



## **NIGERIA INFRASTRUCTURE FUND**

### **INVESTMENT POLICY STATEMENT AS APPROVED MARCH 2021**

#### **1. Introduction**

This Investment Policy Statement (“IPS”) is issued by the Board of Directors (the “Board”) of the Nigeria Sovereign Investment Authority (“NSIA”). It provides a framework for management of the Nigeria Infrastructure Fund (“NIF” or “the Fund”). The IPS sets out to identify the NIF’s investment objectives, risk tolerance and constraints. It establishes a structure of guidelines and policies within which the executive management can exercise their delegated authority and against which recommendations to the Direct Investments Committee and Board can be judged. The IPS is designed to be a strategic document and remains in effect unless it is revised by the Board. Specific investment policies pertaining to diversification, benchmarks and allowable ranges are set out in Section 9 below. The Fund will invest in infrastructure projects in sectors which have the potential to contribute to the growth and diversification of the Nigerian economy, create jobs within Nigeria and where possible attract foreign investment.

#### **2. Purpose and Background of the Fund**

2.1. The NSIA is established by the Nigeria Sovereign Investment Authority Act (the “Act”), which also specifies its powers, legal characteristics and policy objectives. One of NSIA’s objectives is to enhance the development of the Nigerian infrastructure sector. Nigeria faces a significant infrastructure gap, which has potential to inhibit Nigeria’s ability to fulfill its economic growth potential. The Act provides for the establishment and management of an infrastructure fund by NSIA.

2.2 The Nigeria Infrastructure Fund (“Fund”) is one of the three funds of NSIA. The Fund seeks to make a positive financial return on its investments in the infrastructure sector in Nigeria. It also aims to attract and support foreign investment and enable growth.

#### **3. Investment Objectives**

##### **3.1. Time Horizon**

The Fund shall be invested for the long term, which is understood to mean an investment horizon of not more than 20 years through multiple economic and market cycles, and in recognition of the long-term nature of infrastructure investments. It shall be understood that



during the ‘founding phase’ of the NSIA, and for the first five years of the Fund it may be required to incur significant capital and operating expenditures before realizing a return of capital or income returns from the projects in which it invests. Greenfield projects in particular may not generate revenue from commercial operations for many years after initial investment, and in situations where NSIA is investing equity only, return on equity may be deferred until after debt has been fully or partially serviced.

### **3.2. Base Currency**

Fund accounts and fund reports shall be produced in both Naira and U.S. dollars.

### **3.3. Return Target**

3.3.1. Given NSIA’s overall objective of preserving and growing purchasing power in U.S. dollar terms over the longer term the Fund shall, subject to the other provisions of this policy, aim to deliver a U.S. dollar return in excess of US inflation. To further allow for growth in the Nigerian population and its wealth, together with the natural obligation to maximize the returns on behalf of the Nigerian people, the Fund shall target for each project it invests in, an excess return over inflation consistent with reasonable expectations from a diversified portfolio of risk assets. This is presently defined as U.S. inflation (CPI) as measured by the U.S. Bureau of Labor Statistics plus 3.0%. This return target will exclude Development Projects (as defined below), uncommitted funds and unfunded commitments and returns generated from investments made pending investment in infrastructure projects in accordance with Section 5 below.

3.3.2. The long-term real return target described above is not likely to be achieved over the short-term given the long-term nature of infrastructure investments, the length of development and construction periods, deferral of return on equity under project financing terms, and the relatively small number of investments to be made by the Fund and their relatively illiquid nature. The Fund shall be judged taking into account the Policy Objectives set out in Section 4 below.

### **3.4. Investment Principles**

The NSIA maintains a flexible investment approach informed by the following general principles:

3.4.1. Diversification is an important tool of risk management and can mitigate the volatility and uncertainty inherent in substantial exposure to risk assets and as such, the Fund will seek



to be diversified.

- 3.4.2. Careful analysis of valuation will be undertaken for each project on a consistent basis, such that the investment strategy may seek to reduce downside risk and enhance return. NSIA will develop a standard project model for use in the evaluation and development of each project and will base investment decisions on valuations reached on discounted cash flows. The maintenance of project models will be the responsibility of individual investment officers under the oversight of the Chief Investment Officer, and the valuation of material assets will be reviewed at least annually by the Direct Investments Committee.
- 3.4.3. NSIA may use leverage as appropriate either by borrowing or otherwise incurring indebtedness itself, or through its subsidiaries including project finance debt at the project companies in which it ultimately invests, as approved on a project-by-project basis by the Direct Investments Committee with written approval by the Direct Investments Committee.
- 3.4.4. NSIA is established as a body corporate, and as a separate legal person independent from, but owned by the Federal Republic of Nigeria. The Act also provides for the independence of the NSIA in the discharge of its functions and specifies that it is not subject to the direction or control of any other person or authority.
- 3.4.5. The returns of a long-term portfolio can be undermined if the Fund becomes a forced seller of risk assets at an inopportune time in order to meet cash obligations, and policy will be designed to avoid this.
- 3.4.6. Markets are not always efficiently priced, which gives rise to investment opportunities. The Fund may pursue opportunities directly by itself, or through a manager selected by it. Given its long-term investment horizon, the Fund can maintain the dual objective of realizing a commercial return and investing in infrastructure which might otherwise not be financed and developed.
- 3.4.7. For the purpose of assessing the pricing of debt investments for projects to be undertaken by the Authority, reliance shall be placed on the NSIA Approved Pricing Manual as shall be applicable as at the date of the execution of the project Investment Agreements.



3.4.8 The Fund aspires to best practice environmental, social and governance standards in its investments on the basis of generally accepted international principles and standards.

### **3.5. Asset Allocation**

The asset allocation policy should reflect a proper balance between the NIF's financial and investment objectives, risk tolerance and need for liquidity. The NIF will avoid concentration risk but ensure that resources are efficiently deployed and that NSIA can deploy a meaningful investment amount per project to maintain influence and in some cases a controlling interest. The NIF's investments shall be diversified by infrastructure sector. The purpose of diversification is to provide reasonable assurance that no Project or manager, regional, political or economic events or circumstances, or infrastructure sector will have a disproportionate impact on the NIF's aggregate results and to ensure a more even spread of the benefit of the investment capital available to the NIF. The NIF will not commit more than 25% of the NIF's total assets to any one project . The NIF shall also not commit more than 35% of its total assets to any one infrastructure sector in Nigeria. The management team shall be prudent in risk management to ensure reasonable diversification within sectors.

### **3.6. Recycling**

NSIA may, subject to the provisions of this policy and the Act, reinvest all realised proceeds and dividends from and interest on portfolio investments of the Fund in new or existing assets of the Fund

### **3.7. Project Sponsor**

If NSIA considers it appropriate to fulfill the objectives and other provisions set out in this policy and has the necessary resource available, it may take on the role of project sponsor and developer as well as investor.

## **4. Policy Objectives**

### **4.1. Sectors**

The Fund will invest infrastructure projects in sectors which have the potential to contribute to the growth and diversification of the Nigerian economy, create jobs within Nigeria and where possible attract enhanced foreign investment including but not limited to power generation, distribution and transmission, healthcare, residential, commercial and industrial real estate assets, technology and communications infrastructure, aviation assets, agriculture, dams, water and sewage treatment and delivery, roads, port, and rail as well as other sectors that will enable the



development of private investments in infrastructure in Nigeria.

#### **4.1.1 Sectors of Focus/Sectors of Interest**

1. NSIA shall delineate sectors for its investments. The delineation shall be into two categories - Sectors of Focus and Sectors of Interest.
2. The Committee shall, following its receipt and consideration of a proposal in that regard by Management, recommend the designation of sectors into either category, to the Board for approval
3. For Projects designated as Sectors of Focus, the NSIA shall have the option to do all or any of the following: act as project sponsor, undertake project development, invest or coinvest upon conclusion of satisfactory due diligence and negotiation of terms favourable to the interest of the NSIA.
4. For Sectors of Interest however, NSIA shall not sponsor or undertake project development and shall only invest or coinvest upon conclusion of satisfactory due diligence and negotiation of terms favourable to the interest of the NSIA.
5. The Board may waive the conditions attached to either Sectors of Interest or Sectors of Focus for specific projects, where it considers that the prevailing circumstances, terms and conditions justify such a waiver; especially in relation to projects sponsored by the Federal or State Governments, Ministries, Departments and Agencies.

#### **4.2. Tenor**

The development and financing of the infrastructure sector has suffered from a lack of sufficiently long tenors in bank lending. Infrastructure financing in the Nigerian banking sector does not generally exceed 7 years, with rare exceptions of 12-15 years. Pension funds, which would normally seek long-term yielding instruments are constrained by prudent norms and tend to focus on alternative investments with lower associated risk such as sovereign debt. These constraints do not inhibit the Fund, which is willing to finance on tenors more appropriate to the needs of infrastructure.

#### **4.3. Market Liquidity**

Through the development and financing of infrastructure projects, NSIA seeks to help build the asset class and market liquidity and attract other investors to Nigerian infrastructure. In order



to facilitate further investment in and divestment of interests in projects in which it invests, NSIA will establish intermediate holding vehicles with a view to attracting other forms of international and domestic capital.

#### **4.4. Federal Ministries and Agencies and State Governments**

The Fund seeks to invest in a manner which is coordinated to the extent feasible with, and is technically consistent with, the infrastructure priorities and plans developed by the appropriate ministries and agencies. The Act requires NSIA to review and analyze against the criteria of financial return (specified elsewhere in this policy), all written proposals of the Federal Government, and any State or Local Government submitted to NSIA. As required by the Act, NSIA will issue appropriately detailed parameters and procedures for the submission of proposals and establish effective relationships with key line ministries and other government bodies including PPP Units within line ministries.

#### **4.5. National Economic Interest**

Due Process - All proposals for investment in infrastructure will be evaluated by the Fund on a consistent, objective, fair and transparent basis. No potential partner, sponsor or proposer will be shown undue favor or preference in evaluation of proposals. In accordance with the Act potential investments shall be evaluated at least as strictly as international investments, and the broad, risk-weighted potential benefits to Nigeria as a whole shall prevail over more focused local or regional priorities.

#### **4.6 Capacity Building**

The NSIA is a body corporate wholly owned by the Federal Republic of Nigeria and is staffed by investment professionals drawn predominantly from international financial services sector. In combination, NSIA aims to help enable the government realise its vision of infrastructure development and PPP projects in the following ways:

- 4.6.1. Use these characteristics to attract broader participation in Nigerian Infrastructure projects.
- 4.6.2. Catalyze further international investment and world class development and financing skills.
- 4.6.3. Develop its own resources and skills in this area including technical transaction support capacity.



4.6.4. Participate in and help improve technical pre-qualification processes and concessioning.

4.6.5. Improve capacity and project structuring skills and experience among local sponsors and other key participants.

#### **4.7. Demonstration Effect**

NSIA recognizes the powerful and positive effect the successful development of infrastructure projects in Nigeria will have in encouraging other parties to participate in the Infrastructure sector. NSIA will take this into account when evaluating project opportunities and making investment decisions for the Fund.

#### **4.8 Restriction on Guarantees**

In accordance with the Act NSIA shall not provide any guarantee or surety, whether of payment or of performance, to or on behalf of the interest, rights or obligations of any person, company or entity involved or participating in or related to an infrastructure project, other than a wholly-owned subsidiary or affiliate of NSIA.

### **5. Funds Pending Investment**

Pending investment in infrastructure projects in accordance with this policy, the Fund may make short-term or medium-term investments with unspent funds as approved by the Direct Investments Committee on the recommendation of the executive management.

### **6. Five Year Plan**

In accordance with the Act, NSIA shall each year develop a rolling five-year investment plan for the Fund pursuant to such strategies, regulations, policies and guidelines as it may determine from time to time to be most effective to achieve the objective of supporting, through investment predicated upon financial returns to NSIA, the development in Nigeria of basic, essential and efficient infrastructure such as power generation, distribution and transmission, healthcare, tourism and leisure infrastructure, real estate, technology and communications infrastructure, aviation assets, agriculture, dams, water and sewage treatment and delivery, roads, port, and rail in order to stimulate the growth and diversification of the Nigerian economy, attract enhanced foreign investment and create jobs for Nigerians.

### **7. Intermediaries and Resourcing**

#### **7.1. Joint Ventures and Co-investments**



NSIA is empowered under the Act to enter into transactions either independently or in conjunction with other entities. Where the Board considers it desirable to do so in order to fulfill the mandate set out in this policy, and to enhance or preserve the effectiveness of NSIA, it shall be able to make strategic co-investments with other developers, constructors, operators and investors in the infrastructure sector, to make investments in such companies or organisations or to enter into joint ventures on terms which it considers appropriate. The performance of any such co-investments, investments or joint ventures shall be subject to the benchmarks set out below.

## **7.2. Third Party Managers**

NSIA has the discretion to select intermediaries and independent managers to evaluate investment decisions on its behalf and to invest NSIA's funds under documented arrangements provided that no more than 50% of the Fund's assets shall be committed to intermediaries or investment managers. Where a commitment is made to a manager:

- 7.2.1. **Manager Guidelines.** The guidelines for infrastructure assets (equity and debt) in the Fund will be set by each manager within the scope of the investment guidelines agreed with the Fund on which an investment commitment is based. These guidelines are to be approved by the Direct Investments Committee prior to commitment being made and will be consistent with the provisions of this Policy and the Act.
- 7.2.2. **Project Selection.** Decisions as to individual project selection and the number of investments are left to broad manager discretion, subject to the manager's specific investment guidelines and the usual standards of fiduciary prudence.
- 7.2.3. **Performance Benchmarks.** Each manager is measured, and relative success determined, against the specific and appropriate benchmark suitable for the investment policy agreed with each particular manager.
- 7.2.4. **Manager Concentration.** The purpose of diversification by manager is to provide reasonable assurance that no manager could have a disproportionate negative impact on the NIF's aggregate results and the NIF would not constitute a disproportionately large percentage of the Manager's fund. Therefore, exposure to a single fund will be limited to 10% of that fund's assets, and exposure to a single investment manager will be limited to 20% of NIF assets.

## **7.3. Advisors and Consultants**





While NSIA will aim to develop appropriate in-house capabilities over time, it shall in the interim be able to utilise any sector and engineering advisors or professionals as it may deem advisable to ensure the viability of each potential infrastructure investment.

#### **7.4. Project Evaluation and Development Budget**

NSIA may incur expenditure on:

- 7.4.1. Preparatory due-diligence and evaluation up to an amount of US\$100,000 per transaction or such higher amount approved by the Board upon the recommendation of the Direct Investments Committee. However, in the event that NSIA is not the sponsor of the project, the project sponsor will be liable to reimburse NSIA for any amount expended on the project as due diligence cost. In the situation, NSIA is a co-sponsor, NSIA would pay its prorata share of the due diligence cost.
- 7.4.2. The evaluation and development of investments and projects in the Nigerian Infrastructure Sector in aggregate of up to an amount which is 1.5% of the total funds allocated for investment in the Nigerian infrastructure sector from time to time.

### **8. Social Infrastructure**

#### **8.1. Development Projects**

- 8.1.1. In accordance with the Act and subject to Section 8.2 below, NSIA may invest up to a maximum of ten per cent of the Fund available for investment in any fiscal year in social infrastructure projects which promote economic development in underserved sectors or regions in Nigeria that may present less favourable economic return potential (“Development Projects”). Funds deployed in accordance with this provision may be exempted from the performance benchmarks set out in Section 9 below. NSIA shall accordingly a) make such rules, procedures and regulations as it deems necessary in respect of the submission and evaluation parameters for Development Projects; and b) evaluate the economic returns and summarise the non-financial social welfare enhancing attributes of each Development Project. The Fund will, however, seek a return of capital for all invested funds.
- 8.1.2. The Act allows for the fact that such investments may present less favourable economic return potential. When assessing Development Projects therefore, NSIA will adjust financial return criteria to the extent indicated by the provisions of the NSIA Act but will apply return criteria taking into account the social nature of the Development Project and the provisions of the NSIA Act. The hurdle return applied will be based on a project specific return target adjusted for return characteristics, project uncertainty and leverage.



8.1.3. When considering such proposals NSIA will, in addition, consider metrics and criteria reflecting the potential of the social infrastructure project being proposed to promote economic development in underserved sectors or regions in Nigeria, and will draw on indicators developed by the Global Impact Investing Network and recorded in its framework Impact Reporting and Investment Standards (IRIS) ([www.thegiin.org/cgi-bin/iowa/reporting](http://www.thegiin.org/cgi-bin/iowa/reporting)) which are considered appropriate by NSIA in light of the nature of the project.

**8.2. Committee of the National Economic Council**

All potential Development Projects identified by and supported by NSIA shall be submitted to a committee set up for this purpose by the National Economic Council who shall decide whether NSIA may invest in such Development Project.

**9. Key Performance Indicators and Monitoring**

One of the purposes of maintaining key performance indicators (“KPIs”) is to enable monitoring and evaluation of the success of investment strategies or managers in meeting both the return objectives and risk guidelines of the Fund. They are set out in the table below.

<b>KPI</b>	<b>What?</b>	<b>Why?</b>	<b>Forum</b>	<b>Horizon?</b>
Long-term return Benchmark <sup>1</sup>	The Fund’s long-term return target on a project basis, as defined in Section 3.3.1, for example US CPI + 3% excluding Development Projects, uncommitted funds, and returns generated from investments made pending investment in infrastructure projects	This is the ultimate gauge of the Fund’s long-term success in growing real purchasing power.	Board	Periods of not more than 20 years, reflecting the long-term nature of infrastructure, periods of development and construction.
Allocation	The Fund’s chosen allocation between different infrastructure sectors.	Diversification of risk and contribution towards the development of a number of different infrastructure sectors.	Direct Investments Committee	Rolling five-year periods to reflect the objectives set out in NSIA’s Five Year Plan.



Project Development	The successful development and operation of projects in which NSIA is invested.	This will determine NSIA's success in achieving both its Investment Objectives and its Policy Objectives.	Direct Investments Committee	Periods of at least 5 years, given the long development lead time in infrastructure.
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<sup>1</sup> To be read subject to Section 4.4.2.

Project Development Milestones	Realistic milestones will be set by NSIA for the development of projects by the Fund.	Approximately one-third of NSIA's assets have been allocated for initial capital investment by the Fund. Subsequent contribution to the Fund will be reviewed by the Board from time-to-time and may be increased or decreased with reference to the pipeline of projects which exists and their potential deployment timetable. By spreading development activity over time, the Fund might mitigate risk, and more efficiently use the resources at its disposal.	Board	Aim to achieve full investment of Funds within ten years, provided appropriate investment opportunities exist.
Additionality	The successful financing of projects which otherwise may not have happened without NSIA's involvement.	The track record of infrastructure projects through private or PPP solutions has been poor. The Fund has been established in part to address this and additionality underpins the Investment Objectives.	Board	Rolling periods
Development/Social Investment	Investment of up to 10% of the Fund's capital in social infrastructure projects.	As provided for in Article 41(5) of the Act.	Direct Investments Committee	Ten years or the date upon which the Fund has been at least 80% invested, whichever is earlier.



Liquidity	Return of capital investment within a reasonable timeframe, with a guideline target of ten years where possible.	This is good investment practice and requires particular focus in the infrastructure sector.	Board	Ten years is aspirational. Given the nature of infrastructure investment, the long-term nature of concessions, NSIA's other policy mandates and
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## 10. Review and Revision of this Investment Policy Statement

The Investment Committee shall propose to the Board periodic changes to the NIF Investment Policy Statement and associated annexes if necessary. In any event, the NIF Investment Policy Statement shall be re-confirmed annually by the Direct Investments Committee and the Board.

