

# NIGERIA INFRASTRUCTURE DEBT FUND

A CHAPEL HILL DENHAM FUND

## Quarterly Report to Unitholders – 31 March 2020

### Overview

The Chapel Hill Denham Nigeria Infrastructure Debt Fund (“NIDF” or the “Fund”) is the first and only infrastructure debt fund dedicated to and domiciled in Nigeria.

The Fund is classified as an Infrastructure Fund under the relevant rules and regulations of the Securities & Exchange Commission (“SEC”), Nigeria and the National Pension Commission, Nigeria.

The Fund’s Units are listed on the FMDQ OTC Securities Exchange, Nigeria. The Fund has registered a programme for issuance of up to two billion Units with par value of ₦200 billion.

NIDF is sponsored by Chapel Hill Denham and Chapel Hill Denham Management Limited acts as the Fund Manager of NIDF.

### Investment Objectives

NIDF aims to provide investors regular and stable income by making primarily debt investments in infrastructure projects located in Nigeria. It seeks to build a diversified portfolio of investments in projects that (i) provide essential economic and social services; (ii) have long-term predictable cash flows; and (iii) have asset base with long useful life.

NIDF focuses on making investments that offer a high degree of certainty about the future cash flows to be received by the Fund, while seeking to preserve the capital value of its investment assets over the long term. The Fund's investment portfolio of infrastructure loans and other securities targets a gross return of 3.00% to 4.50% over and above the comparable federal government bond yields prevailing from time-to-time in Nigeria.

The income generated by the Fund, in the form of coupon and fees received from the borrowers, is distributed periodically to the Unitholders, after deducting the operating expenses of the Fund.

*All capitalised terms have the meaning ascribed to them in the Fund’s Programme Prospectus dated 9 February 2017. “Reporting Period” refers to the period from January to March 2020. “Reporting Date” means 31 March 2020.*

### Fund Information

Launch date	28 June 2017
Listing	FMDQ, Nigeria
Ticker	CHD NIDF
ISIN	NGCHDNIDF005

### Financial Information

Units in Issue	542,916,636
NAV per Unit <sup>@</sup>	108.26(ex-distribution)
NAV <sup>@</sup>	₦58,776 million
Financial year-end	31 December

<sup>@</sup> Provisional, unaudited

### Distribution Information

Distribution for the quarter	₦3.57
Annualised Distribution Yield on NAV (Trailing Twelve Months)	16.90% #
Distribution frequency	Quarterly

# Quarterly compounded

### Other Information

Fund Manager	Chapel Hill Denham Management Limited
Custodian	Citi Nigeria Limited
Joint Trustees	Stanbic IBTC Trustees Limited STL Trustees Limited
Registrar	United Securities Limited
Auditor	PricewaterhouseCoopers Nigeria
Valuation Adviser	KPMG
Website	<a href="http://www.chapelhilldenham.com/nidf">www.chapelhilldenham.com/nidf</a>

# NIGERIA INFRASTRUCTURE DEBT FUND

A CHAPEL HILL DENHAM FUND

## Investment Policy

NIDF invests in senior and subordinated debt of private or public sector led infrastructure projects in the following sectors and businesses:

- Generation of electricity, including from renewable sources, and its transmission and distribution
- Transportation & logistics, including ports, airports, highways, railway transportation, mass transit systems, industrial zones and warehouses
- Infrastructure for provision of telecommunication services including mobile telecom towers, fibre optic networks and data centres
- Storage and transportation facilities for hydrocarbons, including natural gas
- Water treatment, transmission and distribution for domestic, commercial or industrial use, wastewater treatment and water recycling
- Provision of utilities as well as municipal and industrial waste management
- Social infrastructure such as hospitals, schools, training facilities, accommodation and similar facilities, developed primarily on PPP basis

The Fund may also invest, directly or indirectly, in the working capital loans, subordinated debt, preferred shares or warrants of such borrowers and related assets. At least 80% of Fund's assets will be invested in senior debt, securitised debt or loans to government agencies. Not more than 20% could be invested in working capital loans, subordinated debt, preferred shares or warrants.

## Net Asset Value

As on the Reporting Date, the provisional, unaudited Net Asset Value of the Fund was 58.775 billion Naira (excluding the provision of 1.543 billion Naira for quarterly distribution). Correspondingly, the provisional, unaudited Net Asset Value per Unit of the Fund was ₦ 108.26(ex-distribution).

## Distribution

For the Reporting Period, the Fund announced a quarterly distribution as follows:

- i. For Units in existence at the end of previous reporting period (i.e. 31 December 2019): 3.57 Naira per Unit
- ii. For Units issued under Series 6 Offer: 1.14 Naira per Unit

The level of cash distribution made by the Fund during the Reporting Period was impacted by the substantial dilution resulting from the issue of new units in the Series 6 Offer. Going forward, it is the intention of the Fund Manager to continue paying quarterly distributions to Unitholders, in line with the actual performance of the Fund and the provisions of the Constitutional Documents.

During the Reporting Period, the total returns for NIDF (aggregate of cash distribution and change in the NAV) was 2.9%. This compares to -23.6% return for the NSE-30 index and -22.7% for NSE All Shares index. Also, NIDF's annualised cash distribution yield for the Reporting Period was 13.9% (based on its NAV on 31 December 2019), as compared to average 10-year FGN bond yield of 11.3% and 90-day T-bill return of c. 2.5% (annualised) during the same period.

## Summary of operations

As on Reporting Date, the portfolio of NIDF comprises twelve infrastructure loans aggregating 39.158 billion Naira. During the Reporting Period, the Fund Manager committed to a new infrastructure loan aggregating 1.9 billion Naira, of which 1.3 billion Naira was disbursed during the Reporting Period. During the Reporting Period, the weighted average annualised yield on the Fund's portfolio of infrastructure loans was c. 17.3%.

During the Reporting Period, the Fund successfully concluded the process for raising additional capital, after obtaining the necessary approvals from the SEC (“**Series 6 Offer**”). The net proceeds from the Series 6 Offer aggregated 17.639 billion Naira. The process for deployment of Series 6 Offer proceeds is currently underway, with the Fund Manager continuing the due diligence and negotiations on additional infrastructure loans that are expected to be committed to and disbursed in the subsequent quarters. As on Reporting Date, the aggregate amount of infrastructure loans for which the Fund Manager has executed terms sheets totalled c. 17 billion Naira.

#### ***Covid-19 situation***

During March 2020, the World Health Organisation declared the Covid-19 disease as a global pandemic. The pandemic has affected nearly all countries across the globe, including Nigeria, with governments and health authorities taking a broad range of measures to tackle the situation.

To address the potential risks and challenges arising from the Covid-19 situation, the Fund Manager has undertaken a wide range of actions to ensure smooth operations of the Fund and protection of the interests of its unitholders.

As on the Reporting Date, the staff of the Fund Manager are operating under the “work-from-home” arrangement that has been implemented to ensure compliance with government regulations. The Fund Manager has implemented the business continuity plan to ensure the Fund’s operations remain unaffected due to these restrictions. Consequently, the payment of Q1 distribution to the unitholders was achieved seamlessly and on time.

The Fund Manager is monitoring the overall macroeconomic and public health developments to assess its potential impact on the Fund’s borrowers. The Fund’s borrowers provide essential services such as power supply to their customers, which is necessary to ensure uninterrupted operations.

During the Reporting Period, the business operations of the Fund’s borrowers were largely unaffected. The borrowers have since implemented their own business continuity plans to ensure any potential disruptions to the operations are minimised. The senior management of the borrowers is focused on ensuring the safety and well-being of their staff, customers and suppliers.

The short-term impact of Covid-19 situation on the borrowers’ financial results and, consequently, on the Fund’s interest as a senior lender is insignificant. Given the high degree of uncertainty around the future outlook of the pandemic, it is too early to definitively assess any lasting financial impact thereof. The Fund Manager is closely engaged with the borrowers to assess the stability of their operations, to protect the long-term interests of the Fund. While the situation is expected to remain dynamic and fluid, the extensive security structure and contractual protections established by the Fund Manager for the loans remain valid and enforceable.

Also, while the demand for long-term loans from the Fund for infrastructure project remains robust, the restrictions on international and domestic travel, along with closure of offices in key cities of Lagos and Abuja, is likely to lead to some delay in completion of the due diligence and negotiations on the loan transactions currently being processed by the Fund Manager. It is taking a number of steps to minimise the potential delay, without affecting the overall standards of credit underwriting.

# NIGERIA INFRASTRUCTURE DEBT FUND

A CHAPEL HILL DENHAM FUND

## Investment goals vs. Actual performance

The following table shows the performance of NIDF against some of the key investment goals:

Goal	Performance	Remark
Expeditious deployment of capital raised	Achieved	Available capital (including repayments) being expeditiously deployed in infrastructure loans
Target gross spread of 300-450bps over FGN	Achieved	All loans meet/exceed the target yield
Senior loans to be at least 80% of the portfolio	Achieved	All loans are senior loans
Portfolio to include primarily floating rate loans	Achieved	All loans are floating rate
Invest primarily in long-dated loans	Achieved	The tenor of all loans is between 7 and 10 years
Make quarterly distribution to Unitholders	Achieved	

## Future project pipeline

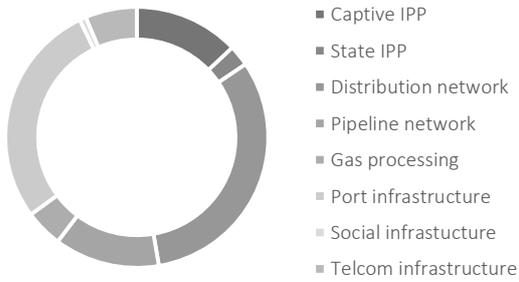
The Fund Manager is actively engaged in sourcing and structuring new infrastructure loans for the Fund. In addition to the infrastructure loans already disbursed and term sheets already executed, it is in various stages of discussions and negotiations on additional loans of c. 15 billion Naira.

Given the substantial investment needs for different infrastructure sectors in Nigeria, the longer-term potential and demand for long-dated, Naira-denominated financing is quite large. The Fund Manager is tracking a large pipeline of projects which are expected to materialise during the next 12-24 months.

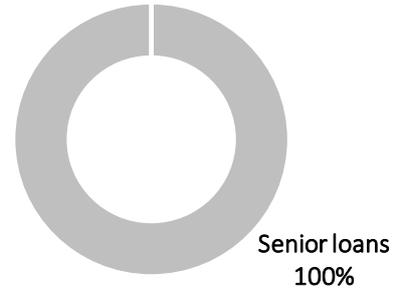
*This report is dated 16 April 2020.*

Appendix: Summary of infrastructure loan portfolio

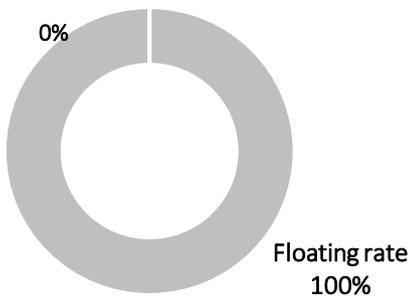
Sector Distribution



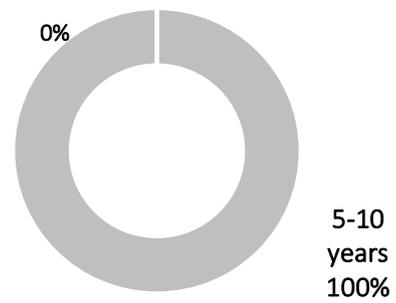
Security Ranking



Fixed vs. Floating rate



Tenor of Infrastructure Loans



# NIGERIA INFRASTRUCTURE DEBT FUND

## A CHAPEL HILL DENHAM FUND

### IMPORTANT NOTICE

This document is issued by Chapel Hill Denham Management Limited (“Chapel Hill Denham” or the “Fund Manager”) an asset management firm, registered with the Securities & Exchange Commission (SEC), Nigeria (“SEC”). Chapel Hill Denham Funds comprise the Chapel Hill Denham Money Market Fund, Women’s Investment Fund, Paramount Equity Fund and Nigeria Infrastructure Debt Fund and are collectively referred to as “Chapel Hill Denham Funds”, “Funds” or “products”, and individually as the “Fund”. The Funds offered by the Fund Manager are registered with and regulated by SEC.

This document is intended solely for the information of the person to whom it is provided by Chapel Hill Denham. It is not intended as and does not constitute an offer or solicitation for the purchase of units of any Fund and should not be relied on by any person for the purpose of accounting, legal or tax advice or for making an investment decision. Persons into whose possession this document may come must inform themselves about, and observe any and all restrictions on the distribution of this document and the offering, sale and trading of the units.

This document may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Funds. These forward-looking statements represent the Fund Manager’s expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional information on the Funds may be found in the Programme Prospectus, for Nigeria Infrastructure Debt Fund, or the Newsletter for the other Funds.

The payment of distribution and the repayment of capital are not guaranteed by the Fund or the Fund Manager. Any forecast, projection or target is indicative only and not guaranteed in any way, and any opinions expressed in this Report are not statements of fact and are subject to change, and the Fund Manager is not under any obligation to update such opinions.

The information contained herein is confidential and is solely for use by those persons to whom it has been addressed. The information contained is not intended for distribution to the public and may not be reproduced, redistributed or published in whole or in part for any purpose without the written permission of Chapel Hill Denham. Neither Chapel Hill Denham, nor its advisers, directors, employees or any of its affiliates accept any liability whatsoever for the actions of third parties in this respect. This product may not be used to create any financial instruments or products or any indices. This document is being distributed in Nigeria only.

**US Residents:** This document is not intended for distribution in the United States of America (“US”). Any persons into whose possession this document comes, should inform themselves about and observe the restrictions imposed by law within the US jurisdiction and applicable to US persons.

**UK Residents:** This document is classified as “marketing communication” as defined by the United Kingdom (“UK”) Financial Conduct Authority (“FCA”) Handbook. It has not been prepared in accordance with the EU legal requirements designed to promote the independence of equity research. Chapel Hill Denham is not authorised by the FCA.

Chapel Hill Denham, its directors, employees or any of its affiliates may have or may have had interest in any of the Funds or products contained herein or hold long or short positions in any of the securities mentioned herein. Chapel Hill Denham however relies on its policies such as ‘Conflicts of Interest’ and ‘Information barriers/Chinese walls’ as well as its robust Compliance programme to control the flow of information.

**Risk Warning:** Investors should remember that the value of an investment and the income received from an investment can go down as well as up, and they may not get back the amount they invested. Past performance is not a reliable indicator of future performance. As with all capital market investments, you may lose your principal/initial investment and we do not guarantee any portion of your investment; either principal or realised/unrealised capital gains made.