THE MULTIFUND STRUCTURE

1. BACKGROUND INFORMATION ON THE MULTI-FUND STRUCTURE

- The National Pension Commission (PenCom) released a new investment guideline for Pension Fund Operators in April 2017.
- The major changes made to the new guidelines by PenCom was the separation of the Current Retiree Savings Account (RSA) Active Fund into 3 Funds; under a new regime called **Multi Fund structure, and the introduction of non-interest bearing fixed income instruments.**
- The existing RSA Retiree Fund was also retained, making it the fourth fund.
- Key eligibility requirements for the Four Funds are:
  - Fund I shall be on request
  - Fund II shall be for contributors that are 49 years old and below
  - Fund III shall be for contributors who are 50 and above
  - Fund IV is the existing Retiree Fund
- Contributors shall be allowed to move a step backward from their default Fund, if they do so desires.
- **The new structure has been designed to allow Pension Fund Administrators (PFAs) to invest Pension Fund assets in line with the age profile and risk tolerance levels of their various contributors.**
- **The newly introduced asset classes is to accommodate the interest of ethically minded contributors to the RSA Funds and in line with the financial inclusion objectives of the Federal Government**.

2. SPECIFIC CHANGES RELATING TO THE NEW FUND REGIME

- Introduction of a **minimum exposure to *variable income securities** for the Funds.
  - Fund I: 20% of Portfolio Value
  - Fund II: 10% of Portfolio Value

    - Fund III: 5% of Portfolio Value
    - Fund IV: 0% of Portfolio Value

- Introduction of maximum exposure to variable income securities: The breakdown is shown below:
    - Fund I: 75% of Portfolio Value
    - Fund II: 55% of Portfolio Value
    - Fund III: 20% of Portfolio Value
    - Fund IV: 10% of Portfolio Value

*Variable income securities are financial instruments that their returns are not fixed. Their returns is subject to movements in the market price of such assets. According to the new regulation, they are: Ordinary shares, open and closed ended funds (mutual funds), Real Estate Investment Trusts (REITs), infrastructure funds and private equity funds.

- Introduction of new global limits for the various asset classes per Fund. Most of the old global limits were retained under Fund III & Fund IV.
- The **Retiree Fund** as is currently constituted is in compliant with the new global limits.
- Fund I & Fund II shall each have a minimum of 2.5% of pension fund assets under management in alternative assets namely **Infrastructure Funds, Private Equity and Real Estate (Housing)**.
- However, it is not clear yet how investment in Real Estate will be invested as the amended RIPFA did not clearly list housing as an asset class (Though, REITs are stated as a type of variable income instruments).
- The existing RSA Active Fund is largely expected to transform to Fund II (i.e. Default Fund) from where existing assets shall be transferred to Fund I & III.
- Switch between Fund types allowed once in 12 months without fees. Additional switches in a year shall attract a fee.

Please see the summary of the key changes in the new regulation in the table below:

S/N	**DESCRIPTION**	**AGE BRACKET**	**VARIABLE INV. SEC. (MIN & MAX)**			**ALTERNATIVE ASSETS ALLOWED (MIN)**	**COMMENTS**
				MIN	MAX		
1	FUND I	< 49 YEARS	YES	20%	75%	YES/2.5%	N/A
2	FUND II	≤ 49 YEARS	YES	10%	55%	YES/2.5%	CAN TRANSIT TO FUND I
3	FUND III	> 50 YEARS	YES	5%	20%	N/A	CAN TRANSIT TO FUND II

4	FUND IV	RETIREE	YES	0%	10%	N/A	NO TRANSIT
	VARIABLE INC. SEC • ORDINARY SHARES. • OPEN AND CLOSED ENDED FUNDS • REITs • INFRA. FUND	ALTERNATIVE ASSETS • INFRA. FUND • PRIVATE EQUITY • REAL ESTATE (HOUSIN G)	NON INTEREST SEC. • SUKUK (BONDS) • OPEN & CLOSE-ENDED HYBRID INVESTMENT FUNDS				NOTE: TO SWITCH BETWEEN FUND TYPES ALLOWED ONCE A YEAR WITHOUT FEES.

3. HOW DOES THE NEW REGIME AFFECT OUR CONTRIBUTORS?

- Multi-Fund structure ensures the age profile of RSA holders is taken into consideration in the investment management activities of PFAs, to properly align the risk tolerance levels of account holders with their return objectives.
- The new regime will give more control to the account holders over how their pension funds are invested.
- An RSA holder in Fund III may have more tolerance for risks taking and could opt to be assigned to Fund II.