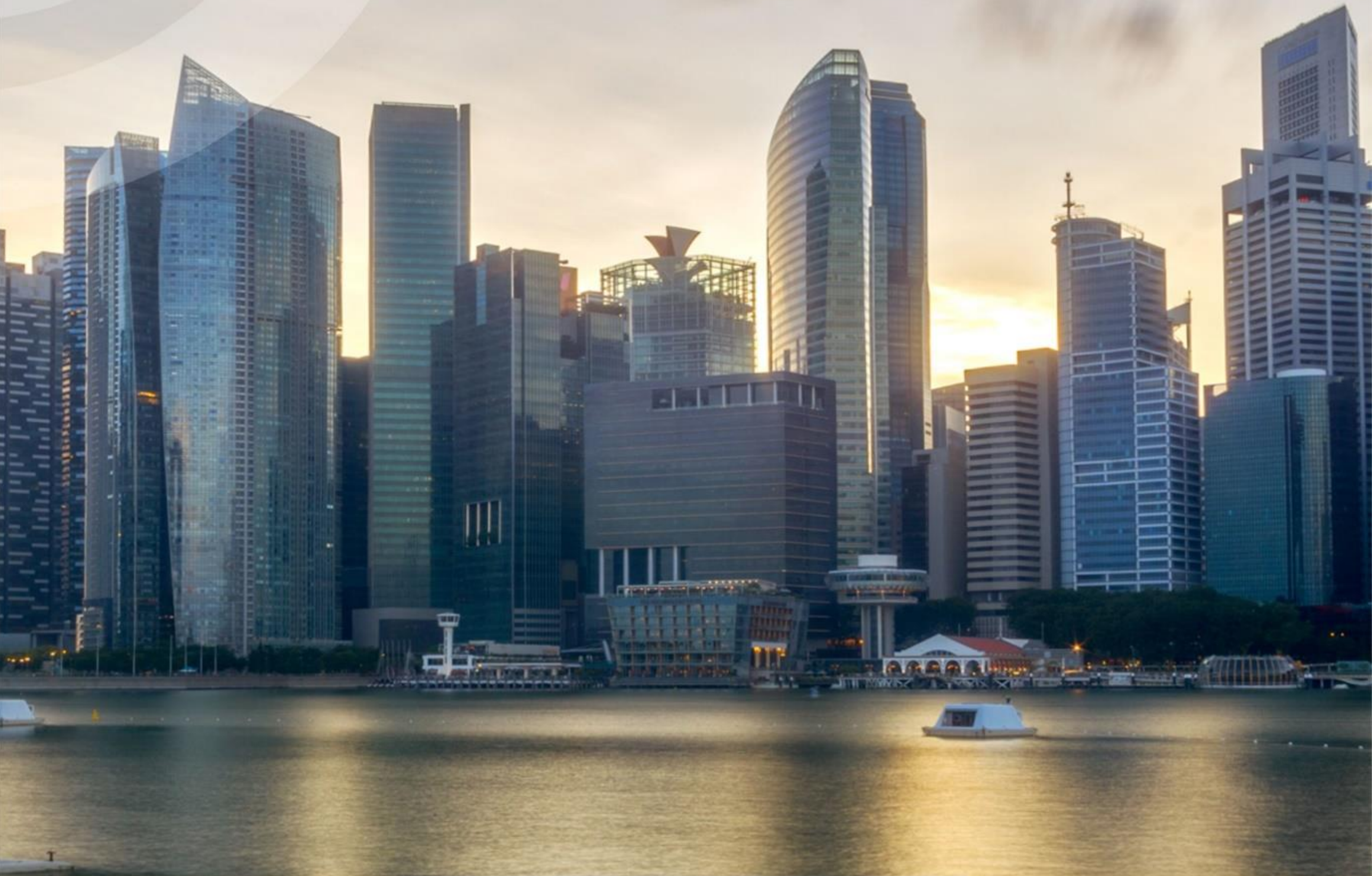
FMDQ SPOTLIGHT

NEWSLETTER EDITION 39 – JANUARY 2018



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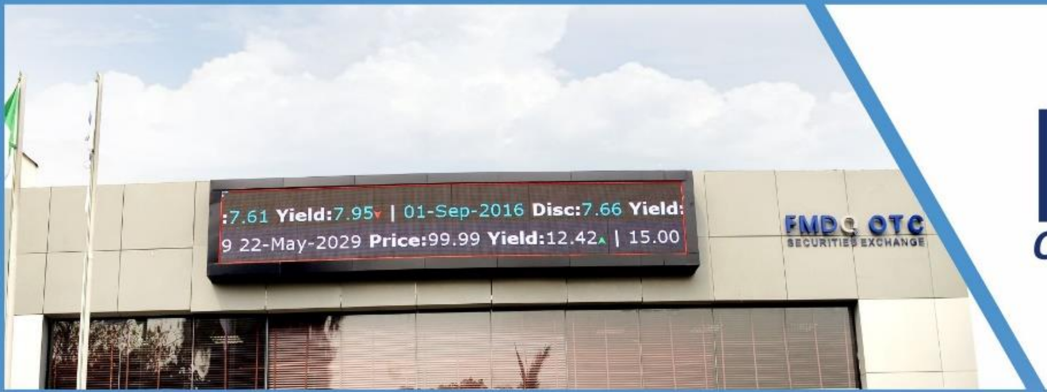

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NEW STORIES

FMDQ Achieves ₦142.00 trillion Market Turnover in 2017

With a drive to support and champion growth and development in the Nigerian debt capital, foreign exchange (FX) and derivatives markets, FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange), has remained steadfast and continues to focus on delivering its mandates for these markets, in support of the realisation of the economic development agenda for Nigeria. Leveraging on relevant collaboration and the effective support of financial market stakeholders in 2017, the OTC Exchange delivered value-adding initiatives and solutions, provided quality and reliable market data and information, promoted price discovery and transparency, facilitated education and capacity building, and has gradually commenced the journey towards the integration of the domestic markets with the international counterparts.

In response to the gradual recovery of the Nigerian economy, following the recessionary trends which shaped activities in the year 2017, FMDQ's markets experienced a slow but steady improvement, with growth primarily driven by trading activities in the FX and Treasury bills (T.bills) markets. In all, the total over-the-counter (OTC) market turnover saw a year-on-year growth rate of 24.97%, rising from the **₦113.65 trillion** recorded in 2016 to **₦142.00 trillion** in 2017.

Trading activities in the T.bills market contributed the largest to overall turnover, accounting for 42.47% of the total market turnover, whilst FX transactions (including FX derivatives) followed with a combined share of 26.90%, and Repos/Buy-backs accounted for 22.46%. Bonds and Money Market transactions (including Unsecured Placement & Takings, Commercial Papers and Money Market Derivatives), on the other hand, had smaller shares of the market, accounting for 7.01% and 1.16% respectively. This turnover represents trades executed among Dealing Members, Dealing Members & Clients, and Dealing Members & the Central Bank of Nigeria (CBN).

Focused on promoting the development of the markets within its purview through the roll out of innovative initiatives in 2018, with an even expanded scope to unlock capital through the markets for the development of the Nigerian economy, FMDQ shall continue to work with its stakeholders to make the Nigerian financial markets "**GOLD**" – **G**lobally Competitive, **O**perationally Excellent, **L**iquid and **D**iverse.

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19th OTC FX Futures Contract Matures and Settles on FMDQ

With a total of $10.95 billion worth of the Naira-settled OTC FX Futures contracts traded on FMDQ, the Futures Exchange, transactions and activities have commenced in earnest for 2018, with the 19th OTC FX Futures contract, NGUS JAN 31 2018, with notional amount $321.60 million, which matured and settled on FMDQ on Wednesday, January 31, 2018. This maturity brings the total value of matured contracts on FMDQ, since the inception of the market in June 2016 to date, to circa $7.67 billion.

As with the other maturities, and in line with standards stipulated in the FMDQ OTC FX Futures Market Operational Standards, the contract stopped trading eight (8) days before its maturity and was valued against the NAFEX – the Nigerian Autonomous Foreign Exchange Fixing – the FMDQ reference spot rate published on Wednesday, January 31, 2018. The associated clearing/settlement activities were effected accordingly, in line with the standards stipulated.

Consistent with its treatment across the past eighteen (18) maturities, the Central Bank of Nigeria introduced a new contract, NGUS JAN 30 2019 for $1.00 billion at $/₦362.27 to replace the matured contract and refreshed its quotes on the existing contracts. 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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FMDQ Approves Listings of Stanbic IBTC Asset Management Funds on its Platform

Committed to stimulating economic development by championing and supporting market-driven initiatives, the OTC Exchange, through its Board Listings, Markets and Technology Committee, approved the listing of the **Stanbic IBTC Money Market Fund 10,000,000 Units of ₦100.00 each under ₦1.00 billion** (Money Market Fund), **Stanbic IBTC Bond Fund 10,000,000 Units of ₦1.00 each at ₦1.00 per unit, under ₦1.00 billion** (Bond Fund) and **Stanbic IBTC Dollar Fund 5,000,000 Units of $1 each, under US$5,000,000.00** (Dollar Fund) on its platform.

The listing of these Funds on FMDQ's platform, validates its conscious drive to support the goals of corporate businesses and to deepen the Nigerian financial markets by steadfastly availing its efficient platform for the registration, listing, quotation and trading of securities. These open-ended funds are set to enable investors achieve competitive returns on their assets while safeguarding capital, by investing in low risk short-term securities, high quality government bonds and dollar denominated securities domiciled in Nigeria. A formal listing ceremony will be held at a later date to commemorate these listings.

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FMDQ Admits Pioneer Infrastructure Bond in Nigeria - ₦10.00 billion Viathan Funding PLC Power Bond

Globally, infrastructure contributes and facilitates the provision of essential services that support economic growth, enable productivity and underpin the smooth operation of an economy. Over the years, there has been a growing need for governmental bodies and private sector to acquire, maintain, modernise, expand and develop infrastructure facilities essential to ensuring continued growth in economic activity. Commendably, Viathan Funding PLC has indubitably set the pace for the development of Nigeria's infrastructure sectors via the Nigerian debt capital market (DCM), having successfully raised a ***₦10.00 billion Series 1 10-year 16.00% Senior Guaranteed Fixed Rate Bond (the Viathan Bond), under its ₦50.00 billion Bond Issuance Programme.***

As part of its quest to unlock capital for infrastructural and economic development in Nigeria, FMDQ, through the debt capital markets has again demonstrated its commitment by providing due diligence and availing its credible and efficient platform for the listing and trading of the Viathan bond, making this the first-ever infrastructure bond to be issued in the Nigerian debt capital market and listed on FMDQ.

The bond, which is backed by the irrevocable and unconditional guarantee of Infrastructure Credit Guarantee Company Limited (InfraCredit), aims to enable investors access infrastructure as an asset class, while providing the benefit of predictable returns available from long-dated infrastructure debt investments. The bond proceeds would be utilised by the Viathan Group to expand its power generation capacity by 7.50 megawatts, construct a compressed natural gas plant and refinance short-term bank debts. A prestigious and unique listing ceremony, in honor of the issuer, to commemorate this significant milestone, will be hosted on FMDQ.

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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, 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 - December 2017)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	21,094,093	65,946
Foreign Exchange Derivatives	17,106,834	53,693
Treasury Bills	60,320,604	190,410
Bonds*	9,956,246	31,456
Repurchase Agreements/Buy-Backs	31,902,299	100,673
Money Market**	1,627,864	5,095
Money Market Derivatives	22,897	73
Total	**142,030,838**	**447,347**

No. of Business Days	248	248
Average Daily Turnover	**572,705**	**1,804**

Full Year (FY) 2017 Average Rate $/₦ @ 317.50
mm - million
**Bonds include FGN Bonds, other Bonds and Eurobnds*
*** Includes commercial papers*
Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks)
Source: FMDQ Data Portal as @ Jan. 3, 2018; Figures reported by Dealing Member (Banks) on a week-ending basis

The month of December 2017 recorded ₦11.86 trillion in turnover, a decline of 20.13% when compared to ₦14.85 trillion recorded in November 2017, bringing the total turnover for 2017 to ₦142.03 trillion. The month-on-month (MoM) decline was primarily driven by reduced trading activities experienced in the T.bills and Repurchase Agreements (Repos)/Buy-Backs product categories, which respectively make up the 35.26% and 23.12% of overall turnover for December 2017.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January – December 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	CITIBANK NIGERIA LIMITED
8	DIAMOND BANK PLC
9	UNION BANK OF NIGERIA PLC
10	GUARANTY TRUST BANK PLC

The top ten (10) Dealing Member (Banks) accounted for 71.58% (₦101.66 trillion) of the overall turnover in the market, with the top three (3) accounting for 49.51% (₦50.34 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and Ecobank Nigeria Limited maintained their position on the League Table as the top three (3) banks for the ninth (9^{th}) consecutive month, ranking 1^{st}, 2^{nd} and 3^{rd} respectively, in the value traded for the overall OTC market.

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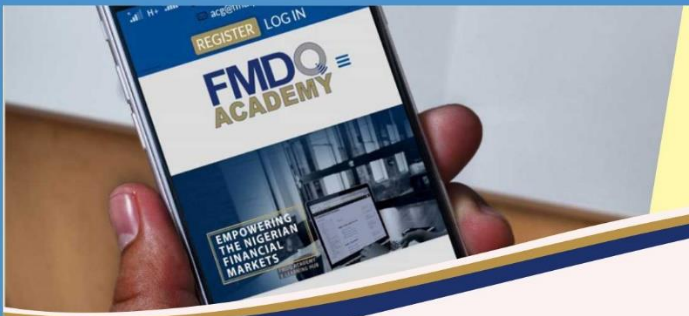

Infrastructure Funds: Insights and Opportunities

The December 2017 edition of FMDQ Spotlight explored infrastructure as a unique and evolving asset class, focusing on how it constitutes a strategic investible asset class in the debt capital markets. As an asset class, infrastructure is characterised by high barriers to entry and near-guaranteed demand, offering investors long-term, stable and predictable cashflows. Private investments in infrastructure projects can be made through infrastructure funds, infrastructure bonds, direct infrastructure investments, as well as specialist products such as infrastructure exchange traded funds, fund of funds, etc., that have been developed in the capital markets. This edition of FMDQ Spotlight focuses on investment insights and attractiveness of infrastructure funds to investors.

According to the Securities and Exchange Commission (SEC), Nigeria, infrastructure fund refers to a specialist fund or scheme that invests primarily (minimum 90% of the scheme's net assets) in securities and securitised debt instruments of:

- Infrastructure companies
- Infrastructure capital companies
- Infrastructure projects
- Special purpose vehicles which are created for the purpose of facilitating or promoting investment in infrastructure, and
- Other permissible assets, including, revenue generating projects of infrastructure companies, or projects of special purpose vehicles

Infrastructure funds are created and managed by specialist fund managers who make investment decisions on behalf of investors (which could be retail or institutional). The funds represent a pool of monies, from various investors for the ultimate purpose of financing (at a perceived attractive return) the development of strategic infrastructure assets including 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 income generated by infrastructure funds is often distributed periodically to the investors (unit holders) after deducting the operating expenses, in line with stated investment objectives in the fund prospectus.

Infrastructure funds could be open- or closed-ended and may be listed on an exchange or unlisted. Open-ended funds are bought and sold on demand, and do not limit the unit of shares it can offer; whilst closed-ended funds have a fixed number of shares, traded amongst investors on an exchange. Specialised funds that are listed and traded on an organised securities exchange such as FMDQ, offering infrastructure exposures to portfolio investors with lower cost, greater liquidity and diversification, are known as Listed Infrastructure Funds. An example of a listed infrastructure fund 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) currently listed and trading on FMDQ.

On the other hand, the unlisted infrastructure funds could either be open- or closed-ended and are usually invested in by private equity investors. Unlisted infrastructure funds are not listed on any exchange, hence have less price volatility.

Attractiveness of Infrastructure Funds

Infrastructure funds offer diverse advantages and opportunities to the capital market as well as to various capital market stakeholder groups such as issuers and investors. To the **capital market**, infrastructure funds provide an opportunity to deepen market liquidity and expand investible asset alternatives for the investors. This is strategic for the growth of the domestic capital markets through wider participation. To the **issuers** (which could be the government or corporates), infrastructure funds provide a unique opportunity for mobilising long-term funding (from various sources, including foreign portfolio investments) for strategic infrastructure projects and at a market determined cost. To the **investors**, infrastructure funds offer relatively attractive long-term returns, opportunity for portfolio diversification, potential protection against inflation, as well as an ability to provide stable cash flows. These potential benefits of infrastructure funds to investors are further discussed below:

- **Attractive long-term returns:** Owing to the essential nature of the services provided by infrastructure assets, they are often designed to allow private owners earn fair returns, so as to incentivise them to keep the facilities in good working order and invest for future growth and modernisation
- **Portfolio diversification:** Infrastructure funds offer investors the diversification opportunity, given that the returns typically have low correlation to other major asset classes (such as equities, real estate, derivatives, etc.). Furthermore, infrastructure funds can invest in global portfolio of listed infrastructure securities, diversified across a wide range of countries and infrastructure sectors
- **Potential protection against inflation:** The pricing (and cash flows) of services rendered by infrastructure assets are often structured to explicitly compensate for any increases in the general price level (inflation). The pricing is determined by the regulators, concession agreements with governments, and long-term contracts, which give the owners powers to adjust the rates (or prices) according to trends in inflation and/or the economy over time
- **Stable cash flows and economic insensitivity:** Because most infrastructure assets enjoy monopoly status, and provide essential services to the markets they serve, demand is often very stable and largely insensitive to economic swings. Consequently, demand does not materially decline with price increases or during periods of economic weakness

Investment in infrastructure is not risk-free. As such, major risk considerations are as follows:

1. **Asset-specific risks** - which refer to potential errors in the design, construction and operation of the particular infrastructure assets, and could lead to lower returns or project failure

2. **Market risk** - which could crystallise when the market demand falls significantly below forecast, or when interest rate environment induces an unprecedented increase in funding cost

3. **Political risk** - which could materialise when a new government cancels an infrastructure project or significantly changes the operating terms of the project

To invest in infrastructure funds, it is expected that prospective investors must study the fund prospectus (which has details of the fund manager, issuing house(s), trustee(s) to the fund, nature of the fund, credit rating, price, amongst others) in detail and contact qualified advisers for professional advice.

In summary, infrastructure assets provide essential services which are necessary to support economic and social activities. Globally, there is an increasing need for governments worldwide to periodically replace, upgrade and/or build infrastructure assets to meet rapidly expanding demands. The inadequacy of public funds to meet the infrastructure funding gap across various economies opens unique investment opportunities for private and institutional investors through infrastructure funds and other specialist products in the capital market.

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