

# A GUIDE TO MUTUAL FUNDS



5<sup>th</sup> Edition

*#BeyondToday*

**FBNQuest Asset Management**  
**A Guide To Mutual Funds**  
5<sup>th</sup> edition

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PENSION

HOUSE

MEDIC

MISC

COLLEGE


## WHAT IS A MUTUAL FUND?

*Over the years, mutual funds have made a name for being one of the simplest and most affordable ways for individual investors to realise their short, medium and long-term investment goals.*

*Investing in a mutual fund is easy and rewarding and by learning more about them, a new investor is able to take the first step towards reaching their financial goals.*

A mutual fund is an investment vehicle that allows you, an investor, to combine your money with that of other investors seeking a similar investment outcome, and have a professional investment manager use their skills to manage the money to achieve that stated outcome. The investment manager invests in various instruments such as cash, treasury bills, bonds, equity, real estate, etc.

To create and manage your own diversified portfolio, you usually need a lot of capital and market understanding. However, when you invest in mutual funds, you group the money that you would like to invest with a number of other investors, and these funds are collectively invested by an Investment Manager. This way you do not have to be a financial expert or have large sums of money to invest, to maximise your returns.



Mutual funds pay out distributions monthly, quarterly, semi-annually or annually and these distributions can be reinvested if you wish to do so.

## **BENEFITS OF INVESTING IN A MUTUAL FUND**

With the wide number of investment solutions available on the market, you might wonder what makes a mutual fund so special.

Well, mutual funds stand out from other investment solutions because they offer:

**Segregation of assets:** To provide an additional level of security to investors, our mutual funds are required by law to have their assets held by an independent custodian.

**Diversification:** Mutual funds invest across a wide and diverse range of securities to assist in lowering risk. It is more difficult for individual investors to gain the same level of diversification that mutual funds offer their clients.

**Daily pricing:** Mutual funds are priced daily so you will always know the value of your investment.

**Affordability:** Mutual funds are affordable because money is pooled together and larger transactions can be concluded in a more cost-effective manner.

**Liquidity:** Mutual funds can be bought or sold on any business day.

## **YOU HAVE ACCESS TO YOUR MONEY WHEN YOU WANT IT**

**Expert management:** Mutual funds are managed by financial experts who investigate and analyse securities full-time.

**Tax advantages:** Distributions to unit holders are not subject to withholding tax.\*

**Simplicity:** As a mutual fund subscriber/investor, you own a sophisticated and diverse portfolio of shares, bonds and securities without having to manage them.

**Variety:** Different mutual fund types exist to achieve different investment objectives.

**Flexibility:** Investors are able to subscribe to the fund and redeem their mutual fund units at any given time.

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*\*Government policies may change.*



## *INVESTING IN MUTUAL FUNDS VS. MANAGING YOUR OWN INVESTMENTS*

A mutual fund is managed by professional financial managers who use expert knowledge and market research as they invest in various asset classes to generate returns for mutual fund investors.

When an investor manages their own investments, the investor advises a stockbroking firm on which shares to buy/sell as well as when to buy/sell. The firm operates on investors' instructions and the responsibility rests on investors to stay up-to-date with what the markets are doing.

## *TYPES OF MUTUAL FUNDS*

Mutual funds can be broadly categorised based on the type of asset class they invest in.

**The main types of mutual funds are:**

- Stock/Equity Mutual Funds
- Bond/Fixed-Income Mutual Funds
- Money Market Mutual Funds
- Multi-asset Mutual Funds

### **Stock/Equity Mutual Funds**

A stock or equity mutual fund invests in the shares of companies and organisations. If you have a higher risk appetite, this is the type of fund for you.

### **Bond/Fixed Income Mutual Funds**

As the name suggests, a bond fund invests mainly in fixed income securities with a higher allocation to bonds, such as government and corporate bonds. These funds are usually more volatile than money market funds, and usually pay out distributions to investors.

### **Money Market Mutual Funds**

The goal of a money market fund is to uphold a steady net asset value for the fund while making regular distributions to investors. This is achieved by investing in short-term, interest bearing securities such as treasury bills, certificates of deposit and commercial papers.

### **Multi-asset Mutual Funds**

Multi-asset mutual funds are a combination of bond, stock and money market instruments which means that a diverse spectrum of investment instruments are included in these funds. These funds are normally focused on medium growth over a longer investment period.



## **CHOOSING THE RIGHT MUTUAL FUND FOR YOUR INVESTMENT OBJECTIVES**

Irrespective of what life stage you are in now, there is always a short- medium- or long-term objective worth saving up for. It is never too early to start investing using a mutual fund and building your wealth for a better future for yourself and your loved ones. And the first step to doing this is choosing the right fund for your investment objective(s).

### **LONG-TERM GOALS**

Fewer things in life can bring peace-of-mind than the knowledge that your financial future is secure. Whether you will be investing for retirement or purely for financial security, a mutual fund that yields greater returns over the long-term can help you enjoy financial independence.

### **MEDIUM-TERM GOALS**

Medium-term investment goals can include anything from buying a home, upgrading your house or office or most commonly, saving for your child's education. Tuition fees are expensive and not something that every parent can pay as part of their monthly expenses. A mutual fund with low to medium risk and great returns, can take the pressure off when

the time comes for your children to advance in life.

### **SHORT-TERM GOALS**

Buying a car, paying for your wedding, going on that well-deserved break or funding any unforeseen circumstances.

***IT DOESN'T MATTER  
WHAT YOUR SHORT-  
TERM GOALS ARE,  
WHAT DOES MATTER,  
IS HOW QUICKLY YOU  
CAN ACHIEVE THEM***

Nobody knows what the future has in store and that is why investing in a mutual fund that gives you access to a lump sum at short-notice, is an excellent idea.





## WHAT TYPE OF RETURN CAN BE EXPECTED FROM A MUTUAL FUND?

When investing in a mutual fund, it is important for you to know what kind of return you can expect from it. To answer this, we first need to look at the two ways in which a mutual fund earns money from its securities:

1. A mutual fund earns money when a security receives interest and pays out dividends to the fund
2. It also earns money when a security's value increases

With these in mind, it is important for investors to note that the return of a mutual fund is dependent on what kind of assets the mutual fund invests in and how long the investor is investing for - investments in risky asset classes, (e.g. equity) usually generate higher returns than those in less-risky asset classes; also long-term investments are more likely to result in higher returns than short-term investments.

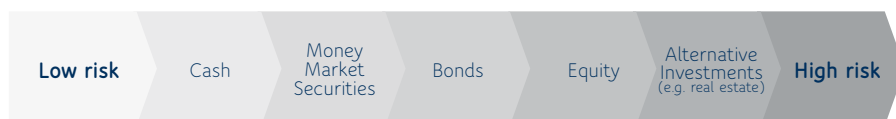
## MEASURING A MUTUAL FUND'S PERFORMANCE CAN ALSO GIVE YOU A GOOD IDEA OF THE RETURNS YOU CAN EXPECT

You can do this by looking at the fund's Net Asset Value (NAV) performance over time. However, in the case of money market mutual funds, performance is better measured by the yield.

## RISKS ASSOCIATED WITH MUTUAL FUNDS

With all kinds of investments, there are risks involved. Luckily, with a mutual fund these risks are known. Each mutual fund's prospectus describes the fund's risks in detail allowing you to invest in the fund that caters most to your risk appetite.

It is important to note that some asset classes are riskier than others.



## ASKING THE RIGHT QUESTIONS

After establishing your investment objectives, there are a few questions you can ask to ensure that you find the most suitable mutual fund for you. Asking these questions not only allows you to make the right choice but it also helps you to become an informed investor.

Find out the following about the mutual fund you are interested in:

- **How has the fund performed over the past few years?** Ask to view the fund's year-on-year performance and look at its net asset value and yield. Find out if the fund provides regular income and if these returns are what you are looking to get.
- **What are the risks associated with the fund?** There are always risks involved with investments and by finding out what these are from the get-go, it enables you to form realistic expectations.
- **What is the fund's objective?** Ensure that the fund's goals and investment horizon coincides with yours. If you have other investments as well, mention this to your adviser and find out how the mutual fund will compliment them.

- **Who is your Fund Manager?** A fund is only as strong as the individuals who manage it. Find out who they are and what their credentials are.
- **What are the fees involved?** There are management and other fees associated with mutual funds. It is important to find out what these fees are so you decide whether these fees and expenses are reasonable.





## OUR MUTUAL FUNDS

At FBNQuest Asset Management, we offer five open-ended mutual funds to assist our investors in reaching their short, medium and long-term investment goals:

These funds are:

- **FBN Money Market Fund**
- **FBN Halal Fund**
- **FBN Bond Fund**
- **FBN Balanced Fund**
- **FBN Dollar Fund**
- **FBN Smart Beta Equity Fund**



### FBN MONEY MARKET FUND

The goal of the FBN Money Market Fund is to uphold a steady net asset value for the fund. This is achieved by investing in a diverse range of low-risk money market instruments including commercial papers, treasury bills,

bankers acceptance and bank tenured deposits.

The fund gains interest for investors while maintaining a stable NAV price of ₦100 per share making it an excellent short to medium-term investment solution with low risk.


To invest in the FBN Money Market Fund, a minimum of ₦5,000 is required. Distributions are paid out to you quarterly.

*\* Minimum holding period: 30 days*



### FBN HALAL FUND

The FBN Halal Fund is an open ended mutual fund designed to meet the investment needs of investors seeking long-term income generation through Shari'ah compliant investments. The Fund invests broadly in a diversified portfolio of asset backed investments such as Sovereign Sukuk, Corporate Sukuk, Ijarah (Lease), Murabaha (Cost plus mark-up), Musharaka (Partnership) and Mudarabah (Working Partner) contracts.



To get started, simply invest with a minimum of ₦5,000 is required with distributions to unit holders paid out semi-annually.\*

*\* Minimum holding period is 90 days*



### **FBN BOND FUND**

The FBN Bond Fund is focused on investment in bonds over the medium to long-term with low to medium risk. Money is invested in a diverse number of high quality fixed income securities including government and corporate bonds, bank tenured deposits and treasury bills.

This mutual fund offers competitive returns on a regular basis and is suitable for investors looking for a stable income.

To invest in the FBN Bond Fund, a minimum of ₦50,000 is required with distributions to unit holders paid out annually.

*\* Minimum holding period: 90 days*



### **FBN BALANCED FUND**

The FBN Balanced Fund is a balanced mutual fund that aims to earn greater rewards over a longer period. The fund invests in equities, bonds, money market instruments, real-estate and other securities in the capital market, which means that a diverse range of investment instruments are included in these funds.

This fund is recommended for investors who are looking for a medium-risk investment solution that offers long-term capital growth and competitive returns.

To invest in the FBN Balanced Fund, a minimum of ₦50,000 is required with distributions to unit holders paid out annually.

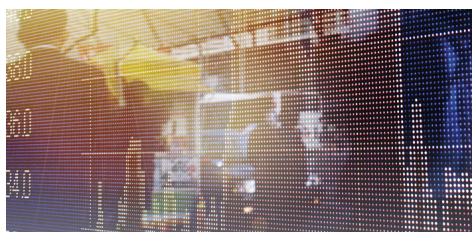


### FBN DOLLAR FUND

The FBN Dollar Fund is a fixed income mutual fund that provides income and capital appreciation by investing in the US Dollar denominated debt instruments issued by the Nigerian government and reputable corporate institutions.

To get started, simply invest with a minimum of \$1,000 (retail investors) or \$100,000 (institutional investors) with distributions to unit holders paid out annually.\*

*\* Minimum holding period is 180 days*



### FBN SMART BETA EQUITY FUND

The FBN Smart Beta Equity Fund is a pure equity fund that invests your money predominantly in a portfolio of Nigerian companies, using a rigorous, research-based and tested evaluation model.

At least 75% of the Fund's assets will be invested in a diversified portfolio of high quality companies listed on the Nigerian Stock Exchange. In order to manage liquidity, the Fund may also invest up to 25% in short-term money market instruments and deposits with financial institutions.

The Fund provides long-term capital preservation by investing in listed stocks across all sectors on the Nigerian Stock Exchange. To get started, simply invest with a minimum of ₦50,000.\*

*\* Minimum holding period is 90 days*



### FBN SPECIALIZED DOLLAR FUND

The FBN Specialized Dollar Fund (FSDF) serves as an investment vehicle that connects investors to broader asset classes. It primarily invests in (USD) dollar denominated debt instruments issued within and outside Nigeria. Instruments include Eurobonds, US Treasuries, and other credible dollars denominated money market assets.

The Fund is open to investors with a medium risk tolerance threshold and an investment horizon of 3-5 years. With **\$10,000** and multiples of **\$1,000**, investors can gain exposure to the Fund and the attractive returns its offers could be targeted to the unique investment goals of each investor. (i.e. Holidays, Retirement, Property or Tuition).

The Fund is open-ended and actively managed by seasoned portfolio managers, under the provision of the investment securities Act 2007 and SEC guidelines. Returns are distributed annually to unitholders.







## GLOSSARY

<b>Asset class</b>	A group of financial instruments that have similar characteristics and are subject to the same rules and regulations. The three main asset classes are equities (shares), fixed-income (bonds and money market securities) and real estate.
<b>Bond</b>	A debt instrument that endorses an agreement between a borrower and lender.
<b>Capital growth</b>	Profit made on an investment, measured by the increase in its market value over the price paid.
<b>Commercial Paper</b>	A written and signed promise between one party and another with a short-term debt instrument issued by a company.
<b>Dividends</b>	A share of the after-tax profit of a company, distributed to its shareholders according to the number of units/shares held by them.
<b>Equity</b>	An ownership interest in a company in the form of shares
<b>Investment horizon</b>	The period over which an investment is made and is expected to generate income.
<b>Net Asset Value (NAV)</b>	The value of a mutual fund's share. This value can go up and down at any time and is monitored daily.
<b>Returns</b>	Income generated from an investment.
<b>Securities</b>	A financial instrument that represents some type of financial value. Debt securities represent money that has been borrowed and must be repaid and equities are securities that represent a fraction of ownership of a company.
<b>Shares</b>	A unit of ownership that represents an equal proportion of a company's/fund's capital.
<b>Treasury bill (T-bills)</b>	A short-term debt security issued by the government due to be repaid in less than a year.
<b>Yield</b>	The annual income earned from an investment.

Our advisers are happy to guide you on any queries you might have and look forward to assisting you in turning your investment objectives into reality.



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# NOTES

Handwriting practice lines consisting of 20 horizontal blue lines.



The future you dream  
of could start with an  
investment made today.



*Opportunity is your future*

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For further details on how you can invest with FBNQuest Asset Management and take control of your financial future

Simply text your name and location to +234 (1) 270 2290-4, or email [invest@fbnquestmb.com](mailto:invest@fbnquestmb.com) and an Investment Adviser will contact you within 48 hours.

Alternatively, visit your nearest FirstBank Branch.

\* Past performance is a guide and not an indication of future returns. The value of investments and the income from them may fall as well as rise.

\* Minimum starting amounts will vary by mutual fund product.

\* Please read the Prospectus and where in doubt, consult your stockbroker, fund/portfolio manager, accountant, banker, solicitor or any other professional adviser for guidance before subscribing.

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