FMDQ SPOTLIGHT

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FMDQ

OTC Securities Exchange

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NEW STORIES

FMDQ 2017 Highlights and Outlook for 2018

As a market organiser and self-regulatory organisation with the mandate to develop the Nigerian debt capital, foreign exchange (FX) and derivatives markets to global standards, FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange) set out in 2017 to innovate and position the markets and invariably, the Nigerian economy, for growth amidst the recessionary trends and other economic headwinds which marked activities within the year. For FMDQ, this saw the redefinition of the OTC Exchange's role in the Nigerian financial markets landscape to include unlocking capital for infrastructural development in support of the Nigerian Economic Recovery and Growth Plan, financial markets diplomacy with both local and international stakeholders and increased economic development advocacy with key regulator, in addition to its marker organising role. The year also saw the birth and nurturing of strategic initiatives in the aforementioned areas, with key support from and collaboration with market stakeholders and regulators, towards making the Nigerian financial markets globally competitive.

Every month in 2017 was marked by a significant activity/event, ranging from the launching and implementation of key activities and initiatives, to the making of history in the Nigerian financial markets. Some of these included but were not limited to:

Quotation of the ₦35.00 Billion Access Bank PLC Commercial Paper Notes: FMDQ commenced the year with the commemoration of the successful quotation of the Access Bank PLC ₦8.45 billion Series 1, ₦4.22 billion Series 2 and ₦22.33 billion Series 3 Commercial Paper (CP) Notes under its ₦100.00 billion CP Programme on the OTC Exchange. This marked the beginning of a year which saw significant activity in the CP market as corporates made a deliberate move to tap the debt market to raise short-term finance to support their business operations.

Partnership with S&P Dow Jones Indices: FMDQ, in February, formalised its partnership with S&P Dow Jones Indices (SPDJI), the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators (e.g. the S&P 500® and the Dow Jones Industrial Average®), through the signing of a memorandum of understanding (MoU) for the development and publication of co-branded fixed income indices in the Nigerian financial market. This move was a conscious effort by the OTC Exchange to provide investors with a consistent, credible and objective measure for the performance of their investments in the Nigerian fixed income markets. The co-branded indices will serve as acceptable benchmarks for the fixed income market and provide transparent and credible information to the investing public and other persons with interest in the Nigerian financial market.

Listing of the Federal Republic of Nigeria Eurobond on FMDQ: In what was a historic event, and has been described as a momentous occasion, the Federal Republic of Nigeria (FRN), through the Debt Management Office (DMO), in March, listed, for the first time ever, its Eurobond on a domestic Exchange.

The $1.00 billion Notes (Eurobond) under the FRN's $1.00 billion Global Medium-Term Note Programme was listed on FMDQ and a prestigious and one-of-a-kind Ceremony was held in honour of the FRN to mark the remarkable achievement.

This most significant feat was achieved following a series of strategic engagements that spanned over three (3) years between the DMO and FMDQ, as well as some other key stakeholders, on the importance of listing the sovereign's Eurobonds locally. This listing underscored the importance of developing the local markets, in line with the drive to make them globally competitive, as effective avenues for bridging the long-term financing gaps towards economic development.

Listing of the Pioneer Exchange Traded Fund on FMDQ: FMDQ, also in March, welcomed the pioneer listing of an exchange traded fund (ETF) on its platform - The Vetiva S&P Nigerian Sovereign Bond Exchange Traded Fund. The listing of this ETF on FMDQ platform, validates the OTC Exchange's goal of bringing the Nigerian fixed income market operations under a single governance structure.

Launch of the Nigerian Autonomous Foreign Exchange Fixing (NAFEX): Following the introduction of the Investors' & Exporters' FX Window (I&E FX Window) by the Central Bank of Nigeria (CBN), aimed at setting out a single and autonomous FX market structure for investors' and exporters' activities in the Nigerian FX market, towards maintaining FX market stability whilst attracting and retaining foreign capital into the economy, FMDQ developed and launched the NAFEX – the Nigerian Autonomous Foreign Exchange Fixing in April, to serve as the reference rate for activities in the I&E FX Window. The NAFEX was developed to represent Spot FX market rates in the I&E FX Window and support appropriate benchmarking and facilitation of derivatives activities in the I&E FX Window. To stay up to date with the trends in the I&E FX Window including Spot FX & NAFEX rates and turnover figures, please register on FMDQ's e-Markets Portal. Email bog@fmdqotc.com for further details.

Securities and Exchange Commission Approves FMDQ Sukuk Listing Rules: The month of April was again marked with significance as the Securities and Exchange Commission (SEC) conveyed its approval of the FMDQ Sukuk Listing Rules. This approval followed a series of stakeholder engagements between the SEC and FMDQ, with a view to ascertaining the preparedness of the OTC Exchange towards developing the Nigerian Non-interest Capital Market.

Leadership Changes at FMDQ: Following the retirement of Dr. (Mrs.) Sarah Alade, OON, who until then was the Deputy Governor, Economic Policy Directorate, representing the CBN, as Chairman of the Board of Directors (Board) of FMDQ, the Company welcomed Dr. Okwu Joseph Nnanna, Deputy Governor in charge of Financial System Stability at the CBN, in the month of April, as Chairman. The Board also announced the shareholders' ratification of the appointment of Mr. Kennedy Uzoka, Group Managing Director/CEO of United Bank of Africa PLC, and Mr. Dapo Akisanya, Managing Director/CEO, AXA Mansard Pensions Limited; as well as the retirement of Mr. Yinka Sanni, the Chief Executive Officer of Stanbic IBTC Holdings PLC. A befitting send-forth Ceremony was hosted by the Company, in October, to honour the retired Chairman, Dr. Alade, and six (6) other retired Directors for their meritorious service to FMDQ.

Award for Most Innovative in Financial Markets: In recognition of the contributions made by FMDQ to the development of the Nigerian financial markets, the OTC Exchange was honored to win the 'Most Innovative in Financial Markets' Award at the first BusinessDay Top 25 Most Innovative Companies & Institutions in Nigeria Awards 2017 held in April. This Award validated FMDQ's efforts, being an innovation-driven OTC Exchange, availing the markets unique opportunities and aligning its operations and activities with international standards, in transforming the Nigerian financial markets through its "GOLD" (**G**lobal Competitiveness, **O**perational Excellence, **L**iquid and **D**iverse) agenda.

Publication of Weekly Turnover in Investors' & Exporters' FX Window: Following the introduction of the I&E FX Window by the CBN, FMDQ, in validation of its market transparency agenda and alignment with global standards for an efficient, vibrant and liquid FX market in Nigeria, commenced the publication of the weekly turnover figures for the I&E FX Window on its website in the month of May. The information was positively welcomed by both local and international market participants seeking improved transparency in the Nigerian FX market. The I&E FX Window turnover is published on a weekly basis on FMDQ's website and historical weekly turnover figures for this Window are published on FMDQ's Markets Portal. Email bog@fmdqotc.com for further details.

Launch of the FX Corporate Clients Onboarding Process: Following the CBN's drive to restore confidence in the Nigerian FX market and consequently boost the liquidity via additional inflows into the market, the apex bank issued a directive to all Authorised Dealers mandating that they execute all FX trades with their corporate clients only through the FMDQ-advised Trading & Surveillance System. FMDQ, having the same transparency and growth objectives for the Nigerian FX market, launched the corporate institutions' onboarding process in June, to ensure the seamless integration of both local and international corporate institutions onto the Thomson Reuters FX Trading and Auction Systems. Details of the FX Onboarding process for local and international corporate institutions, along with the associated application forms are available on FMDQ's website at www.fmdqotc.com.

Market Development Appreciation in Honour of Dr. Abraham Nwankwo (former Director-General, DMO): In appreciation of the support and efforts towards the growth of the Nigerian bond market, and the economy in general, FMDQ, in July, brought together key financial market stakeholders, friends and well-wishers, to celebrate Dr. Abraham Nwankwo on his retirement from the DMO (July 2007 – June 2017). The OTC Exchange took the opportunity to welcome the incoming Director-General, Ms. Patience Oniha, who was there to celebrate Dr. Nwankwo and provide assurances of the DMO's continued support and interest in the development of Nigerian debt capital markets.

Listing of the Pioneer Infrastructure Debt Fund in Nigeria and Sub-Saharan Africa: In yet another remarkable and historic feat, FMDQ, also in July, welcomed the listing of the pioneer Infrastructure Debt Fund on the OTC Exchange. Chapel Hill Denham Management Limited, following the approval of the SEC, registered and established the ₦200.00 billion Nigeria Infrastructure Debt Fund (NIDF) Issuance Programme, and subsequently issued the first series under this Programme – Series I 49,450,000 Units of ₦101.20 each, on FMDQ's platform. The NDIF was the first-ever listed infrastructure debt fund in Nigeria (and Sub-Saharan Africa) and aims to enable investors access infrastructure as an asset class, while providing the benefit of predictable returns available from long-dated infrastructure debt investments.

Launch of the FMDQ Investor Protection Fund: In compliance with the provisions of Part XIV of the Investments and Securities Act 2007 and to provide a secure and credible platform supported by global best practices, as well as serve as a catalyst for sustaining investor confidence in the Nigerian financial markets, FMDQ launched its Investor Protection Fund. The Fund would compensate investors who suffer pecuniary losses arising from insolvency, bankruptcy, or negligence of a Dealing Member of the

OTC Exchange, as well as defalcation committed by a Dealing Member or any of its Directors, officers, employees, or representatives in relation to securities, money or any property entrusted to, received, or deemed received by the Dealing Member in the course of its capital market activities.

Launch of the FMDQ Clients' Fixed Income Trading, Reporting & Surveillance System: 2017 saw the launching of key proprietary market systems with the aim to deliver improved market connectivity in the Nigerian fixed income market for clients, as well as effective oversight for select financial market regulators over the activities of their supervisees in said market. Consequently, in September, FMDQ launched the PenDealer System, its Clients' Fixed Income Trading, Reporting and Surveillance System. The PenDealer System currently provides a seamless avenue for Pension Fund Operators to engage in activities in the fixed income market with banks via the System, whilst providing the National Pension Commission a means to maintain adequate oversight over the activities of its supervisees, the Pension Fund Operators, thereby improving market integrity and bolstering investor confidence.

The 2017 Nigerian Debt Capital Markets Conference & Awards: FMDQ brought together a wide audience of local and international financial markets participants/subject-matter experts with varying focuses and interests in the Nigerian and global financial markets space, at the 2017 Nigerian Debt Capital Markets Conference & Awards, themed: Positioning for Growth, held in September. Furthermore, the OTC Exchange went on to recognise and present awards to market participants/key stakeholders in the Nigerian DCM who had performed creditably in relation to primary market activities, over the past two (2) years (September 2015 – August 2017). Further details on the Conference & Awards can be found on the Conference website – www.fmdqconferences.com.

Launch of the Sustainable Finance Sub-Committee and Maiden Issuers/Investors Roundtable: Stemming from the growing global recognition which sustainability plays in strengthening financial stability and supporting overall economic growth, the Debt Capital Markets Development Project 2020/25 launched the Sustainable Finance Sub-Committee (SFS), and organised, in collaboration with the Climate Bonds Initiative, a Roundtable Session on Sustainable Finance development, still within the month of September. The SFS, which will serve to be a catalyst for propelling the growth and development of sustainable finance in Nigeria, will focus on areas that range from Impact Investing, Green Bonds, Microfinance, Credits for Sustainable Projects to Active Ownership, and Financial Inclusion, amongst others.

Commercial Paper Issuances Maintain Steam with ₦160.00 Billion Worth of Commercial Paper Programmes Quotations – The month of October saw key activities in the CP quotations space on the OTC Exchange, wherein the CP Programmes of Lafarge Africa PLC ₦60.00 billion and First City Monument Bank Limited ₦100.00 billion were registered on FMDQ, while the Wema Bank PLC ₦3.41 billion Series 1 and ₦13.62 billion Series 2 CP Notes under its ₦50.00 CP Issuance Programme were quoted on the OTC Exchange.

Commencement of Private Companies' Bonds Noting Service: The month of November saw another first in the nation's debt capital markets (DCM) wherein the OTC Exchange commenced its Noting Service for Private Companies' Bonds (PCB Noting Service). The PCB Noting Service is an initiative that aims to prescribe minimum standards and provide due diligence in the market for private long-term debt securities (bonds), bringing these debt securities under appropriate governance, eliminating information asymmetry and promoting credibility in the market for private companies' debt securities.

The FMDQ PCB Noting Service offers a robust review and due diligence process for the noting of PCBs and restricts the availability of all the key information on the activities of the noted PCBs, to only qualified institutions via an FMDQ restricted portal - the FMDQ PCB Portal. Some of the benefits of the FMDQ PCB Noting Service include, but are not limited to, unmatched transparency, unique visibility, broad qualified institutional investor base and efficient noting process.

Listing of the Pioneer Diaspora Bond and latest Eurobonds on FMDQ: In the month of December, the FRN, through the DMO, listed its first Diaspora Bond on the OTC Exchange. The FRN Diaspora Bond - $300.00 million 5.625% Diaspora Bond due 2022 issued in June 2017, along with the two (2) tranches of the FRN Eurobonds - $1.50 billion 6.500% Notes due 2027 and $1.50 billion 7.625% Notes due 2047 under its $4.5 billion Global Medium-Term Note Programme Eurobonds, were listed on the OTC Exchange to promote, among others, visibility for the issues and financial inclusion.

In addition to its market development activities, over the course of the year, the OTC Exchange admitted the listings of seven (7) bonds with a total value of ₦1,598.35 billion. The OTC Exchange also admitted the quotations of thirty-three (33) CPs with a total value of ₦152.35 billion. By their admission to the FMDQ platform, these securities gain access to the full complement of the unsurpassed FMDQ Listings and Quotations service, which includes, but is not limited to, improved secondary market liquidity, efficient listings/quotations process, unprecedented transparency and information disclosure, global visibility and improved network effects.

2017, despite some challenging conditions faced in the markets during some periods in the year, proved to be encouraging in terms of market development, and has, no doubt, set the pace for a significantly positive outlook for 2018. FMDQ remains very optimistic about the possibilities of the Nigerian markets and looks ahead to the coming year 2018 with much eagerness and expectation. The OTC Exchange recognises the potential of fully-functional DCM and financial markets at large, and will remain steadfast in innovating and providing efficient services and infrastructure, as may be necessary, to support issuers, investors, government and their agencies and other corporate businesses at large, towards achieving an economy that would support sustainable development and directly impact the citizenry. FMDQ has some key market development initiatives the markets (local and international) can excitedly look forward to. Chief amongst these initiatives include, but are not limited to:

- Infrastructure/Housing development
- Sustainable Finance development
- Clearing and settlement solutions
- Expansion of the derivatives markets
- New products development
- Financial markets education and capacity building
- Proprietary Market System launch

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FMDQ Co-Sponsors Inaugural Breakfast Meeting of the Association of Corporate Treasurers of Nigeria

The Association of Corporate Treasurers of Nigeria (ACTN or the Association), the professional body for corporate treasurers of the buy-side and non-bank sell-side of the Nigerian financial market, played host to key financial market participants and subject-matter experts at its Q4 2017 Breakfast Meeting themed: 2017 Economic Review and Prospects for 2018 - which held on December 14, 2017. FMDQ, in support of the Association's market development agenda, participated as a co-sponsor and panel discussant at this highly interactive gathering. FMDQ recognises and applauds ACTN's continuous effort in creating value for organisations and the Nigerian economy at large through advocacy, market education and enlightenment.

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FMDQ Holds Second Bi-Annual Members Only Meeting for 2017

The second and last bi-annual Members' Meeting for 2017 held on December 13, 2017. The bi-annual gatherings bring together the various Members of FMDQ (in particular, the Dealing, Associate & Registration Members) to deliberate and collectively contribute to the market development activities which the OTC Exchange champions. From market development and regulation initiatives to technology and market connectivity updates, the meeting afforded the Members, the opportunity to interact, review and contribute to the shaping of the market architecture, in line with their needs and the value-adding services provided by FMDQ. The Meeting concluded with a networking cocktail reception.

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$10.38bn Worth of OTC FX Futures Trades So Far, as the 18th Contract Matures

The year 2017 has shown a steady flow of transactions and activities in the Naira-settled OTC FX Futures market. This market, which was borne out of the desire to address the need for risk management in the Nigerian FX market has continued to show appreciable potential as an effective hedging product for investors (local and international), businesses and government institutions alike. To date, $10.38 billion worth of OTC FX Futures contracts have traded so far with the CBN remaining steadfast in its commitment to ensuring the success of the market.

As it has been the norm for seventeen (17) maturities on FMDQ, the OTC FX Futures Exchange, the 18th OTC FX Futures contract matured and settled successfully on December 27, 2017. Having ceased trading on December 20, 2017, in line with the OTC FX Futures Market Operational Standards, the 18th OTC FX Futures contract, NGUS DEC 27 2017, with notional amount $499.20 million, matured and settled on FMDQ. This brings the total value of contracts so far matured on FMDQ to $7.35 billion.

A new contract, NGUS DEC 26 2018, for $1.00 billion at $/₦362.84 has been introduced by the CBN to replace the matured contract. Also, quotes on the existing 1- to 11-month contracts have been updated and are published daily as open contracts on FMDQ's website at www.fmdqotc.com, as well as on the FMDQ Twitter page @FMDQOTCExchange.

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The Federal Republic of Nigeria Lists its Inaugural Diaspora Bond, latest Eurobond issues on FMDQ

The FRN, through the DMO, pioneered another first in the Nigerian debt capital markets (DCM), as it marked the official listing of the inaugural Diaspora Bond on FMDQ on Thursday, December 21, 2017. The day also celebrated the official listing of the latest Eurobond issues by the FRN – ***$1.50 billion 6.500% Notes due 2027 and $1.50 billion 7.625% Notes due 2047 under its $4.50 billion Global Medium-Term Note Programme Eurobonds*** – on the OTC Exchange. The FRN Diaspora Bond – ***$300.00 million 5.625% Diaspora Bond due 2022*** – issued in June 2017, along with the two (2) tranches of the FRN Eurobonds, were listed on FMDQ to promote, among others, visibility for the issues and financial inclusion. These listings of foreign currency-denominated debt securities by the FRN, show the government's unrelenting commitment to supporting the growth and development of the nation's DCM towards economic development sustainability. In the first quarter of 2017, the FRN made history in the nation, when the FRN Eurobond was listed for the first time ever domestically.

To commemorate these remarkable achievements, the OTC Exchange hosted the Federal Government of Nigeria, represented by the Director-General of the DMO, Ms. Patience Oniha, along with key representatives from the DMO to a most impressive and memorable Ceremony. Also present at the Ceremony were key representatives from Stanbic IBTC Capital Limited, the sponsor of the issue and Registration Member (Listings) of FMDQ and representatives from Bank of America Merrill Lynch, Standard Bank of South Africa PLC, FBN Merchant Bank Limited, United Capital PLC, Udo Udoma & Belo Osagie, Banwo & Ighodalo, amongst others.

Welcoming the guests to the Ceremony, Ms. Tumi Sekoni, Vice President, Business Development of FMDQ, congratulated the issuer and sponsor of the issue on this critical milestone, commending the DMO for another successful outing by the FRN in the international markets. She highlighted that the FRN, via its Diaspora Bond, provided the opportunity for Nigerians in the international markets (and those in the domestic market with foreign capital) to contribute to the development of the Nigerian DCM and by extension, the economy. She commented that listing the bonds on FMDQ would rightly position the nation to continue to maximise its potential via the Nigerian DCM. She reiterated FMDQ's commitment to remain unyielding in its support for the development of the Nigerian DCM through its highly efficient Listings/Quotations service.

Ms. Patience Oniha, Director-General of the DMO, during the issuer's special address, stated that, "the listings will increase number and range of securities available in the domestic capital markets, thereby deepening the market and promoting financial inclusion. She also stated that, "this history will give more visibility to the domestic debt capital markets, which will be beneficial for attracting capital from local and foreign investors. Furthermore, in the specific case of the Eurobond, because it is a sovereign security, the information it will provide such as coupon, yield and tenor will serve as benchmarks for corporates who intend to issue Eurobonds in the international capital markets."

Mr. Yinka Sanni, Chief Executive Officer, Stanbic IBTC Holdings PLC, during his address, said that "by proceeding to list these instruments on the domestic exchanges, the DMO once again has paved the way for corporate and bank issuers to follow suit, thereby adding to the depth and breadth of the domestic capital markets. We thereby applaud the DMO for this initiative."

Mr. Bola Onadele. Koko, Managing Director/CEO of FMDQ, whilst giving the closing remarks, applauded the issuer for another remarkable job well done. He commented, "this is another highly commendable step by the DMO towards deepening the domestic debt capital markets. The DMO continues to set the pace for key development in the Nigerian DCM. The listing of foreign currency-denominated debt securities by the FRN paves the way for the issuance and domestic listing of Nigerian corporate Eurobonds. It also lights up the vision for the issuance of foreign currency-denominated debt locally".

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FMDQ TURNOVER & DEALING MEMBER (BANKS) LEAGUE TABLE

FMDQ Turnover & Dealing Member (Banks)' League Table

The FMDQ OTC Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – FX, Treasury Bills (T.bills), Bonds (Federal Government of Nigeria (FGN) Bonds, other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds)) and Money Market (Repos/Buy-Backs and Unsecured Placements/Takings). These figures exclude primary market auctions in T.bills and Bonds.

The data, collated from the weekly trade data submissions by FMDQ Dealing Member (Banks), represents trades executed amongst the Dealing Member (Banks), Dealing Member (Banks) & Clients, and Dealing Member (Banks) & the CBN.

FMDQ OTC Market Turnover (January - November 2017)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	18,702,261	58,479
Foreign Exchange Derivatives	15,509,566	48,707
Treasury Bills	56,139,144	177,357
FGN Bonds	9,039,582	28,590
Other Bonds*	27,848	88
Eurobonds	82,136	259
Repurchase Agreements/Buy-Backs	29,160,825	92,115
Unsecured Placements/Takings	1,486,496	4,653
Money Market Derivatives	22,897	73
Commercial Papers	-	-
Total	**130,170,755**	**410,322**

No. of Business Days	230	230
Average Daily Turnover	**565,960**	**1,784**

YTD Average Rate $/₦ @ 317.24
mm - million
**Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds and Sukuk*
Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks)
Source: FMDQ Data Portal as @ December 7, 2017; Figures reported by Dealing Member (Banks) on a week-ending basis

The month of November 2017 recorded ₦14.85 trillion in turnover, an increase of 21.92% when compared to ₦12.18 trillion recorded in October 2017, bringing the total year-to-date (YTD) turnover to ₦130.17 trillion. The month-on-month (MoM) growth was primarily driven by increased trading activities experienced in the T.bills and Repos/Buy-Back product categories, which respectively made up 23.92% and 50.04% of overall turnover for November 2017.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - November 2017)

The FMDQ League Table shows the rankings of its top ten (10) Dealing Member (Banks) by overall market turnover in the FMDQ markets.

RANK	DEALING MEMBER (BANKS)
1	STANBIC IBTC BANK PLC
2	ACCESS BANK PLC
3	ECOBANK NIGERIA LIMITED
4	UNITED BANK FOR AFRICA PLC
5	STANDARD CHARTERED BANK NIGERIA LIMITED
6	FIRST BANK OF NIGERIA LIMITED
7	DIAMOND BANK PLC
8	CITIBANK NIGERIA LIMITED
9	UNION BANK OF NIGERIA PLC
10	GUARANTY TRUST BANK PLC

The top ten (10) Dealing Member (Banks) accounted for 71.72% (₦93.36 trillion) of the overall turnover in the market, with the top three (3) accounting for 48.73% (₦45.49 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and Ecobank Nigeria Limited. topped the League Table, ranking 1st, 2nd and 3rd respectively, in the value traded for the overall over-the-counter (OTC) market, maintaining their position in the League Table as the top three (3) banks for eight (8) consecutive months.

The other Dealing Member (Banks) maintained their positions on the League Table with the exception of Citibank Nigeria Limited and Diamond Bank PLC, which swapped positions to now occupy 7th and 8th places respectively.

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Infrastructure as an Evolving Asset Class

Infrastructure typically refers to facilities and structures that are critical for orderly and productive functioning of the economy. Examples include transportation assets (such as roads, airports, ports, bridges and rails), utility and energy assets (such as power generation, electricity distribution, gas networks and fuel storage facilities), communications infrastructure (such as Internet connectivity, transmission towers, etc.) and social infrastructure (such as education, recreation, waste management, healthcare, etc.). The source of financing for infrastructure projects varies from government spending to foreign aids and private sector capital. With increased budgetary constraints across many governments around the world, private investment in infrastructure is playing a progressively critical role in the global infrastructure finance space. This edition of FMDQ Learning focuses on how infrastructure constitutes a strategic investable asset class in the debt capital markets.

An asset class is a group of investment securities with similar financial characteristics, and are often governed by comparable laws and regulations. Examples of traditional asset classes in the capital markets include fixed income and money market securities, equities (or stocks) and derivatives. Other examples include tangible assets such as real estate, commodities, infrastructure, amongst others. Infrastructure, as an asset class, delivers essential services to the economy, whilst offering reliable long-term cashflows to investors. The fundamental appeal of infrastructure assets to investors are the predictable cashflows, derived from long-term contracts with the government or blue-chip counterparties; the inherent protection from competition that comes with natural monopolies; concession agreements with public authorities; and the strategic importance of the assets to the economy. Infrastructure assets are typically well-suited to pension funds, insurance companies, sovereign wealth funds, and other long-term oriented investors as they offer long-term stable returns to match the long-term liabilities. They also offer the advantage of portfolio diversification, coupled with an opportunity to improve the overall risk-return profile of portfolios due to their low correlation with other asset classes. Also, Infrastructure assets provide reliable inflation-linked returns and an opportunity for value enhancement through active management of the assets, creating smoother and more predictable returns on investments. Infrastructure as a relatively new asset class has several distinct and attractive investment characteristics.

Unique Characteristics of Infrastructure Assets

Infrastructure assets often have high barriers to entry and near-guaranteed demand (through purchase agreements) which protect them from competition, ensuring that their financial performance is less sensitive to economic cycles. In addition, these assets offer long-term, stable and predictable cashflows, and a pricing model that takes care of any potential inflation. These characteristics serve to ensure that investors have long-term, low-risk, inflation-protected and non-cyclical returns.

Some of the economic characteristics include high barriers to entry, economies of scale (e.g. high fixed, low variable costs), inelastic demand for services (offers essential services), low operating cost and high target operating profit margins, long tenors (e.g. concessions of 25 years, or leases of 99 years), etc. On the financial side, some of the characteristics include attractive returns on investment, low sensitivity to swings in the economy and markets, low correlation of returns with other asset classes, long-term, stable and predictable cashflows, good inflation hedge, natural fit with long-lasting, often inflation-linked pension liabilities, low default rates and opportunities for socially responsible investing.

Infrastructure Investment Instruments/Channels

To promote investments in infrastructure assets, a growing number of specialist products have been developed in the capital markets to satisfy the demand for infrastructure as a new asset class. Investment in infrastructure can generally, be made in various forms - from direct infrastructure investment to creation of infrastructure funds. Some of the investment vehicles are discussed below:

- **Direct Infrastructure Investment:** This is the direct investment of huge financial resources in infrastructure projects by the private sector, particularly institutional investors looking to invest directly in infrastructure rather than committing to pooled funds. Investors with huge capital base could seek direct infrastructure investments to gain closer control over the assets held in their portfolios. This also allows the investors to hold infrastructure assets over the long-term rather than being restricted to the lifespan of an infrastructure fund. Private equity investors typically could make direct investment in infrastructure assets (through equity investments)

- **Infrastructure Funds**: Infrastructure funds could be listed or unlisted. Listed infrastructure funds are specialised funds that invest primarily in direct infrastructure projects, public or private infrastructure companies or securitised debt securities of infrastructure companies. Such investments typically offer the benefits of infrastructure exposures with lower cost, greater liquidity and diversification. Infrastructure funds can be listed and traded on an organised securities exchange such as FMDQ. An example of an infrastructure fund currently listed and trading on FMDQ is the ₦5.00 billion closed-ended Chapel Hill Denham Nigeria Infrastructure Debt Fund (NIDF), which is the Series one (1) of its ₦200.00 billion Infrastructure Debt Fund Issuance Programme. On the other hand, the unlisted infrastructure funds into which private equity investors invest, could either be open-ended (funds that are bought and sold on demand, and do not limit unit of shares it can offer) or closed-ended (funds with a fixed number of shares, traded amongst investors on an exchange). Private equity investors could also make indirect investment in infrastructure (through infrastructure funds) on behalf of their partners

- **Infrastructure Bonds:** A bond is classified as an infrastructure bond (also called a project bond) if it meets all of the following criteria[1]:
  i. Issued to finance a specific infrastructure project
  ii. Capital raised from the bond is repaid from the cashflow generated by the project

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[1] African Development Bank (2013). Structured Finance – Conditions for Infrastructure Project Bonds in African Markets. NEPAD Regional Integration and Trade Department.

iii. Bond assumes (and its performance is subject to) the specific risk associated with the project it finances
iv. Issued by a project-operating company (typically a government parastatal, Special Purpose Vehicle or a corporate entity) with investment grade credit rating

Infrastructure bonds are usually long-tenured, with maturities ranging from ten (10) to twenty (20) years. They often come with credit guarantees (such as partial risk guarantee from the government) to de-risk the associated project(s) and are listed and traded on securities exchanges (such as FMDQ). Infrastructure bonds offer relatively higher risk-adjusted yields, hence constituting an attractive investment alternative to portfolio investors and pension funds administrators. Long-tenured funds in the financial sector (particularly pension funds and insurance companies' funds) are attracted to infrastructure bonds, given that they are relatively cheap, and could be used to match longer term liabilities.

Though not exhaustive, other investment products available in the infrastructure space include infrastructure fund-of-funds, exchange-traded funds (ETFs), passive funds, and some derivatives which are built around various listed infrastructure indices. For example, ETFs are funds that track market indexes (such as the S&P Nigeria Sovereign Bond Index, and are listed on organised exchanges). In this regard, an infrastructure ETF which is designed to track market indices of companies that make investments in infrastructure projects can be listed and traded on organised exchanges such as FMDQ.

Risk Considerations

Whilst infrastructure assets are generally considered as being relatively low risk, they are exposed to a number of infrastructure-specific risks, some of which include demand risk, regulatory risk, credit risk, operational risk and financing risk.

- Regulatory risk is critical to infrastructure projects since they are regulated by government policies and long-term concession agreements which could threaten asset performance
- The long-term nature of infrastructure projects exposes counterparties to credit risk, even as the risk of project failure (operational/construction risk) is prevalent in greenfield (new) infrastructure projects
- Some infrastructure assets (especially transport assets such as roads, airports, ports etc.) are exposed to usage or patronage risk which could negatively impact the expected cashflows from the assets

These risks are often mitigated through a web of contracts that typically seek to transfer the risk to counterparties that are best-suited to manage such risks.

It is pertinent to note that whilst infrastructure bonds are indirectly exposed to the above-listed risks, a major risk consideration for an investor holding this is the issuer's risk, i.e. the credibility of the institution offering the bonds. Ideally, if an issuer is considered to have incompetent management, poor credit ratings, a history of failed infrastructure projects and poor corporate governance, bonds issued by such issuer are considered risky. To mitigate this risk, investors typically go for infrastructure bonds that are issued by institutions with investment grade credit ratings (such as AAA, AA+, AA, and AA- ratings).

Infrastructure is unarguably seen as the key to unlocking economic development across the world. By expanding an economy's production and consumption possibilities, private sector investments, job creation and improved standards of living are facilitated. The Nigerian capital markets play a key role in crowding-in private sector funding for infrastructural and economic development through the provision of credible and reliable structures to support the development and use of infrastructure instruments. FMDQ, on its part, is at the forefront of using the capital markets and opportunities therein to unlock capital to support economic development. This constitutes a key strategic initiative for the OTC Exchange in the coming year, and with the concerted efforts of all stakeholders, should materialise favourably.

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