



## STABILISATION FUND

### INVESTMENT POLICY STATEMENT AS APPROVED ON APRIL 16, 2018

#### **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 Stabilisation Fund (“Fund”). The IPS sets out to identify the Fund’s investment objectives and constraints. It establishes a structure of guidelines and policies within which the Fund’s Executive Management can exercise their delegated authority and against which recommendations to the Board Externally Managed Investments Committee (EMIC) can be judged. The IPS is designed to be a strategic document and remains in effect unless revisions are agreed by the EMIC and subsequently ratified by the Board.

#### **2. Purpose and Background Of The Fund**

The Stabilisation Fund is intended to help increase the credibility of the Federal Republic of Nigeria’s macro-economic framework and to act as a buffer against short term macro-economic instability. As such, the Fund’s assets should be invested conservatively, striking a balance between risk and return.

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

##### **3.1. Duration**

For the reasons explained in Paragraph 2, the time horizon of the Fund is short. Consequently, the Fund in aggregate is restricted to having an average duration of no more than 3 years over any given 12 month period.

##### **3.2. Base Currency**

The base currency in which the Fund shall be denominated is the US dollar.

##### **3.3. Risk Tolerance**

Given the time horizon and return target already described, the principal risk to the Fund is losing money in nominal terms and being forced to sell assets at depressed prices.

##### **3.4. Return Target**

- 3.4.1. The Fund’s primary objective is to preserve capital in nominal terms while generating income. The Fund should seek to earn a nominal return, provided that earning such a return does not materially jeopardise the Fund’s ability to achieve its capital preservation objective. The Fund also has the flexibility to invest in active multi-disciplinary strategies.



3.4.2. To facilitate performance monitoring, the Fund's performance shall be judged against a Strategic Benchmark. This Strategic Benchmark shall be a composite of fixed income components.

### **3.5. Asset Allocation**

3.5.1. To achieve its investment objectives, the Fund shall be invested in a combination of *Hedge Assets*, such as US government debt, and *Growth Assets*, such as corporate debt, cash and/or derivatives, as the manager deems appropriate.

3.5.2. The portfolio shall be diversified in order to reduce concentration. The purpose of diversification is to provide reasonable assurance that no one fund can have a disproportionate exposure to the Fund's assets that may adversely impact the aggregate results of the Fund or impede its liquidity. Such diversification can be achieved through the employment of different strategies and the selection of different managers.

## **4. Restrictions**

### **4.1. Acceptable Investments**

A wide range of instruments is acceptable, such as global sovereign and corporate debt, and credit focused debt, as well as cash. The average minimum credit quality is targeted at "A" over a 12 month period. Managers may strategically utilize currency and instruments such as options, futures, and forwards.

### **4.2. Manager Concentration**

In order to minimize concentration risk, the Fund shall not invest more than 40% of the portfolio in any one fund or manager. Also, investment by the Fund in any particular fund shall not constitute more than 5% of a particular fund's assets.

## **5. Benchmarking and Monitoring**

5.1. The purpose of benchmarking is to enable monitoring of the success of investment strategies or managers in meeting both the return objectives and risk guidelines of the Fund.

5.2. The Strategic Benchmark shall be documented in Annex A to this IPS.

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

The EMIC 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.