

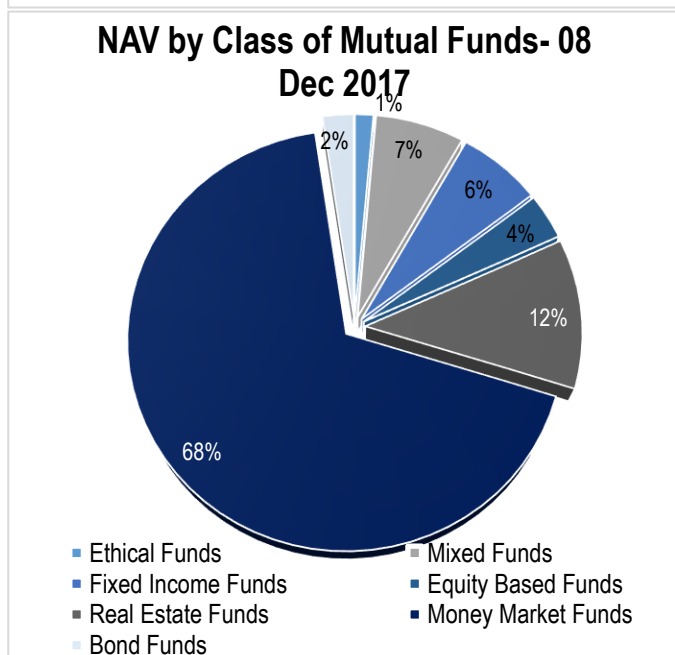
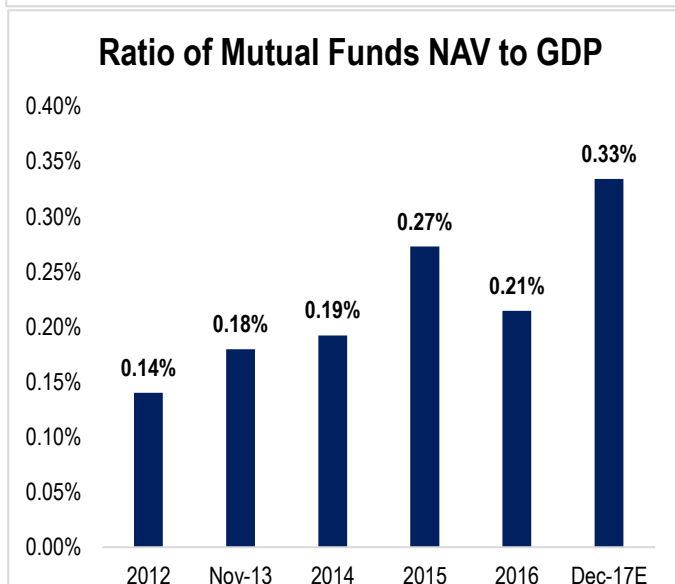
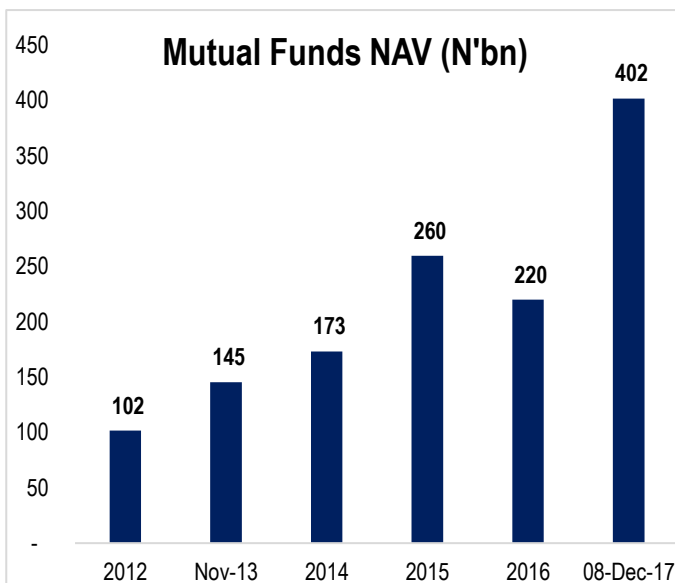
Wealth Creation through Mutual Funds

Mutual funds provide wealth creation opportunities for low-income investors. Mutual funds are pools of funds that a professional Fund Manager brings together from various investors to invest in selected underlying securities. The underlying securities can be one or a combination of the following: stocks (shares), money market instruments, fixed income securities, real estate, and commodities. The pooling of a large number of relatively small investment sums enables low-income investors to gain access to all the benefits of a professional investment manager whose job is to deliver superior return on a long-term basis.

Most mutual funds are open-ended investment schemes. This means that the Fund Manager creates additional units for new investors on demand, based on the Net Asset Value (NAV) per unit and the amount of money to be invested. The Fund Manager is able to provide active liquidity for the mutual fund by creating new units for new investors and redeeming units from existing investors who want to sell units for cash.

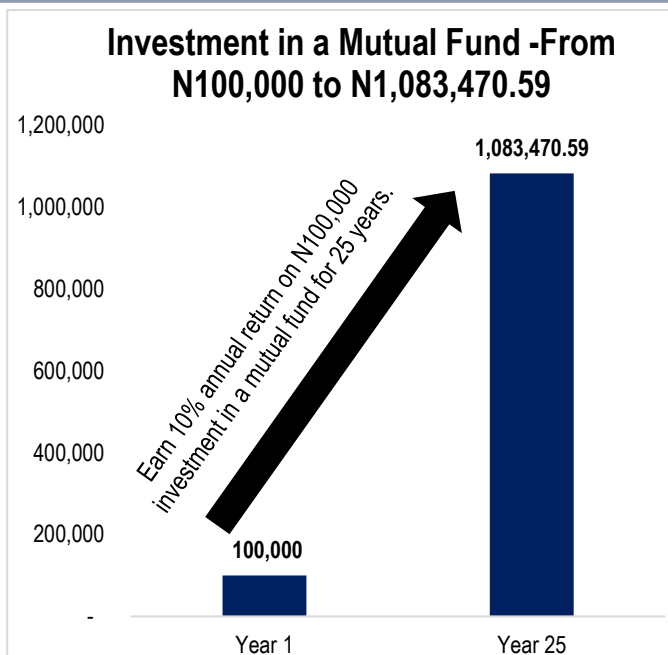
Mutual funds offer a range of benefits to investors including portfolio diversification, lower transaction costs and superior returns. The existence of a Trustee and Custodian ensures the safety of investments, as the Trustee ensures that the fund is managed in line with approved investment guidelines and the Custodian holds the fund assets. Most importantly, mutual fund investments are affordable for low-income investors as some funds only require an initial investment of N5,000.

Although mutual fund assets in Nigeria have grown significantly in the last five years, its ratio to the country's Gross Domestic Product (GDP) is very low at 0.33%. The latest data from the Securities and Exchange Commission (SEC) on the NAV of all registered mutual funds in Nigeria shows that the collective NAV



grew by 295% between 2012 and December 8, 2017 to N402billion. Money Market funds dominate the NAV of mutual funds at 68%.

FSDH Research believes low-income investors can take advantage of the investment opportunities in mutual funds to create wealth over a long period of time. Our illustration shows that an investment of N100,000 in a mutual fund can easily grow to N1,083,470.59 in 25 years. This is possible if the mutual fund earns 10% return consistently on a yearly basis.



Sources: National Bureau of Statistics (NBS), Securities and Exchange Commission and FSDH Research Analysis

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