"The Buy-Side – A Reality Check"

Kayode Akinkugbe

CEO, FBN Capital Limited

14 March 2013

Why the Buy-side as a topic?

- This segment of the financial community will define the future of investment banking in Nigeria

- Revenue/earnings of the 12 largest investment banks in the world:
  - In 2011, 79% of revenues came from sales & trading activities

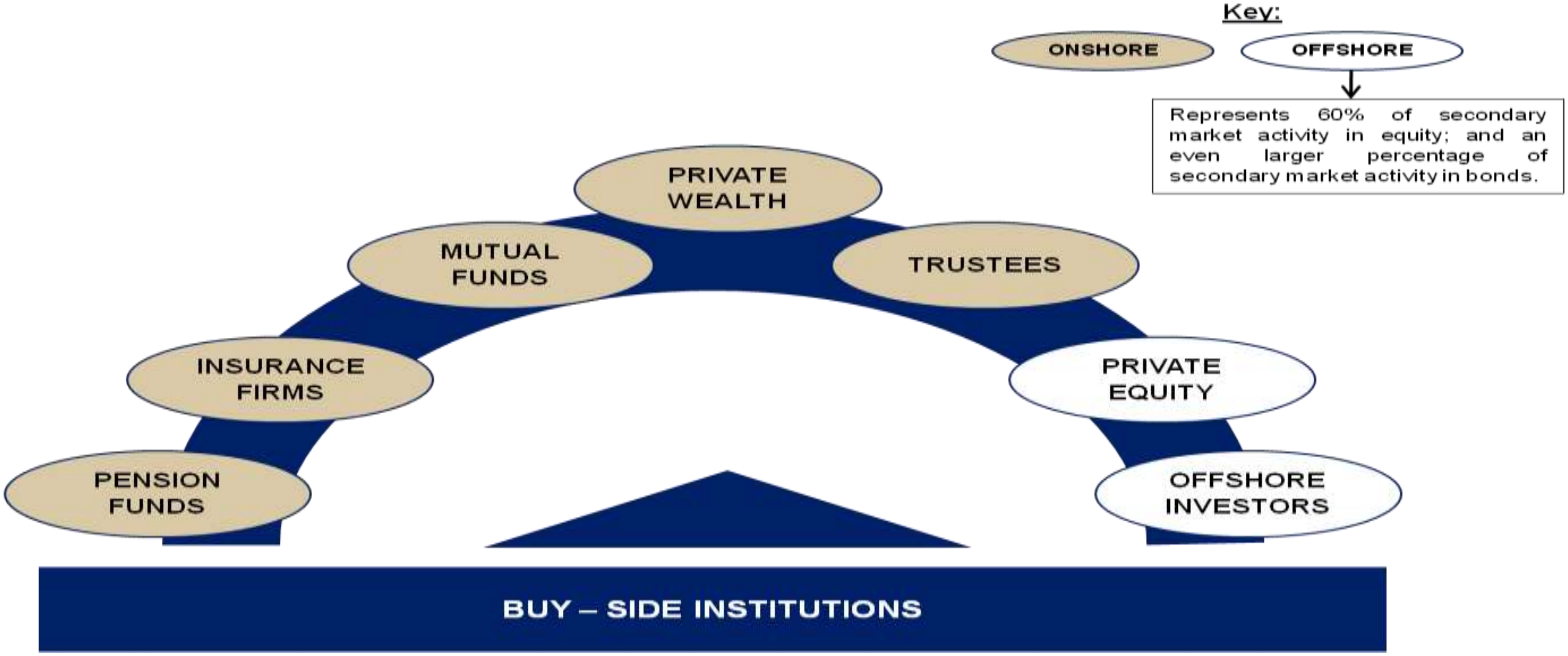
Category	2006	2011
Investment Banking	44	35
FICC	103	83
Equities	61	45

- Largest portion of revenues comes from financial institutions, as opposed to corporate or governments

- The counterparties on the other side of sales & trading activities, and the financial institutions referred to, are to a large extent **the buy side community**

The Buy-side in Nigeria, who are they?

- Banks control over 50% of the financial assets in the economy
- Government agencies (CBN in particular) also represent a tangible portion
- However the focus of this presentation is on the entities identified below, and the onshore market



The Non-Bank financial community, what do they manage?

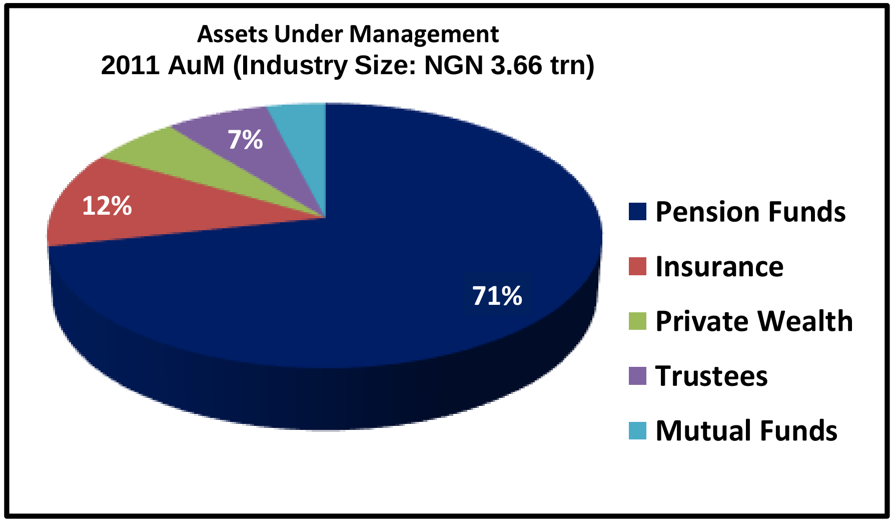
- Total AuM is c. N3.7 trillion
- As is the case in developed markets the pension fund sector represents the largest segment
- Mutual funds and other types of collective investment schemes represent a significant segment in developed markets

Asset under Management in the UK
(Year 2008 to 2011)

Year	2008	2009	2010	2011
Pension Funds	**36%**	**37%**	**37%**	**38%**
Insurance	25%	24%	25%	24%
Other Institutions	18%	17%	16%	18%
Retail Clients	19%	20%	20%	18%
Private Clients	2%	2%	2%	2%

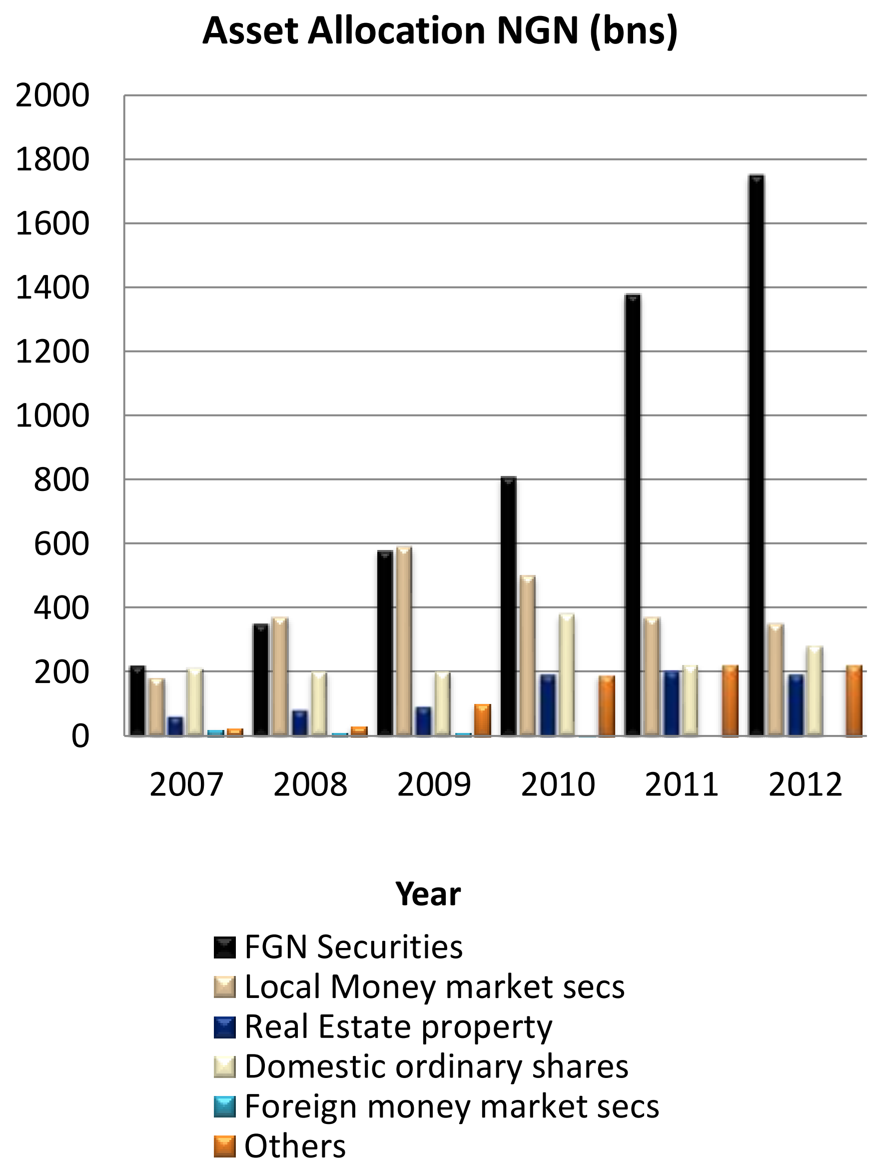
Source: The IMA annual survey

Sector	AUM (N'm)
Pension Funds	2,800,000
Insurance	330,000
Trustees	231,000
Private Wealth	198,000
Mutual and Venture Capital Funds	110,000
Total	**3,669,000**



The evolution of the Pension Funds Industry

- PFAs are 72% of the buy-side community in Nigeria
- Their investment strategies have been significantly influenced by regulation
  - Between 2007-2012, when equity prices were rising rapidly, 30% of pension fund assets were in equities. Today it is closer to 10%
  - The biggest beneficiary has been FGN Bonds and Treasury Bills
- PFAs continue to look for long duration assets in order to match long term liabilities
- **We need to create more products:**
  - **First generation – corporate bonds, infrastructure bonds, IPO's, etc**
  - **Structured products – REITS, ETFs, structured notes, etc**



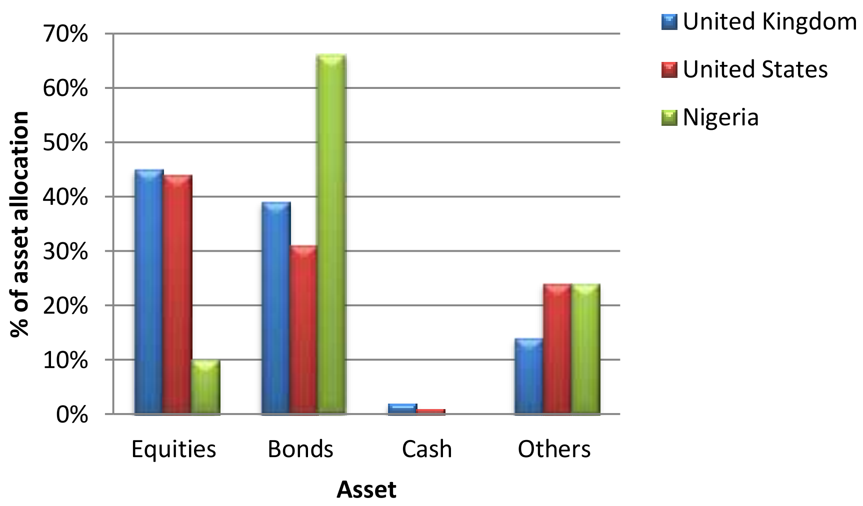
Renaissance Capital Report

A view from developed markets

- From the graph below, PFAs in Nigeria held 10% of their assets in equities for PFAs compared to the US and UK with approx. 42% and 41% respectively

- **It is reasonable to expect PFAs to increase their allocation to equities**

Asset Allocation for Pensions Year 2011



- Equities continue to represent the largest asset allocation

- Bonds cover a wide range of risks

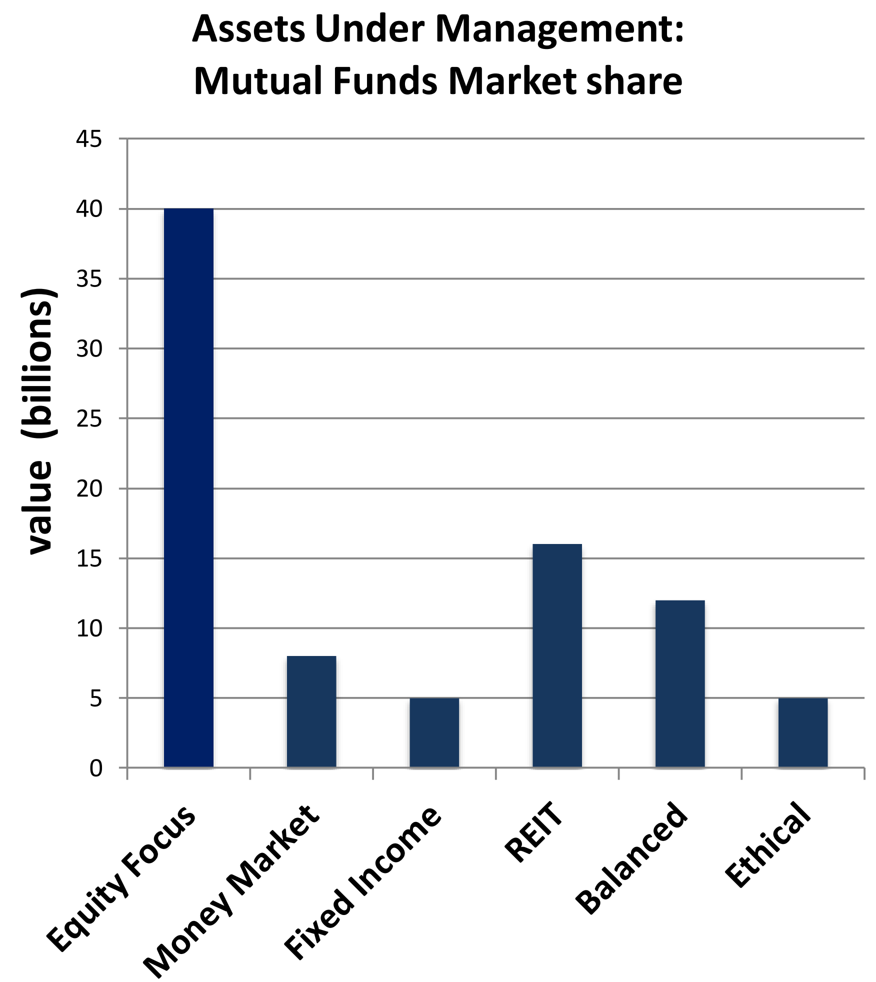
Overall asset allocation of UK managed assets (2007 – 2011)

Year	2008	2009	2010	2011
Equities	40%	45%	45%	42%
Bonds	35%	33%	36%	38%
Cash	15%	12%	11%	13%
Property	5%	6%	3%	4%
Others	5%	4%	5%	3%

Source: The IMA annual survey

Mutual Funds – Struggling for acceptance

- AuM of Mutual funds has hovered around ₦110 billion over the last 3 years
- Market share of mutual funds in asset management industry declining (2011: 4%)
- There are 43 registered funds, over half have less than ₦1 billion AuM
- 6 new funds have been listed in the last 2 years, with combined AuM of N14 billion
- If tax incentives were created for individuals to invest, this sector could be even larger than the PFA market.
- **Potential opportunity:**
  - **Money market products**
  - **Risk diversification**



Source: Augusto & Co Industry Report

Mutual Funds – Significant potential

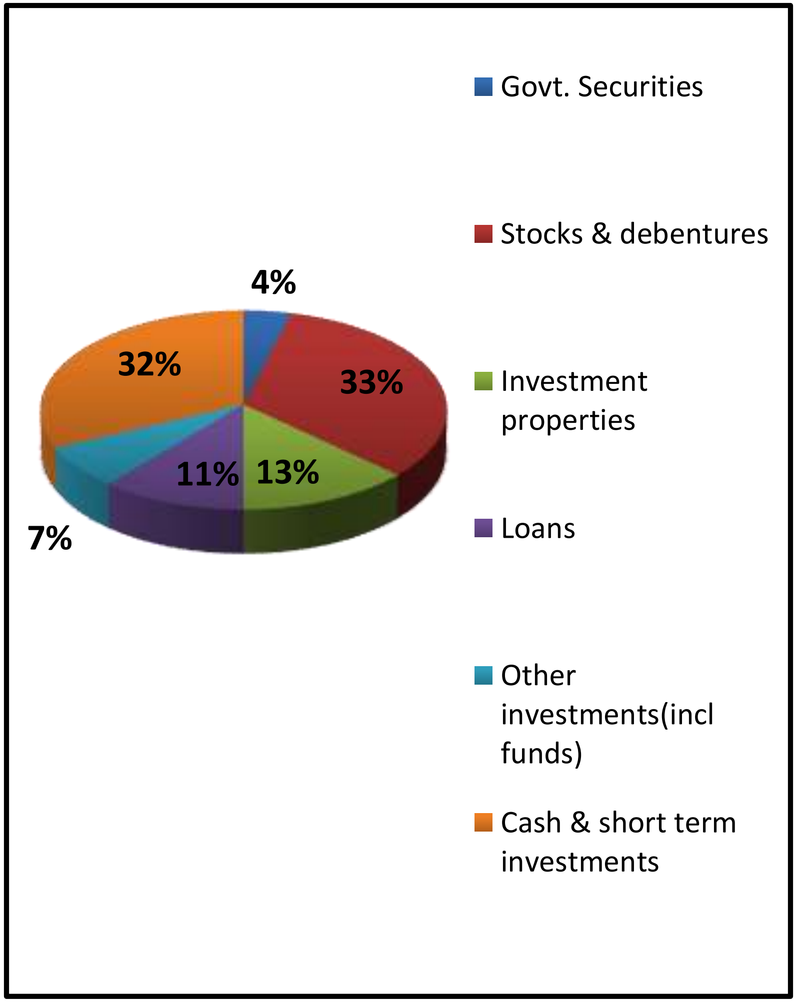
- The US is at the extreme end, with mutual funds managing 2X the financial assets of banks
- India is at the lower end at only 10% of bank deposits
- Nigeria is even lower at less than 1% of banks financial assets
- Looking at Brazil, the sector has grown markedly over the last decade primarily due to enhanced regulation:
  - Stronger investor protection and greater information disclosure
  - Fewer restrictions on the type of investments
  - Simpler tax structure

Savings and Mutual Funds	Banking Deposits	Mutual Funds	% of MF to BD's	No of Funds
US(Dec 2011)	$6.022 t	$11.60 t	192.63%	7637
Brazil (to Savings 2008)	$116.0bn	$442.0bn	381.03%	311
Brazil (to Money Supply 2008)	$956.0bn	$442.0bn	46.23%	311
India (Bank Deposits Dec 2011)	$11.089t	$1.13 t	10.19%	4821
Nigeria(Bank Deposits Dec 2011)	N11.90t*	N0.093 t	0.78%	45
Nigeria(Bank Deposits Dec 2011)	$75,316mn	$589.5mn	0.78%	45

Insurance Companies – The story so far

- The insurance industry is the second largest segment with over ₦330 billion AUM
- Equities represent the largest asset class although this is moderating
- The strategy is currently more focused on short to medium term assets with high liquidity
- In terms of the future growth potential – AuM (incl. cash) is increasing at an average rate of 4.4% per annum; however insurance penetration stands at just 2% of the population
- **Opportunity to work with the insurance industry to develop hedging products**

Asset Under Management: insurance investment portfolio



Trustees – where to next

- Trustees – estimated at about ₦231 billion AUM

- Represented by corporate, public and private trusts
  - Sinking Funds, Mutual Funds

- Conservative investment posture:
  - Capital preservation is of paramount importance and investment guidelines are for assets that are/or near risk free.
  - 10 – 15% equity, rest mostly in Fixed income
  - Relatively long term bias

- **The future growth potential**
  - **Difficult to estimate for private trusts because of the confidential nature of the market**
  - **Public trust offers potential**

Private Wealth – Road to recovery

- Private Wealth – c. ₦198 billion AUM

- In terms of investment strategy:
  - The industry has struggled since the market crash of 2008, as many high net worth individuals (HNWI) suffered significant looses from stock market investments
  - Significant shift to money market and fixed income products
  - Interest in FX products

- **Outlook:**
  - **Investments in mutual fund segment is expected to grow – managed by experts, diverse investment offering**
  - **Private wealth management – capturing the new affluent**

Summary observations

- **Structural challenges remain**
  - Slow growth in AuM
  - Conservative posture
- **Invest in a distribution platform**
  - Sales: investor support, education
  - Trading: taking informed risk, creating liquidity, risk management, providing information flow
- **Create new products**
  - Different investors, different risk appetite
  - Provide alternatives
- **Regulation, used appropriately**
  - Providing incentives