of the Board and the CEO is approved by the Nigerian President. As at 31 December 2022, the Authority was led by a nine-member Board comprising six Non-Executive Directors and three Executive Directors. However, the Board of Directors of NSIA was dissolved in June 2023 following the inauguration of a new government. We consider this gap in oversight to be a rating concern. Nevertheless, NSIA's Executive Directors continue to steer the affairs of the Authority in line with the established policies and strategy of the defunct Board. The executive management's powers and responsibilities in the absence of a Board are also guided by a pre-approved policy document. While we anticipate that the Authority will operate without a Board for most of H2 2023, we recognise that the presence of a Governance Council which NSIA reports to and oversight from the National Assembly provides a layer of check.

As at FYE 2022, the Authority's shareholders' funds stood at ₦909.3 billion, up by 10.6% on the back of full profit retention. While NSIA is self-regulated, it ensures that adequate capital is maintained through prudent portfolio management, stress testing and contingency planning. As at 31 December 2022, NSIA's equity cushion stood at 84% (FYE 2021: 77%), well above our internal benchmark. The Authority also maintains nil interest-bearing debt in its capital structure thus its leverage also remains healthy. We consider the NSIA's capitalisation to be good for the current business risks undertaken. Going forward, NSIA expects additional and stable equity contributions with the advent of the Petroleum Industry Act (PIA) which mandates that price-based royalties from upstream oil and gas companies should flow to the Authority. An inflow of \$45 million was received by NSIA in H1 2023 from price-based royalties.

The downturn in the global capital markets was evident in the performance of NSIA in FY 2022 as the operating income dipped by 31% to ₦101.8 billion. However, the 29.6% growth in interest income elicited by the rising yield climate moderated the overall decline in earnings and supported performance. Thus, NSIA continued to maintain acceptable profitability ratios with a pre-tax return on average assets of 9% (FY 2021: 13.6%) and pre-tax return on average equity of 10.7% (FY 2021: 17.7%), though lower than the previous year. Subsequent to the year-end, the Authority benefitted from the ongoing harmonisation of exchange rates, recording significant foreign exchange gains. The disinflation being recorded by some developed economies and China's sluggish recovery amongst others have also improved the performance of major indexes across the globe. Thus, the Authority's FGF which warehouses hedge fund, PE and long-only equity investment was up by 7.4% in H1 2023, relative to the 3.9% dip in FY 2022. Consequently, in H1 2023, NSIA's annualised ROA and ROE improved to 106.1% and 113.2% respectively in naira terms and 48.1% and 51.7% in real US\$ terms. We believe the aforementioned growth drivers would support better performance improvement in FY 2023.

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Support of the government of the Federal Republic of Nigeria.</li> <li>• Good capitalisation</li> <li>• Sizeable and well diversified investment portfolio</li> <li>• Experienced management team</li> </ul>
<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Irregular contribution from shareholders</li> </ul>
<p><b>Challenges</b></p> <ul style="list-style-type: none"> <li>• Weak government finances that constrains the ability to consistently inject funds in the Authority</li> <li>• Sustaining performance in a volatile global economy</li> <li>• Exposure to abrupt Board changes with the inauguration of new administrations</li> </ul>

Table 1: Background Information

	2021	2022
Total Assets & Contingents	₦1.22 trillion	₦1.04 trillion
Operating Income	₦147.6 billion	₦101.8 billion
Pre-tax Return on Average Assets (ROA)	13.6%	9.0%
Pre-tax Return on Average Equity (ROE)	17.7%	10.7%

## PROFILE

Nigeria Sovereign Investment Authority (“NSIA” or “the Authority”) was established through the NSIA Act in May 2011 to manage Nigeria’s Sovereign Wealth Fund and achieve three core mandates; actualise savings for the country, provide stability in periods of economic stress and support the country’s infrastructural development. The Authority commenced operations with a seed capital of US\$1 billion in October 2012 but has grown its assets under management (AuM) to circa US\$2.3 billion as at 31 December 2022, largely through earnings retention. NSIA operates three ring-fenced funds; the Stabilisation Fund (SF), Future Generations Fund (FGF) and Nigeria Infrastructure Fund (NIF) aimed at each of its core mandates.

	Stabilisation fund	Future Generations Fund	Nigeria infrastructure fund
Objective	Provide support to the Federation in periods of economic stress	Invest in long-term assets with a yield target of US inflation plus 4% to provide a savings base for future generations of Nigerians	Investments in projects and initiatives with the ability to bridge Nigeria’s infrastructural deficits
Asset Allocation and Sector Focus	75% in Growth Assets - Investment grade corporate bonds - fixed deposits, - currency swaps 25% in Hedge Assets - US treasury securities - Nigeria treasury securities	-30% in public equity -25% in private equity -20% in hedge funds -25% in cash and commodities	-Gas industrialisation -Technology -Agriculture -Healthcare -Power -Financial market infrastructure
AuM as at 31 December 2022	US\$288.7 million	US\$939.3 million	US\$1 billion

NSIA is structured along three strategic business groups: Enterprise Resources (Legal Services, Human Resources, Corporate Communications, Internal Audit, Legal/Company Secretariat Units), Operations (Finance, Risk Management, Information Technology, Administration, Investment Operations Units) and Investments (Nigeria Infrastructure Fund, Externally Managed Investments and Direct Investments Units). The Authority operates from its registered office at Clan Place, 4th Floor, Plot 1386A Tigris Crescent, Maitama, Abuja.

### Ownership and Board

Nigeria Sovereign Investment Authority is jointly owned by the Federal Government of Nigeria, the 36 States, the 774 Local Government Authorities and the Federal Capital Territory. Following recommendations by the Minister of Finance, the shareholders through the President appoint the Board of Directors and provide funding for the Authority’s activities.

**Table 2: Shareholders of Nigeria Sovereign Investment Authority**

Shareholder	Equity Stake
The Federal Government of Nigeria	45.8%
36 State Governments	36.2%
774 Local Government Authorities	17.8%
The Federal Capital Territory	0.2%

As at 31 December 2022, NSIA was governed by a nine-member Board chaired by Mr Farouk Gumel. However, the Board was dissolved in June 2023 shortly after President Tinubu's inauguration. Despite the expulsion, the Executive Directors continue to manage the operations of the Authority in line with policies and strategies authorised by the previous Board. Given the buffer period required for the new administration to settle and source qualified candidates for appointment, we believe that the Authority might operate without a Board for a significant part of H2 2023; this is a rating concern.

Notwithstanding, the NSIA Act establishes a Governing Council that comprises the President of Nigeria, the 36 State Governors, the Minister of the Federal Capital Territory (FCT), the Minister of Finance, the Attorney General of the Federation, the Central Bank of Nigeria Governor, the Chief Economic Adviser to the President, the Chairman of the Revenue Mobilisation, Allocation and Fiscal Commission and 12 members of the public appointed by the President. The Authority is mandated to provide reports on its assets, liabilities, redemptions, sales, general performance by asset class and significant trends affecting investment objectives. While we believe the reconstitution of NSIA's Board is vital to uphold best governance practices, we take cognisance that the presence of the Council provides some layer of oversight.

### Subsidiaries, Associates and Joint Ventures

NSIA's activities, particularly under its infrastructure development mandate, are conducted through dedicated subsidiaries, associates and joint venture companies. In addition to providing the appropriate governance and oversight, this structure facilitates partnerships and co-investment opportunities with institutions with similar interests in the stated project.

**Table 3: NSIA's Investments in Subsidiaries, Associates & Joint Ventures as at 31 December 2022**

Name	Country	Percentage (%) of ownership interest
<b>Direct Active Subsidiaries</b>		
NSIA Motorways Investment Company (NMIC)	Nigeria	100%
FGF Private Equity Co. Limited	Nigeria	100%
FGF Investments Limited	Nigeria	100%
FGF PE Beta Limited	Nigeria	100%
NSIA Property Investment Company Limited	Nigeria	100%
NSIA Power Investment Company Limited	Nigeria	100%
NSIA Healthcare Development and Investment Company Limited	Nigeria	100%
NSIA Investment Management Company	Nigeria	100%
<b>Indirect Ownership</b>		
FMCU Advanced Medical Diagnostics Limited	Nigeria	90%
AKTH Advanced Medical Diagnostics Limited	Nigeria	90%
LUTH Advanced Medical Services Limited	Nigeria	100%
Equilease Systems Limited	Nigeria	100%
<b>Associate Companies</b>		
Nigeria Mortgage Refinance Company (NMRC)	Nigeria	20.9%
Panda Agriculture Operations and Management Ltd	Mauritius	30.0%
Pandagric Novum Ltd	Nigeria	30.0%
Infrastructure Credit Guarantee Company Limited	Nigeria	31.8%
Family Homes Funds Limited (FHFL)	Nigeria	49.0%
<b>Joint Venture Investments</b>		
Multipurpose Industrial Platform Limited	Nigeria	50.0%

UFF-NAIC Agriculture Investment Company (Mauritius) Limited	Mauritius	50.0%
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### Fund Custodians

NSIA maintains a custodial relationship with Citibank Nigeria Limited and Stanbic IBTC Bank Plc for domestic investments while JP Morgan Chase & Co serve as the global custodian. The custodians provide monthly reports to the Authority on the performance of the assets.

### Management Team

In the year under review, Mr Uche Orji, the pioneer Chief Executive Officer and Managing Director of NSIA retired effective September 2022 and was replaced by Mr Aminu Umar-Sadiq, the erstwhile Executive Director. Mrs Olubisi Makoju and Mr Kolawole Owodunni, both pioneer staff of the Authority, were also appointed as Executive Directors effective October 2022.

Mr Aminu Umar-Sadiq has over 15 years of experience in the financial services sector spanning public finance management, mergers & acquisitions, private equity and asset management. Mr Umar-Sadiq worked with Morgan Stanley, London and Societe Generale, London, and Denham Capital Management. He currently serves on the boards of the Nigeria Mortgage Refinancing Company and the Infrastructure Credit Guarantee Company Limited. Mr Umar-Sadiq holds a Bachelor's and Master's degree in Engineering Sciences from the University of Oxford, United Kingdom.

Mrs Olubisi Makoju is a certified professional accountant with 27 years of experience. Before being appointed as Executive Director and Chief Operating Officer, she was the Financial Controller at NSIA. Mrs Makoju has also worked as the Financial Manager at YF Petroleum, JV Accountant at Shell Nigeria Exploration and Production Company, Head of Finance at Hewlett Packard Africa and Senior Analyst at Arthur Andersen. Mrs Makoju holds a Bachelor's Degree in Accounting from the Obafemi Awolowo University, Ile-Ife and an MBA from the University of Warwick, UK. She is also a Fellow of the Institute of Chartered Accountants of Nigeria.

Mr Kolawole Owodunni has over 20 years of finance experience and is currently the Chief Investment Officer at NSIA. He was the Head of Risk Management at Dunn Loren Merrifield and Risk Manager at Credit Suisse, London, an Assistant Vice President at Merrill Lynch, London and a Risk Analyst at Goldman Sachs. Mr Owodunni holds a Master's Degree in Chemical Engineering from Imperial College, London and an MBA from INSEAD, France. He is also a CFA Charterholder.

Other members of Nigeria Sovereign Investment Authority's senior management team include:

Mrs Ezinwa Okoroafor	General Counsel
Mr Mark Okwor	Chief Risk Officer
Mrs Sybil Etuk	Head, Human Resources

In the financial year ended 31 December 2022, the Authority employed an average of 62 persons, higher than the 57 persons in the prior year. However, operating income per staff decreased by 36.6% to ₦1.6 billion due to the decline in earnings but comfortably covered staff costs 41 times (FY 2021: 56 times). In our opinion, NSIA has an experienced management team while staff productivity is good.

## ANALYSTS' COMMENTS

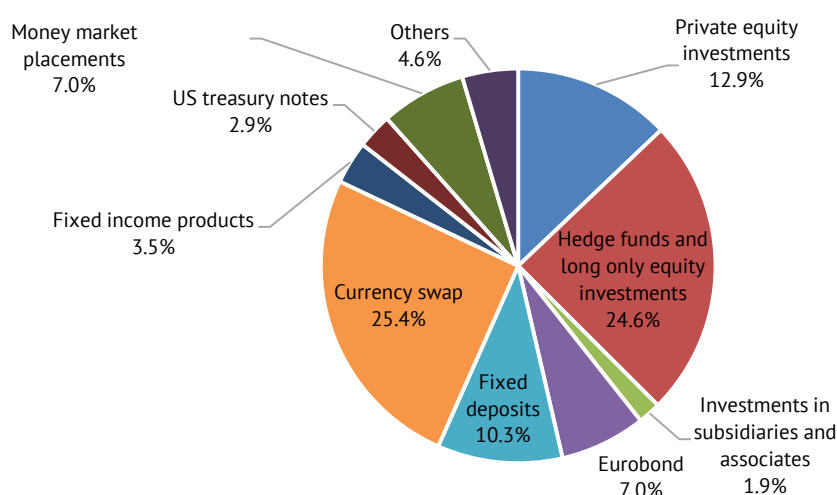
### ASSET QUALITY

The Nigerian Sovereign Investment Authority has a three-fold mandate which includes building a savings base for Nigerians, enhancing the development of Nigeria's infrastructure and providing stability for the country in stress periods. Given the uniqueness of the three mandates, the Authority operates three ring-fenced funds; the Future Generations Fund, the Nigeria Infrastructure Fund and the Stabilisation Fund. These funds have different investment objectives and inform the Authority's risk appetite.

As at 31 December 2022, the total investment portfolio stood at ₦658 billion and accounted for a predominant 63.1% of total assets and future commitments. The investment portfolio grew by 15.5% year-on-year, buoyed by re-investments of inflows from operations and the impact of naira depreciation on its dollar-denominated investments. As at FYE 2022, the investment portfolio which transverse the three operated funds largely comprised currency swaps, hedge funds and long-only equity investments, private equity investments, fixed deposits and Eurobonds.

Currency swaps with the Central Bank of Nigeria (CBN) which avails USD liquidity to the apex bank while providing an avenue to boost earnings was the single largest component of the investment portfolio and accounted for 25.4% (FYE 2021: 20%) as at FYE 2022. Given the quality of the counterparty and the structure of the transaction, we consider the credit risk from the swap arrangement to be minimal in domestic terms. We also recognise that these transactions align with the objectives of the stabilisation fund.

**Figure 1: Breakdown of Investment Securities as at 31 December 2022**



Hedge funds and long-only equity investments serve as a major investment outlet for NSIA's future generation fund given their propensity to offer above-average returns. As at 31 December 2022, the fair value of investments in these alternative assets stood at ₦161.8 billion, 7.6% lower than the previous year given the uptick in asset volatility, exacerbated by the Russia-Ukraine war. As a result, hedge funds and long-only equity



investments together represented a lower 24.6% (FYE 2021: 30.7%) of the total investment portfolio. In our view, the headwinds that ravaged many economies continue to pose a threat to these assets as they are relatively illiquid, compared to traditional assets. However, the Authority has invested in a well-diversified pool of hedge funds and long-only equity assets managed by 16 experienced institutions as at FYE 2022 including Morgan Stanley and Goldman Sachs. We believe this level of diversification should cushion potential loss in valuation and deterioration in performance to a large extent.

Private equity (PE) investments which provide risk-adjusted returns are also outlets under the future generation fund. These PE assets include investments in venture capital, direct trading in exchange-traded funds (ETF) and single stock pre-initial public offering (pre-IPO), co-investments with alternative assets external managers and new sector fund positions – such as technology funds. In the year under review, PE investments dipped by 16.1% to ₦84.9 billion as at 31 December 2022 and accounted for 12.9% (FYE 2021: 17.8%) of the investment portfolio partly due to the redemption of investments in two PE fund managers exposed to the less resilient and volatile emerging market as the Authority maintained a cautious appetite. To moderate the vulnerability of the PE portfolio to global headwinds going forward, NSIA has diversified its private equity investments amongst 34 fund managers across different countries while also managing a proportion internally.

Investments in money market instruments and Eurobonds are also prominent in the investment portfolio in line with the Authority's stabilisation mandate while also pursuing returns. Money market investments represented 17.3% (FYE 2021: 14.7%) of the investment portfolio and Eurobonds accounted for 7% (FYE 2021: 1.4%). Based on Agosto & Co's assessment all of the money market instruments were with investment grade counterparties on our national rating scale which have relatively lower default risk. The Eurobonds are also debt issuances by the Federal Government of Nigeria and top-tier banks. NSIA has emphasised investing in shorter-dated fixed income instruments which allow it to reprice upwards as yields rise.

NSIA's infrastructure development strategy is anchored on direct investment in projects and companies via debt or equity, establishing a co-investment platform or enabling and creating institutions to address specific infrastructure problems. In the year under review, NSIA incorporated Equilease Systems Limited to invest in entities or equipment leasing arrangements related to healthcare infrastructure or healthcare service delivery and/or management. Ultimately, the Authority had eight active direct subsidiaries, four indirect subsidiaries, five associates and two joint venture (JV) companies as at 31 December 2022. While the current contribution of most of the investee companies to NSIA's performance is currently minimal given their young profile, we believe these companies have significant growth potential and are strategic to improving Nigeria's low infrastructural stock.

Overall, we consider NSIA's asset quality to be good, supported by quality investments and experienced external and internal fund managers. We view positively the Authority's emphasis on risk diversification which moderates vulnerability to headwinds and its adoption of a clear investment strategy that balances quality and yields while pursuing its core mandates. We believe NSIA's asset quality would remain good despite prevailing global headwinds backed by the prudent and well-diversified asset composition.

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## RISK MANAGEMENT

Nigeria Sovereign Investment Authority is a self-regulatory institution with some oversight activities by the National Assembly and the Federal Ministry of Finance. The Authority maintains a conservative risk management philosophy and is committed to demonstrating values that transcend the norm in Nigeria's public service. While the Board of Directors of NSIA have been dissolved following the incursion of a new government, the Authority continues to operate in line with the existing risk management framework.

NSIA's credit risk exposures emanate largely from exposures to counterparties and debt finance granted for projects in its area of interest. To mitigate credit risks, the Authority utilises an internal rating model to assess the credit risk profile of all counterparties and a thorough investment thesis that considers several parameters such as cash flow, liquidity, leverage and governance amongst others is built for all projects in deal pipelines. For its fixed-income investments, particularly from the Stabilisation Fund, NSIA targets counterparties with a minimum rating of "A-" and also has an affinity for the Nigerian government and the US treasury securities. As at 31 December 2022, all of NSIA's fixed-income instruments were with investment-grade institutions based on Agosto & Co's assessment and the Federal Government of Nigeria. For its project finance, NSIA mostly grants convertible debts that protect its principal from downside risk while benefiting from any upside should the underlying company succeed.

To manage market and investment risks, the Authority pre-qualifies and conducts due diligence on its asset managers. NSIA's investment strategy also outlines permissible asset classes, asset allocation limits and other position limits. Fund managers' performance is reviewed periodically and investments with managers deemed to have performed unsatisfactorily are recommended for a reallocation by the NSIA investment team to better-performing managers. The Authority also uses an external consultant that performs an in-depth portfolio analysis for the Authority including - VaR reporting, stress testing and scenario analysis, backtesting and correlation analysis amongst others.

NSIA moderates FX risks by maintaining a significant 93.8% of its financial assets as US\$ investments as at 31 December 2022. As at the same date, a sensitivity analysis conducted reveals a potential gain of ₦132.7 billion (13.2% of shareholders' funds) should the naira depreciate by 15% against the US\$ and vice-versa. We believe NSIA's long net FCY asset position places it in an advantageous position amid the persistent naira depreciation. As at FYE 2022, a 5% increase in interest rate depicts a ₦22.3 billion potential loss position representing 2.3% of shareholders' funds, which we consider to be minimal.

In our opinion, NSIA's risk management framework is good for its current business risks. Nevertheless, we expect that the volatile global macroeconomic climate would continue to test the resilience of its risk management framework and investment strategy.

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## EARNINGS AND PERFORMANCE

NSIA earnings are largely from interest income on securities, valuation gains on swaps, hedge funds and equity investments and foreign exchange gains. The Authority also earns income from fund managers and dividends from investee companies. During the year under review, geo-political tensions, the Russia-Ukraine war, soaring hydrocarbon prices, Covid-19 resurgence in China amongst others elicited a downturn in the global capital

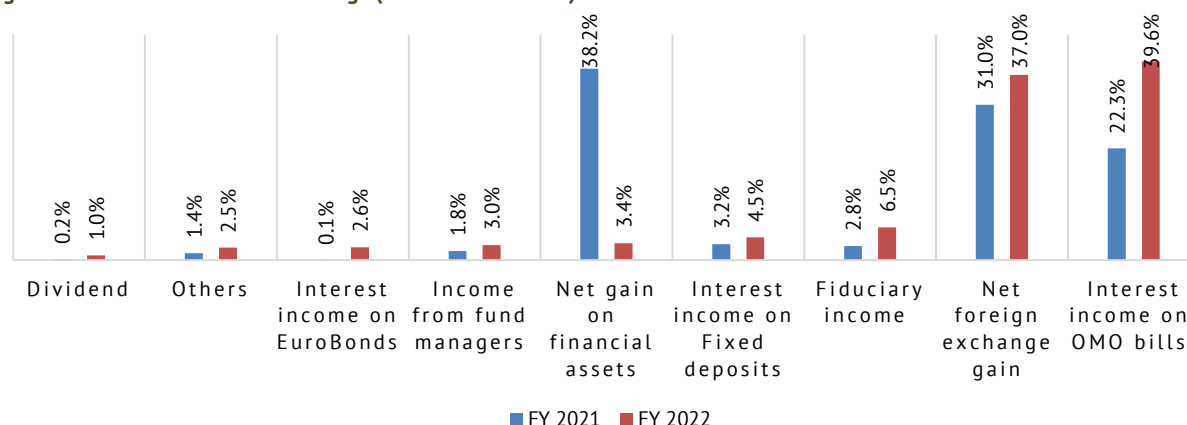
markets and negatively affected major indexes and Sovereign Wealth Funds across the globe. These headwinds also shaped the Authority’s performance in the review year with operating income declining by 31% to ₦101.8 billion.

In the financial year ended 31 December 2022, several apex banks across the globe implemented policy rate hikes to curb inflationary pressures. This elicited an upward trajectory in the interest rate environment which largely buoyed NSIA’s interest income by 29.6% to ₦50.9 billion. Income from fixed deposits, Eurobonds and Open Market Operation bills received in swap arrangements were the major sources of interest earnings, contributing a combined 95.6%. Fixed-income securities have typically provided a sustainable and less volatile income stream for the Authority. In the near term, we expect interest income to expand further given the continued increases in policy rates in the United States and Nigeria which are major fixed-income markets for NSIA. In H1 2023, the Authority’s interest income rose year-on-year 47.4% to ₦37.3 billion, aligning with our expectation.

The Authority reported a significant dip in fair value gains on financial instruments by 93.3% to ₦3.7 billion, representing a lower 3.7% (FY 2021: 38.3%) of operating income in FY 2023. This material drop was elicited by valuation losses amounting to ₦30.3 billion recorded on private equity, hedge funds and long-only equity investments from a ₦27.8 billion gain in the prior year. With China ending its Zero-Covid-Policy, the inflation growth pace reducing across major markets, uncertainties surrounding the Russia-Ukraine war waning and some corporates displaying resilience, many indexes across the globe have improved their performance in H1 2023. As a result, NSIA’s Future Generations Fund was also up by 7.4% in H1 2023, better than the 3.9% dip in FY 2022. With these developments our outlook for the performance of the private equity, hedge funds and long-only equity portfolio is positive. However, we are cautiously optimistic given the high volatility in the global terrain.

Foreign exchange gains amounting to ₦38.5 billion was a major contributor to earnings in the review year, though 16% lower year-on-year given the slower 7.9% (FY 2021: 8.2%) naira depreciation in FY 2022. With the recent harmonisation of exchange rates in Nigeria and the attendant 42% depreciation of the naira at the official market, we believe exchange gains would be a significant propeller of performance in FY 2023.

**Figure 2: Breakdown of Gross Earnings (FY 2021 and 2022)**



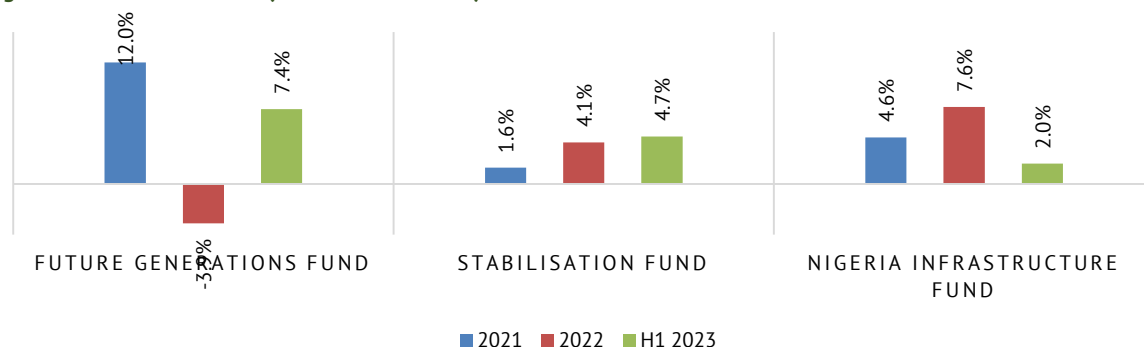
Given NSIA’s project and fund management expertise, the Authority manages several third-party infrastructure-related funds and co-investments including the US\$3 billion Presidential Infrastructure Development Fund, Presidential Fertiliser Initiative Fund and a 10 megawatts Kano Solar Project among others. The Authority earns fees for managing these funds in addition to recouping any related costs incurred on the projects. In the year under review, fiduciary income from external fund management rose by 62.6% to ₦6.8 billion given the enlarged size of the funds. The Authority aims to add more third-party managed funds to its portfolio in the near term to support the fiduciary income line.

In the year under review, the Authority’s operating expenses (OPEX) grew by 16.5% to ₦5.8 billion, buoyed by inflationary pressures. This, in addition to the lower operating income, elicited a growth in the cost-to-income (CIR) ratio to 5.7% from 3.4% in the prior year. Given the planned business growth amidst the inflationary regime, we anticipate higher OPEX in the near term. Nevertheless, the anticipated growth in operating income should moderate any attendant uptick in CIR.

NSIA’s pre-tax profits dipped by 32.7% to ₦96 billion during FY 2022, mainly due to the downturn in the global capital markets and the resulting valuation losses on some investments. Given that the investments under the FGF were the most susceptible to the slump in the capital market, the fund recorded ₦18.9 billion in losses in the review year. The NIF was the most profitable with a 76% jump in pre-tax profits to ₦101.6 billion partly due to higher FX and fair value gains on financial assets while the SF reported a 23.2% decline in profits to ₦13 billion mainly due to lower exchange gains. In the near term, we expect an improved performance from the Future Generations Fund as global capital markets rebound.

Assessing the performance of the funds in USD terms, the FGF returned negative 3.9% with developed markets long-only equity managers being the worst performing. While this return was lower than the long-term target performance of US CPI + 4% (10.5%) for the FGF, we take cognisance that dip in performance was slower than the S&P 500 index which was down by about -19% and NASDAQ Composite which returned -33% in FY 2022. In contrast, the Stabilisation Fund returned a better 4.1% (FY 2021: 1.6%) as yields improve, albeit lower than the 6.5% average US CPI recorded in 2022. The Nigeria Infrastructure Fund returned 7.6% (FY 2021: 4.6%) as progress is recorded on key projects while the yield environment upscales. Subsequent to the year-end, NSIA’s FGF was up by 7.4% in H1 2023 as the global capital markets rebounded. The SF and NIF also returned 4.7% and 2.0% respectively in the six months ended 30 June 2023.

**Figure 3: Fund Performance (FY 2021 – H1 2023)**



Overall, NSIA's pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) decreased to 9% (FY 2021: 13.6%) and 10.7% (FY 2021: 17.7%) respectively in FY 2022. This was better than Norway's SWF's which recorded negative ROA and ROE of -7.6% and -8.1% respectively. We consider NSIA's profitability to be acceptable for a sovereign wealth fund given the global headwinds and widespread dip in the capital market. With more clarity around the impact of the Russia-Ukraine war, the slowing growth pace in global inflation and China's ongoing recovery, the capital market performance in H1 2023 has been better relative to the corresponding period. The foregoing, in addition to exchange gains from the liberalisation of Nigeria's FX regime and elevated interest rate climate, should support an improvement in profitability for NSIA in FY 2023.

Subsequent to the year-end, according to the unaudited management accounts, the Authority recorded ₦792.9 billion pre-tax profits in H1 2023 from a ₦3 billion loss in the corresponding period in H1 2022 driven by foreign exchange and revaluation gains further supporting our position. Thus, annualised ROA and ROE surged to 106.1% and 113.2% respectively. In USD terms and discounting FX volatility impact, profitability also surged to US\$595.1 million from a US\$12.2 million loss position in the corresponding period in H1 2022. This translated to an annualised ROA and ROE of 48.1% and 51.7% respectively.

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## CAPITAL ADEQUACY AND LEVERAGE

NSIA is expected to maintain a strong capital base to retain the confidence of Nigerians and sustain future business developments. The Authority ensures that adequate capital is maintained through prudent portfolio management, stress testing and contingency planning. As at 31 December 2022, NSIA's shareholders' funds stood at ₦909.3 billion, a 10.6% year-on-year growth buoyed by the full retention of profit generated during the review year. As at the same date, the Authority's core (tier 1) capital comprising contributions by Nigerian governments and retained earnings funded accounted for 99.4% of the capital base and funded a significant 95.7% (FYE 2021: 74%) of total assets and future commitments. Thus, the NSIA's equity cushion was strong at 84% (FYE 2021: 77%).

Capital adequacy is monitored by NSIA using the adjusted net debt to adjusted equity ratio<sup>1</sup>. This ratio was good, standing at 4% (FYE 2021: 2%) as at FYE 2022. The Authority also uses debt to total assets or assets under management to monitor its leverage and maintains a maximum internal benchmark of 25%. NSIA had nil debt as at 31 December 2022. We consider NSIA's capital and leverage to be good for the current level of business risks undertaken. The Authority wants to exploit more market opportunities and is considering taking some leverage in its capital structure, albeit subject to the right conditions and pricing. Thus, NSIA has obtained approval from the Ministry of Finance to obtain up to \$750 million in debt funding from various sources including multilateral financial institutions and the debt market. Discussions with African Development Bank are ongoing for debt funding while debt issuances are also being considered. Nevertheless, none of this debt funding is expected to be injected before December 2023, thus, we expect leverage to remain minimal.

The Petroleum Industry Act signed in August 2021 introduced a price-based royalty of up to 10% on crude oil sales that would be credited to NSIA as equity. The management received a capital injection of \$45 million

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<sup>1</sup> Adjusted net debt is defined as total liabilities, comprising payables to counterparties and other obligations, less cash and cash equivalents while the shareholders' funds is used as the adjusted equity

from price-based royalties in H1 2023 and believes more capital will flow to the NSIA as more oil exporting companies fully adopt the PIA. We expect this to provide sustainable capital inflows to the Authority as more crude oil contracts are migrated to the PIA regime.

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## LIQUIDITY AND FUNDING

NSIA's activities are funded mainly through contributions from the shareholders, internally generated cash flows and funding from co-investors for infrastructural projects. The NSIA Act also provides for the allocation of any residual amount in the Federation Account to the Authority, although, inflows from this source have been minimal given the country's weak fiscal state. Notwithstanding, the new funding line created by the PIA and planned debt raising are earmarked as key funding sources for the Authority in the medium term. Given the Authority's developmental mandate and limited funding relative to the country's large infrastructural gap, NSIA also manages third-party funds in a bid to achieve its objective without necessarily deploying its capital to projects.

One of the key purposes of NSIA is to provide emergency funding for the Nigerian government in periods of distress. Thus, the Authority maintains a pool of liquid investment portfolios in addition to cash and bank balances to ensure it adequately meets its short-term obligations. As at 31 December 2022, the Authority's liquid assets amounted to ₦192.1 billion and covered future commitments (unfunded capital commitments with private equity managers for FY 2022) 10.3 times (FYE 2021: 16.5 times) which we consider to be very good.

We consider NSIA's liquidity profile and refinancing capacity to be good. In the near to medium term, we expect more diversification in the funding sources given the planned debt raise and the contributions mandated by the PIA.

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## ENVIRONMENT, SOCIAL AND GOVERNANCE

Since its inception, NSIA has focused on investing in impactful sectors with job creation potential and ripple effects on economic growth. In the last two years, the Authority has made efforts in expanding the pipelines of environmentally friendly and socially critical infrastructure projects while optimising existing investments. The Authority managed the construction of a 10MW solar power plant in the Challawa Industrial Area, Kano State on behalf of the FGN which is expected to provide a template for investments in renewable energy across the country. Investments in healthcare have also been a thrust with the launch of the NSIA LUTH Cancer Center, NSIA Umuahia Diagnostic Centre and NSIA Kano Diagnostic Center. An agriculture fund has also been instituted to support agricultural investments while gas industrialisation is being championed through the NSIA-OCP Multipurpose Industrial Platform Project in partnership with OCP Morocco. In April 2023, NSIA and Vitol, a multinational energy company completed a JV agreement to invest in carbon avoidance and removals projects and catalyse the creation of the domestic emissions trading scheme in Nigeria. An initial US\$50 million has been committed to the JV, with a view to attracting new investors as the partners develop the project pipeline. In executing all its infrastructural investments, NSIA assesses the environmental and social impact and has mapped its investments to the sustainable development goals (SDG). Overall, we believe NSIA has low

exposure to environmental risk but considers social risk to be moderate for developmental financial institutions which include sovereign wealth funds.

NSIA's third Board of Directors since inception was dissolved by the new administration in June 2023. Thus, the Authority currently operates without a Board, contradicting best practices with respect to governance. Nevertheless, the Executive Directors have remained onboard and continue to manage operations in line with existing policies and strategies authorised by the defunct Board. The Authority also has a documented internal policy that outlines decisions that can be made by management in the absence of a Board. Considering that the recommendation for NSIA Board member appointments by the President is made by Nigeria's Minister of Finance, a position that is still vacant as at 31 July 2023, we believe the Authority might operate without a Board for most of H2 2023.

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## OUTLOOK

NSIA aims to continue championing sustainable investments in infrastructure and intends to consolidate on previous success by investing US\$25 million in a renewable energy platform that would drive environment-friendly investments. The Authority has partnered with the International Finance Corporation in its journey to emphasise sustainable investments across the country and continues to seek co-investors for projects that would be climate-friendly. The Authority plans to develop new projects in agriculture, technology and entertainment amongst others while pushing existing investments such as the NSIA-OCP Morocco ammonia plant that was funded with US\$10.8 million in H1 2023 amongst others. To improve on its funds under management, the Authority is also seeking debt-raising opportunities in addition to the contribution introduced by the PIA. As some of the existing third-party managed funds such as the PIDF fund winds down, NSIA also plans to increase its third-party managed projects.

NSIA has sustained its cautious play in the global capital markets, introducing more short-dated fixed-income instruments. The Authority also maintains a waned appetite for equities in emerging markets while accentuating diversification in its investment portfolios to hedge against volatility. We believe this move would uphold the NSIA's good asset quality in the near term. With respect to performance, our outlook is more optimistic, given the rebound that has been witnessed in the capital markets, albeit still volatile. Our expectation that the Authority's net FCY financial asset position would elicit material foreign exchange gains following the harmonisation of the domestic currency also supports our outlook on profitability. Finally, we believe direct allocation of price-based royalties mandated by the PIA should provide sustainable equity inflows and sustain the Authority's good capitalisation. On this basis, we hereby attach a **stable** outlook to the rating of Nigeria Sovereign Investment Authority.

## FINANCIAL SUMMARY

NIGERIA SOVEREIGN INVESTMENT AUTHORITY						
<u>STATEMENT OF FINANCIAL POSITION AS AT</u>	<u>31-Dec-20</u>		<u>31-Dec-21</u>		<u>31-Dec-22</u>	
	₦'million		₦'million		₦'million	
<b>ASSETS</b>						
Cash & Equivalents	135,576	14%	264,454	22%	13,203	1%
Placements	80,302	8%	83,599	7%	113,606	11%
Government securities & Eurobonds	22,002	2%	31,543	3%	65,278	6%
<b>CASH &amp; MARKETABLE SECURITIES</b>	<b>237,880</b>	<b>25%</b>	<b>379,595</b>	<b>31%</b>	<b>192,087</b>	<b>18%</b>
<b>Gross Loans Disbursed</b>	<b>3,244</b>	<b>0%</b>	<b>17,012</b>	<b>1%</b>	<b>23,742</b>	<b>2%</b>
Less: Cumulative loan loss provision	-		(162)	0%	(382)	0%
<b>TOTAL LOANS &amp; ADVANCES - NET</b>	<b>3,244</b>	<b>0%</b>	<b>16,851</b>	<b>1%</b>	<b>23,360</b>	<b>2%</b>
<b>Ordinary Equity Investments(Net)</b>	<b>5,638</b>	<b>1%</b>	<b>3,949</b>	<b>0%</b>	<b>4,226</b>	<b>0%</b>
Hedge Funds and PE investments	183,604	19%	276,284	23%	246,718	24%
<b>OTHER EARNING ASSETS</b>	<b>450,992</b>	<b>48%</b>	<b>425,572</b>	<b>35%</b>	<b>443,762</b>	<b>43%</b>
<b>TOTAL OTHER ASSETS</b>	<b>218,908</b>	<b>23%</b>	<b>362,354</b>	<b>30%</b>	<b>352,813</b>	<b>34%</b>
<b>TOTAL OTHER LONG-TERM ASSETS</b>	<b>11,511</b>	<b>1%</b>	<b>12,287</b>	<b>1%</b>	<b>12,287</b>	<b>1%</b>
<b>TOTAL FIXED ASSETS &amp; INTANGIBLES</b>	<b>610</b>	<b>0%</b>	<b>672</b>	<b>0%</b>	<b>995</b>	<b>0%</b>
<b>TOTAL ASSETS</b>	<b>923,144</b>	<b>98%</b>	<b>1,197,331</b>	<b>98%</b>	<b>1,025,305</b>	<b>98%</b>
<b>Unfunded Capital Commitments with PE Managers</b>	<b>21,780</b>	<b>2%</b>	<b>23,040</b>	<b>2%</b>	<b>18,743</b>	<b>2%</b>
<b>TOTAL ASSETS &amp; COMMITMENTS</b>	<b>944,924</b>	<b>100%</b>	<b>1,220,370</b>	<b>100%</b>	<b>1,044,048</b>	<b>100%</b>
<b>CAPITAL &amp; LIABILITIES</b>						
<b>TIER 1 CAPITAL (CORE CAPITAL)</b>	<b>761,000</b>	<b>81%</b>	<b>903,612</b>	<b>74%</b>	<b>999,585</b>	<b>96%</b>
SHORT TERM BORROWINGS	-		-		-	
LONG TERM BORROWINGS	-		-		-	
TOTAL INTEREST BEARING LIABILITIES	-		-		-	
<b>TIER 2 CAPITAL</b>	<b>5,368</b>	<b>1%</b>	<b>5,709</b>	<b>0%</b>	<b>5,986</b>	<b>1%</b>
<b>TOTAL OTHER LIABILITIES</b>	<b>156,776</b>	<b>17%</b>	<b>288,010</b>	<b>24%</b>	<b>19,734</b>	<b>2%</b>
<b>TOTAL CAPITAL &amp; LIABILITIES</b>	<b>923,144</b>	<b>98%</b>	<b>1,197,331</b>	<b>98%</b>	<b>1,025,305</b>	<b>98%</b>
<b>TOTAL COMMITMENTS</b>	<b>21,780</b>	<b>2%</b>	<b>23,040</b>	<b>2%</b>	<b>18,743</b>	<b>2%</b>
<b>TOTAL CAPITAL, LIABILITIES &amp; COMMITMENTS</b>	<b>944,924</b>	<b>100%</b>	<b>1,220,370</b>	<b>100%</b>	<b>1,044,048</b>	<b>100%</b>



<b>NIGERIA SOVEREIGN INVESTMENT AUTHORITY</b>						
<b>INCOME STATEMENT FOR THE YEAR ENDED</b>						
	<b>31-Dec-20</b>		<b>31-Dec-21</b>		<b>31-Dec-22</b>	
	<b>₦million</b>		<b>₦million</b>		<b>₦million</b>	
Interest income	49,021	78%	39,300	38%	50,917	42%
Interest expense	(2)		(3)	0%		0%
<b>NET INTEREST REVENUE</b>	<b>49,019</b>	<b>78%</b>	<b>39,297</b>	<b>38%</b>	<b>50,917</b>	<b>42%</b>
Investment income	4,455	6%	3,353	3%	4,144	4%
Fees and other income	111,717	73%	105,281	102%	47,760	97%
Loan loss expense	(1,106)	-2%	(342)	0%	(1,049)	-1%
<b>OPERATING INCOME</b>	<b>164,084</b>	<b>155%</b>	<b>147,589</b>	<b>143%</b>	<b>101,772</b>	<b>142%</b>
STAFF COSTS	(2,183)	-4%	(2,654)	-3%	(2,479)	-2%
DEPRECIATION EXPENSE	(244)	-1%	(304)	0%	(374)	0%
OTHER OPERATING EXPENSES	(2,220)	-4%	(2,019)	-2%	(2,946)	-2%
<b>OPERATING EXPENSES</b>	<b>(4,648)</b>	<b>-9%</b>	<b>(4,976)</b>	<b>-5%</b>	<b>(5,799)</b>	<b>-4%</b>
<b>PROFIT BEFORE TAX</b>	<b>159,437</b>	<b>146%</b>	<b>142,612</b>	<b>138%</b>	<b>95,973</b>	<b>138%</b>

<b>NIGERIA SOVEREIGN INVESTMENT AUTHORITY</b>			
<b>KEY RATIOS</b>	<b>31-Dec-20</b>	<b>31-Dec-21</b>	<b>31-Dec-22</b>
<b>PROFITABILITY RATIOS</b>			
Return on earning assets (average)	40.8%	22.8%	16.5%
Return on average assets	21.3%	13.6%	9.0%
Return on average equity	24.7%	17.7%	10.7%
Loan loss expense/Interest income	2.3%	0.9%	2.1%
Operating expenses/Net earnings	2.8%	3.4%	5.7%
<b>LIQUIDITY RATIOS</b>			
Liquid assets/Future commitments	1092%	1648%	1025%
Liquid assets/total debt	100%	100%	100%
Liquid assets/Long term debts	100%	100%	100%
Liquid assets/total liabilities	152%	132%	973%
Liquid assets/total assets	25%	31%	18%
<b>CAPITAL ADEQUACY</b>			
Core Capital	760,879	903,527	999,535
Tier 2	5,368	5,709	5,986
Equity Cushion	86%	77%	84%
Outstanding loans + Net equity investments + Net Guarantees/Realizable Capital	57%	76%	65%
<b>LEVERAGE RATIOS</b>			
Debt/Equity	21%	32%	2%
Gross debt (net of liquid assets)/core capital	-31%	-42%	-19%
Gross debt (net of liquid assets)/Realizable capital	-31%	-42%	-19%
<b>STAFF INFORMATION</b>			
Average number of employees	47	57	62
Staff cost per employee (N'million)	46	47	40
Operating Income per staff (N'million)	3,491	2,589	1,641
Staff cost/Operating income	1.3%	1.8%	2.4%
Staff costs/Operating expenses	47.0%	53.3%	42.7%

## RATING DEFINITIONS

Aaa	A Government-backed institution of the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other GBIs in the same country.
Aa	A Government-backed institution of very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other GBIs in the same country.
A	A Government-backed institution of good financial condition and strong capacity to meet its obligations relative to all other GBIs in the same country.
Bbb	A Government-backed institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other GBIs in the same country.
Bb	A Government-backed institution with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other GBIs in the same country.
B	A Government-backed institution with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other GBIs in the same country.
C	A Government-backed institution with very weak financial condition and very weak capacity to meet obligations as and when they fall due relative to all other GBIs in the same country.
D	In default.

**A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.**

## ESG CREDIT RATING CONTRIBUTION SCORE GUIDE

1	Environmental, Social and Governance issues do not contribute to credit risk
2	Environmental, Social and Governance issues have minimal contribution to credit risk
3	Environmental, Social and Governance issues have a material contribution to credit risk
4	Environmental, Social and Governance issues contribute significantly to credit risk
5	Environmental, Social and Governance issues are major contributor to credit risk





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