THE MULTIFUND (LIFE-CYCLE INVESTMENT) STRUCTURE

INTRODUCTION

The financial market in Nigeria has evolved from the its vanilla-type asset classes of ordinary shares, Federal and State Government bonds & corporate bonds to more exotic instruments such as Eurobonds, Derivatives, REITS and Private equity investments. Recognizing this and noting the growing amount of pension funds being invested in the country, the National PENSION Commission (PENCOM) conceived the notion of allowing pension contributors bear the responsibility of deciding their investment futures. Therefore, they expanded the current allowable windows of investments for pension funds and increased the number of Fund types permitting the contributors to make their choice on a preferred fund in order to optimize their pension returns.

Hence, on April 12, 2017, an Amended Regulation on Investment of Pension Fund was released for the Pension industry.

WHAT IS MULTIFUND?

Unlike the previous Regulation on Investment of Pension Funds which grouped all actively working citizens of Nigeria in a single fund structure, the new regulation introduced a multi-fund structure that categorizes contributors into different Retirement Savings Account (RSA) according to their age (life cycle) and risk profile/preference.

In the MultiFund structure, otherwise known as THE LIFE-CYCLE INVESTMENT Fund Structure, the current RSA Fund is divided into 3 funds namely Fund I, Fund II and Fund III. The Retiree fund, Fund IV, remains as it is, and that is to cater for Contributors who have retired and are no longer working.

DIFFERENCES IN THE FUNDS

The funds are peculiar to each other as they have different risk profiles for exposure to various asset classes especially, on the variable income instruments.

Variable income instruments are financial instruments whose returns cannot be pre-determined as at the time of investing.

The price of this class of instrument changes over time and they are: ordinary shares, units of Open & close-ended & hybrid funds, REITs, infrastructure funds and Private equity funds.

The exposure of the each fund to variable income instrument is detailed in the table below:

S/N	VARIABLE INCOME INSTRUMENT	
	Maximum Limit	**Minimum Limit**
FUND I	75%	20%
FUND II	55%	10%
FUND III	20%	5%
FUND IV	10%	0%

<table>
<tr><th>S/N</th><th colspan="2">ALTERNTIVE ASSET CLASS</th><th rowspan="6">Infrastructure, Private Equity & Real Estate (Housing)</th></tr>
<tr><td></td><td>Maximum Limit</td><td>Minimum Limit</td></tr>
<tr><td>FUND I</td><td>75%</td><td>2.5%</td></tr>
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WHY THE MULTIFUND STRUCTURE?

The risk profiling of the fund is based on the assumption that younger people tend to have more capacity for risk and have a longer period to weather the market fluctuations. And for contributors nearing retirement, it is better to limit the amount of risks they take and reduce exposure to uncertainty as they would start drawing down on their pensions within a short period.

The MultiFund structure allows contributors below the age of 50years to choose if they want a higher portion of their pension assets invested in riskier instruments in the hopes for a better return in the long run.

BENEFITS

The new MultiFund structure benefits all contributors to the fund.

- It presents a chance for a suitable alignment between your retirement goals, risk appetite and age.
- Contributors under 50years of age can now choose the fund they wish to belong to, based on their individual

risk preference and return expectations.
- It offers opportunity for higher returns for the more risk tolerant contributor.
- It offers a better chance for your pension assets to meet your expectations when you retire.
- Allows you to change from one fund to the other, once in a year, at no cost.

DEFAULT ASSIGNMENTS

All pension contributors will be assigned to the different funds using the default categorization set by the Regulator, while further directives are received from the contributors themselves on the choice of fund they wish to belong to. These default grouping are as follows:

FUND I: Contributors shall write formally and give consent to be assigned to this fund.

FUND II: This is the assigned default fund for active contributors aged 49years and below as at their last birthday.

FUND III: This is the assigned default fund for active contributors aged 50years and above as at their last birthday.

FUND IV: This is strictly for the retirees only. (Those who are no longer in active service and are above 50years)

On the commencement date, the default grouping will apply. All active members that are 49 years and below will be placed in Fund II and active contributors above 50 years would be placed in Fund III. Nevertheless, active contributors can apply to switch between funds. An active contributor can change from Fund II to Fund I, by request, while an active contributor assigned to Fund III can change to Fund II by request.

Membership of Fund I is prohibited to Retirees and active contributors above 50years.

FUND TRANSFERS

The total fund of a contributor who wishes to move from one fund to the other is done at no risk of loss to his fund. His total fund is valued and transferred to buy units in the new fund at =N=1.00. **Please note that the unit cost of =N=1.00 is only available at the take-off date the New fund is created.**

Any contributor wishing to move into the new fund after it has been created and subsequently revalued will do so at the new price of the fund.

RISKS & MITIGANTS

At the commencement of the grouping, the contributor's assets are at no risk. The total value of their assets will be moved to the default fund they fall into.

Risks

- The possibility of earning higher returns by a contributor who chooses Fund II or I might be lost if they remain indifferent to the options the MultiFund structure offers and takes no action.
  There might be an over expectation of returns by the contributor if they are not properly educated on the MultiFund structure and the underlying asset classes to each fund.
- Contributors under age 0-49years might mistake the option to choose a fund other than their default fund as a right to choose the asset class their funds can be invested in.
- Movement between funds for more than once in a year incurs costs that might reduce their income for the period.

MITIGANTS

- Care should be taken to inform the contributors on the consequence of moving from Fund to Fund within 12 months. Aside from the cost implication, it should be made known that returns in variable income instruments are enhanced over a longer time horizon.
- Contributors should also be educated on the underlying asset class that differentiates the Funds and informed on where their rights in choosing a Fund end.

Due to the nature of exposure of each fund to different asset classes, the Funds have their own risk profile and in turn, its return expectation. The PFA manager will utilize expert skill to ensure that the pension portfolios witness little or no loss if necessary.

WHAT IS EXPECTED OF THE PFA MANAGER

While the PFAs await the FINAL operational framework from PENCOM to guide this transition, it is their duty to educate and advice the contributors on the best fund that fits their risk profile and the course of action in choosing a fund they wish to belong to.

WHAT IS EXPECTED OF THE CONTRIBUTOR

Pursuant to this, each contributor is advised to call the customer care lines or visit the company's website or any office nearest to you to speak with a representative, understand the funds grouping and risk profile, then make an informed decision on the fund they choose to belong to. (If it is contrary to the default grouping).

For enquiries, please send a mail to info@fugpensions.com, visit us at www.fugpensions.com or call us on 0805499403 or 07064974880 and talk to us. Thank you for choosing FUG Pensions.