



NASD OTC  
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Creating liquidity ...transparently

ALTERNATIVE INVESTMENTS

IN

~~A TAPERING~~ *ANY*


ECONOMY

Presented by **Bola Ajomale FCS, FCA**

at the

**24 Annual Conference of the Chartered Institute of Stockbrokers**

November 4, 2020



The Economy

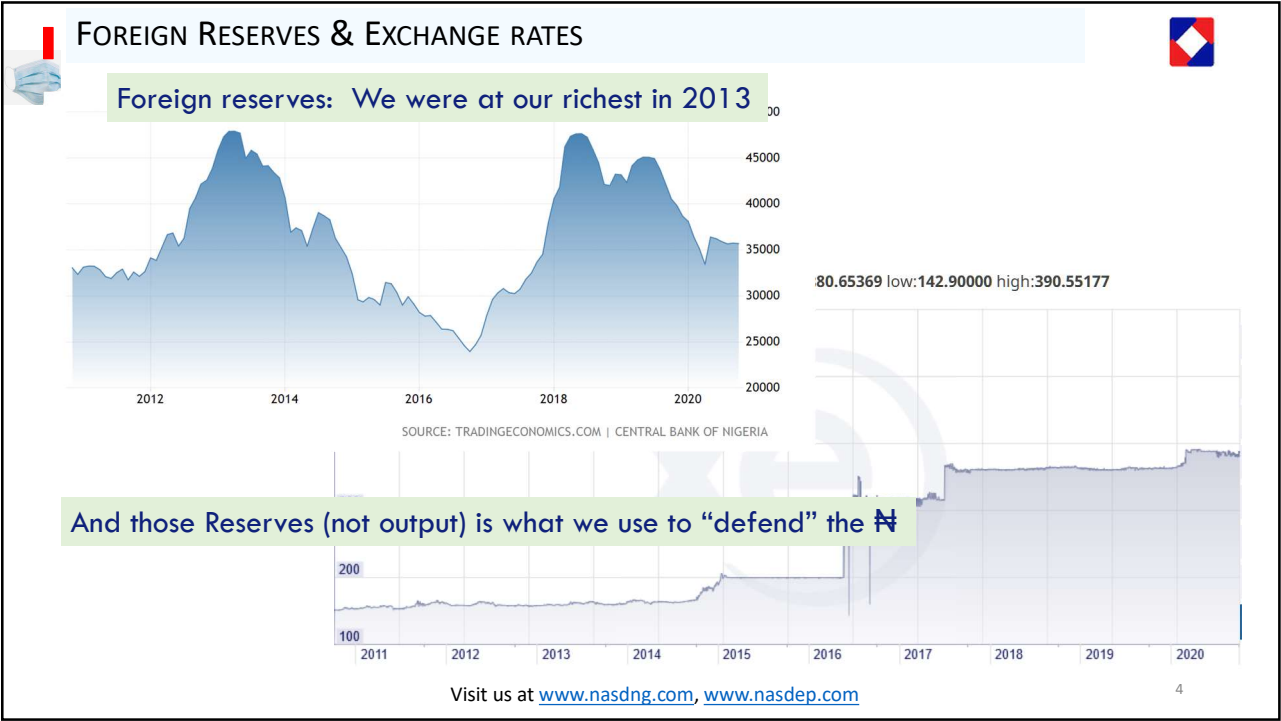
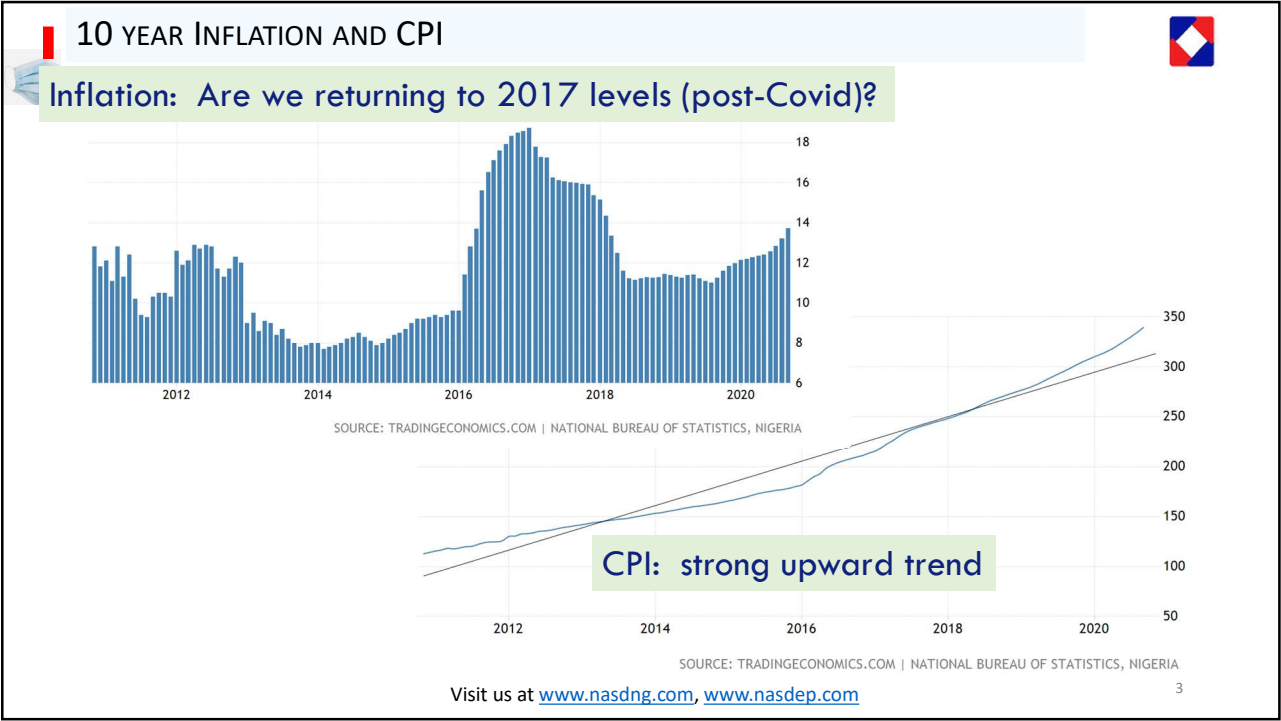
About Alternative Investments

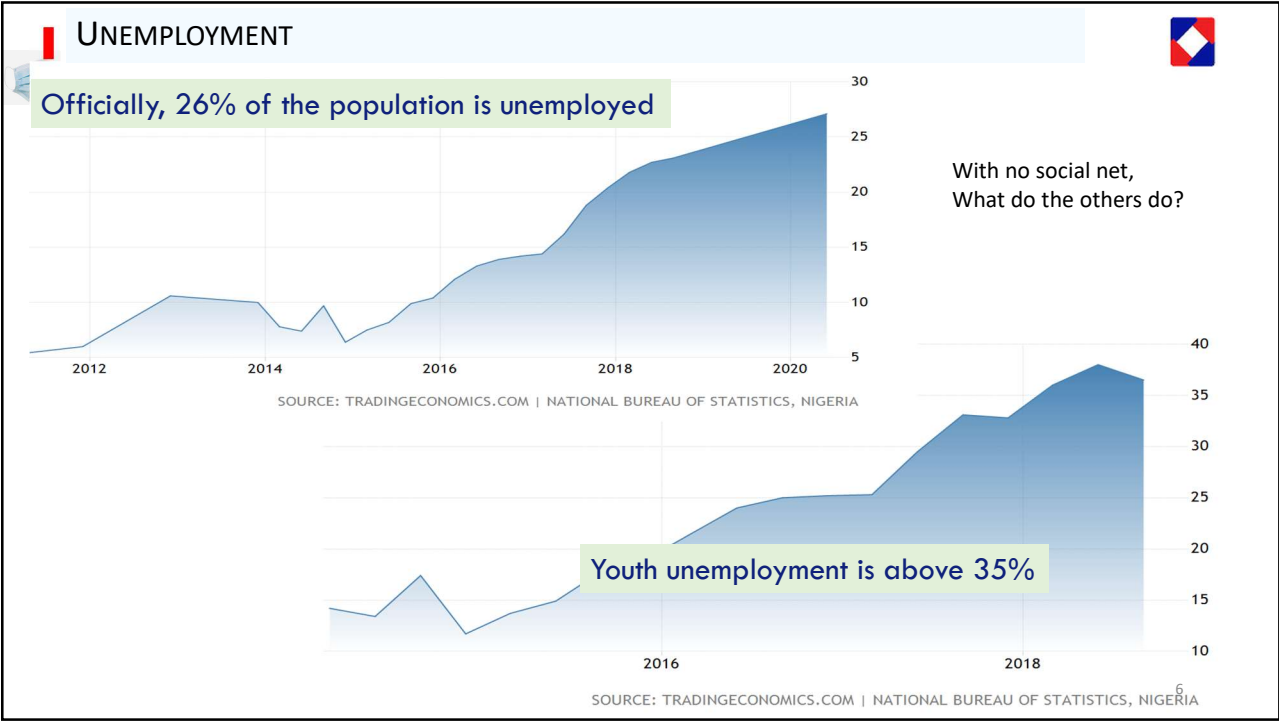
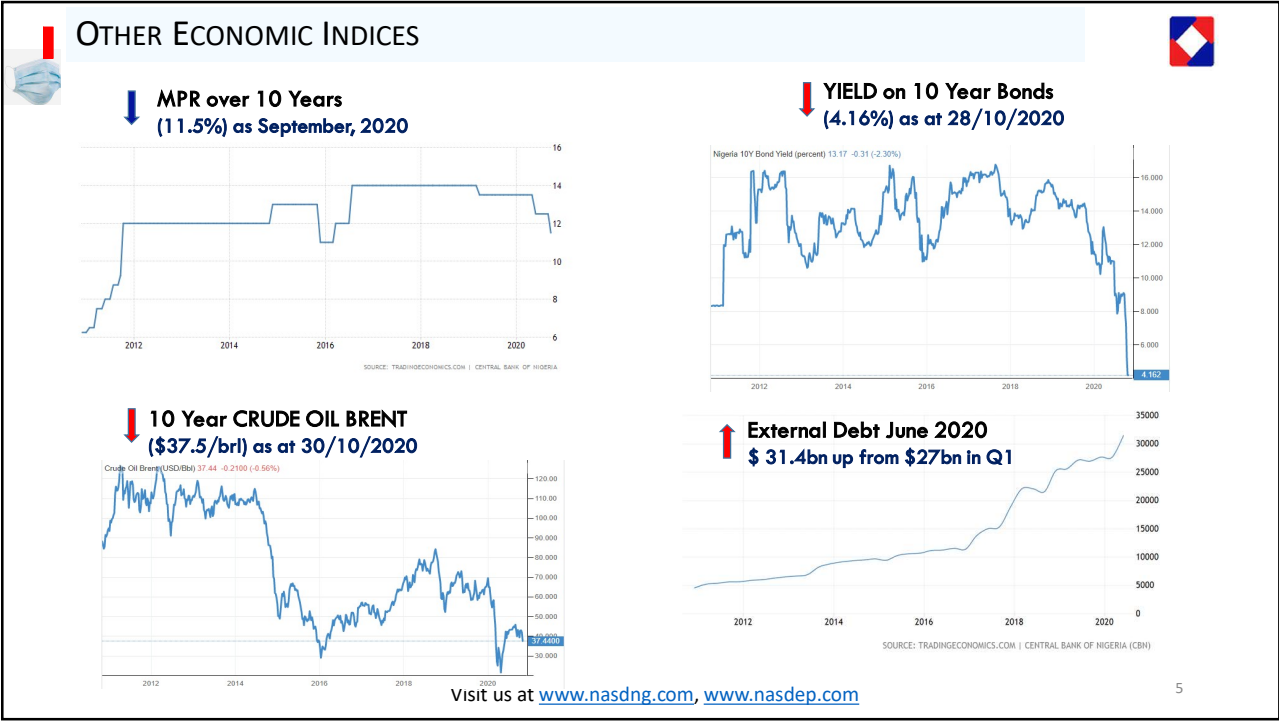
Activity Review

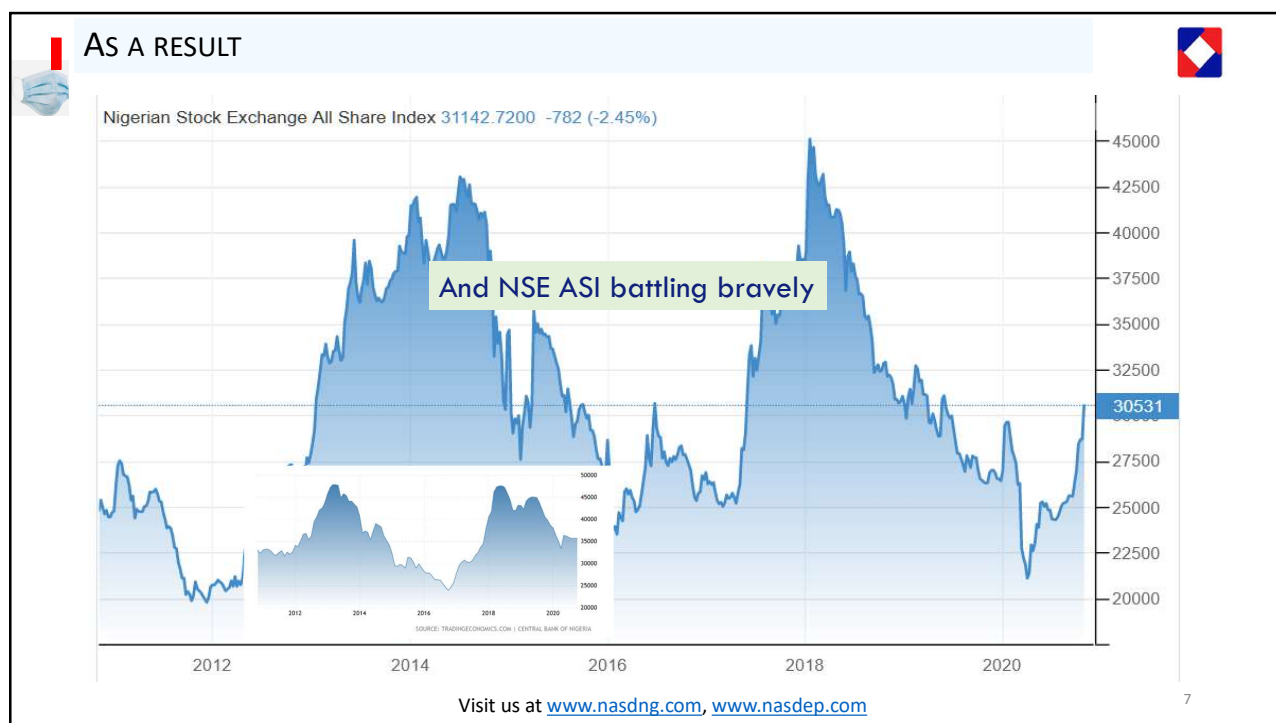
CIS & Alternative Investments

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**SAMPLED HEADLINES** [HTTPS://TRADINGECONOMICS.COM/NIGERIA/NEWS](https://tradingeconomics.com/nigeria/news)

- Nigeria Services Sector Shrinks for 7th Month
- Nigeria Factory Activity Shrinks for 6th Month
- Nigeria September Inflation Rate at Over 2-1/2-Year High
- Nigeria Private Activity Growth Slows in September
- Nigeria Unexpectedly Cuts Key Interest Rate to 11.5%
- Nigeria Posts Widest Trade Gap in 8 Months
- Nigeria GDP Contracts the Most since 2004
- Nigeria Jobless Rate Hits Record High
- Fitch Revises Nigeria Credit Outlook to Negative
- BUT DESPITE/ DISREGARDING ALL THE ABOVE...
- Nigeria Stocks Hit 16-Month High, Post Biggest Rise since 2018 (??!)

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The Economy


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Activity Review


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PARTICIPANT POLL 1 - RESEARCH



• Rank in order of effort / Priority (1- most important; 8 - not important)

NSE top 40	
The Economy	
Small cap NSE	
Other public Equities	
Alternative investments	
Sovereign Debt	
Sukuk	
other	

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## ALTERNATIVE INVESTMENTS CATEGORIES




- **Private Equity:**
  - Hedge Funds, Venture and Growth capital, Buyouts, Equity Crowdfunding
- **Private Debt:**
  - Peer to Peer lending, Distressed Debt, Mezzanine Debt, distressed debt
- **Real Estate:**
  - Mineral Rights, Private Mortgages, Private Company Equity, Structured Settlements, Timberland, Farmland
- **Commodities:**
  - Agricultural products, Oil, Natural gas, Precious & Industrial metals, Energy
- **Collectibles:**
  - Art, rare wines, vintage cards Jewelry
- **Structured Products:**
  - Financial (CDS, MBS, CDOs) ; mortgage backed securities; Industry (Oil and Gas, Marine, Aviation)
- **Legal:**
  - Litigation funding, Tax-Liens Intellectual Property
- **Entertainment & Film**
- **Franchise**
- **Cryptocurrencies**

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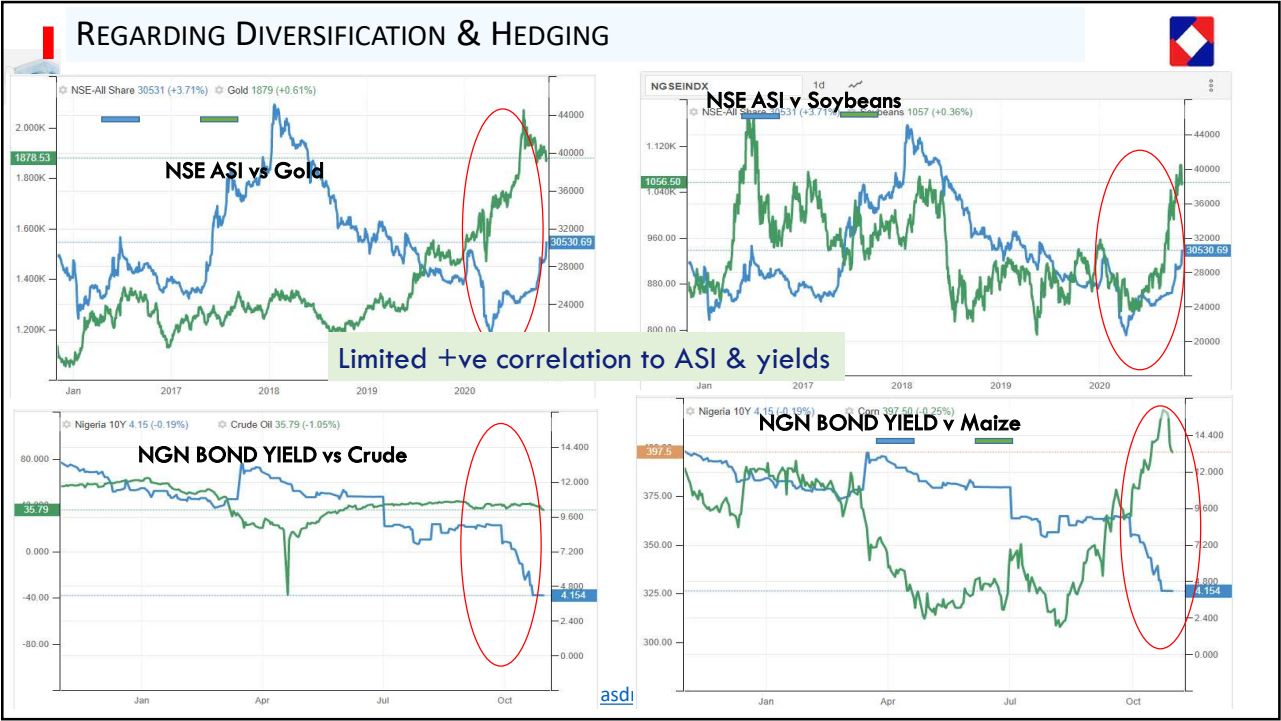
## BENEFITS / DRAWBACKS OF ALTERNATIVE INVESTMENTS





<u>Benefits</u>	<u>Drawbacks</u>
• Investment Portfolio diversification	• Higher fees
• Low Stock Market Correlation	• Complex Valuation models
• Hedges against Inflation	• Obscure pricing
• May generate above average returns	• Often illiquid
• Direct Tax benefits	• Market is Unregulated
• Offers direct project ownership	• High risk of loss
• Issuer interacts directly with investor	
• Issuer spreads risk	
• Less bureaucratic / faster	

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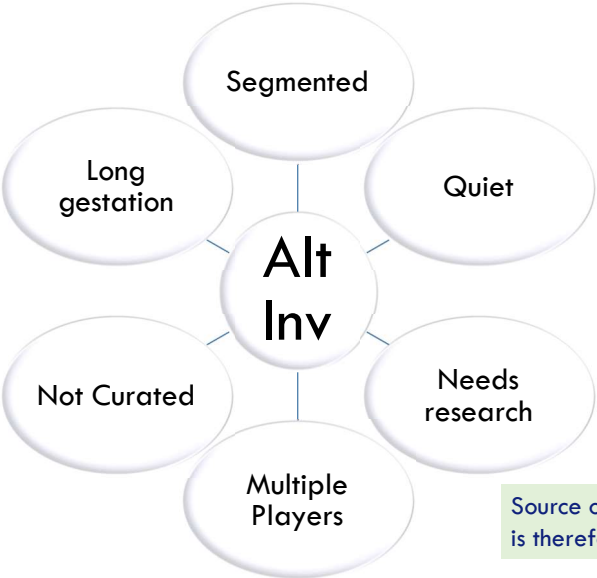
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GATHERING INFORMATION







Source of following information is therefore disclosed

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QUOTES FROM PREQUIN 2020

- In 2018, PreQuin projected growth from \$9 trillion to \$14 trillion in AUM by 2023 in "[The Future of Alternatives.](#)"
- As at June 2020, Global AUM exceeded \$10 trillion

84%



of investors plan to increase their allocation to alternatives in the next five years

Projected Increase in Assets

2017		2023
Natural Resources		
\$0.2tn	+300%➔	\$0.8tn
Private Debt		
\$0.7tn	+100%➔	\$1.4tn
Infrastructure		
\$0.4tn	+150%➔	\$1.0tn
Private Equity		
\$3.1tn	+58%➔	\$4.9tn
Real Estate		
\$0.8tn	+50%➔	\$1.2tn
Hedge Funds		
\$3.6tn	+31%➔	\$4.7tn

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Source: Prequin



CANADA: PORTFOLIO STRUCTURE

CPPIB, the largest Pension Fund Administrator gradually moved portfolio mix

from

56x increase

CDN\$3.5 billion  
(5% of portfolio) in 2005

to

CDN\$178 billion  
(50% of portfolio) in 2018

Growth of Private Market Investing Programs

Asset Type (\$ Billions)	2005	2010	2015	2017	2018
Private Equity	2.9	16.1	50.4	57.8	69.3
Real Estate	0.4	7.0	30.3	40.1	46.1
Infrastructure	0.2	5.8	15.2	24.3	28.6
Other Assets <sup>1</sup>	-	-	-	8.7	9.1
Private Debt	-	0.9	8.0	16.8	20.4
Private Real Estate Debt	-	0.3	3.8	4.8	4.7
Total	3.5	30.1	107.7	152.5	178.2
% of Net Investments	4.3%	23.6%	40.7%	48.1%	50.0%

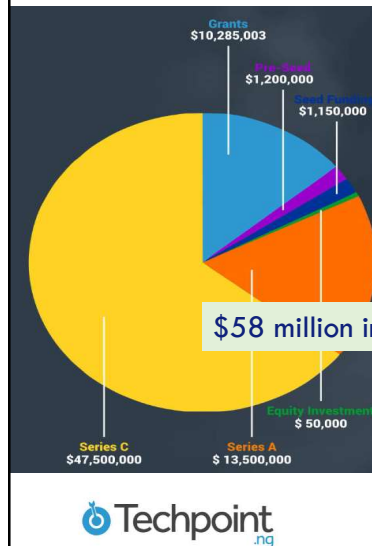
<sup>1</sup> Other Real Assets includes Agriculture and Natural Resources. Prior to 2017 these amounts were reports within Private Equity.

Source: 2018 CPP Investment Board Annual Report

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## NIGERIA: 2018 REPORT



2018	COMPANY	INDUSTRY	FUND PROVIDER	TYPE OF FUNDING	AMOUNT	EQUIVALENT (US \$)
APRIL						
	Asoko Insights	Media	LC Partners, Spice Fund and Zephyr Acorn	Series A	\$3,600,000	\$3,600,000
	Edves	Education	Seedstars	Grant	\$50,000	\$50,000
	TradeDepot	Logistics	PartechBy	Series A	\$3,000,000	\$3,000,000
	EasyShop EasyCook	eCommerce	EchoVC	Seed Funding	Undisclosed	
MAY						
	Touchabl	Media	Hubly	Seed Funding	\$20,000	\$20,000
	Cellulant	Financial service	Rise Fund, Endeavour Catalyst & Sanya Capital	Series C	\$47,500,000	\$47,500,000
	Beat Drone	Service	Diamond Bank	Grant	¥5,000,000	\$13,900
	O-Mobile Multimedia Ltd.	Service	So.Sui.Ben Foundation	Grant	\$10,000,000	\$10,000,000
	Lidya	Financial service	Omidyar Network, Alifhela Capital, Bamboo Capital Partners, Tekton Ventures, Accion Venture Lab & Newid Capital.	Series A	\$6,900,000	\$6,900,000
in a single month!!	CompareIN Ltd	Financial service	Connecticut's Global Venture Challenge	Grant	\$150,000	\$150,000
	Social Lender	Financial service	Connecticut's Global Venture Challenge	Grant	\$5,000	\$5,000
	Amplify	Financial service	Connecticut's Global Venture Challenge	Grant	\$5,000	\$5,000
	Piggybank	Financial service	LeadPath Nigeria, Village Capital & Ventures Platform	Seed Funding	\$1,100,000	\$1,100,000
	LSFlow	Security	FCMB	Grant	₦2,000,000	\$5,560
	Abo Eko	Security	FCMB	Grant	₦1,000,000	\$2,780
	Peachwater Consulting	Manufacturing	CISCO	Grant	\$25,000	\$25,000

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## NIGERIA: 2019



- One relatively unknown crypto company raised \$15m
- At least 16 companies raised more than \$5m in each deal
- Nigerian startups raised \$17.6million in Q1 2019"
- Nigeria raised \$747m in VC money in 2019
- 30% of the capital is coming from Asian countries

Even for fees at 1%, this is a massive client base!

- Q1 2020 funding alone surpassed all of 2019!!!
- TechCabal

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# NIGERIAN ALTERNATIVE INVESTMENTS: BAZAAR IS OPEN









\$5 million





\$200million in a deal





\$5.3 million





NIGERIAN INVESTMENT PROMOTION COMMISSION

\$110 million in H1 2019 for tech startups

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# NIGERIAN FINTECH INDUSTRY: A VOLCANO?



## Three types of accelerators play significant role in Nigerian FinTech ecosystem growing startups via strategic partners

	Focus	Alumni FinTechs	Strategic partners
<div><div>1</div><div><b>Independent accelerator, e.g.</b> </div></div>	Payments, Lending, Cryptocurrency, Payment infrastructure, Trading	<div><div></div><div></div><div></div><div></div></div> <div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>
<div><div>2</div><div><b>Corporate accelerator, e.g.</b> Ecobank Fintech Challenge 2018</div></div>	Payments, Lending, Security, Cryptocurrency, Big Data, Trading	<div><div></div><div></div><div></div></div> <div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div></div>
<div><div>3</div><div><b>Entrepreneur hub, e.g.</b> Co-Creation Hub NIGERIA</div></div>	Smart Infrastructure, Governance, Health and Well-Being, Digital Security, Educating	<div><div></div><div></div><div></div></div> <div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div></div>

Source: BCG Analysis

Approaching halftime...

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PARTICIPANT POLL 2 - ENGAGEMENT



- Reasons for non-participation in Alternative Investment (Tick all that apply)

My clients are not interested	
Deal size too large	
Too much effort required	
Unaware of the opportunities	
It is inaccessible	
Too good to be true	

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WHAT NEXT




- >30% of inflows into Alternative Investments is from outside Nigeria
  - This is likely to grow
- Banks, Telcos, PFAs are however beginning to move into the space
  - Great focus on the future and growth
- Ultimately these investments will seek exit or secondary liquidity
  - Most likely exit will go through the market in which they came
- Nigeria needs to create a plausible exit market
  - Willing investors, patient capital, enabling environment, appropriate regulation, adroit players

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## WE NEED TO ADDRESS THE DRAWBACKS



- **Higher fees**
  - Compensated with quality / speed of service
- **Complex Valuation models**
  - Standardise models and acquire skills to work with them
- **Obscure pricing**
  - AFEX, LCFE and other markets will provide transparency
- **Often illiquid**
  - OTC markets specifically deal with these issues (think 2000's Nasdaq ; current NASD OTC )
- **Market is unregulated**
  - Regulation usually lags innovation.
  - CFA recently expanded GIPS 2020 to cover Alternative Investments
- **High risk of loss**
  - Risk / Reward maxim is a fact of life
  - Perhaps a CIS will even out risk

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## FINAL THOUGHTS...



**CIS members must be:**


- **Well trained**
  - Skills required include
    - Valuation, research, modelling, engineering, hedging
    - Patience, tenacity. inquisitiveness
- **Adventurous**
  - The gains are in the new world emerging. Pioneers take the cream.
  - We have six markets in Nigeria. Push them to deliver the right platform
- **Interested**
  - Redefine your universe, CIS to CISIM is a critical move
  - **All** investment activity is within the Stockbrokers purview
- **Advocates**
  - Investors should be encouraged to see the value
- **Informed**
  - PE's are currently considering opening up OTC trading for maturing portfolios
  - Primary investor targets are PFAs
  - CIS members should be consulting on this

**Keep your lunch**


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Launched 2013  
Enables Public Security trading




Launched 2018  
Supports Private Companies  
Primary Market




Launching soon  
Primary Market

Subsidiaries



Provides advisory functions on  
Capital Markets



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