



## **INFRASTRUCTURE FUND INVESTMENT POLICY STATEMENT AS APPROVED ON APRIL 6, 2019**

### **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. The IPS sets out to identify the Infrastructure Fund’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 (DIC) 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**

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.

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 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 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 5.0%. This return target will exclude Development Projects (as defined below), uncommitted funds, 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 cannot 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 periodically by the DIC.

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 DIC.

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. 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 Fund's financial and investment objectives, risk tolerance and need for liquidity. The Fund 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 Fund'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 Fund's aggregate results and to ensure a more even spread of the benefit of the investment capital available to the Fund. The Fund will not commit more than 25% of the Fund's total assets to any one project or manager. The Fund 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.

### **4.2. 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 the international private financial services sector. In combination NSIA aims to help enable the government realize 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 DIC 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 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 DIC 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 Fund's aggregate results. Therefore, exposure to a single fund will be limited to 10% of Fund assets, and exposure to a single investment manager will be limited to 20% of Fund 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 30,000 per transaction or such higher amount approved by the Executive Committee.

7.4.2. The evaluation and development of investments and projects in the Nigerian infrastructure sector in aggregate 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.

KPI	What?	Why?	Forum	Horizon?
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 +5% 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 at least ten years and preferably 15 or more 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	DIC	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.	DIC	Periods of at least 5 years, given the long development lead time in infrastructure.

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 development 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	DIC	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 contractual transfer restrictions, this may have to be extended on a case-by-case basis.
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<sup>1</sup> To be read subject to Section 4.4.2.

## **10. Review and Revision of this Investment Policy Statement**

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