

# NIGERIA INFRASTRUCTURE DEBT FUND

A CHAPEL HILL DENHAM FUND

## Quarterly Report to Unitholders – 30 September 2017

<p><b>Overview</b></p> <p>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.</p> <p>The Fund is classified as an Infrastructure Fund under the relevant rules and regulations of the Securities &amp; Exchange Commission, Nigeria and the National Pension Commission, Nigeria.</p> <p>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.</p> <p>NIDF is sponsored by the Chapel Hill Denham group and Chapel Hill Denham Management Limited act as the Fund Manager of NIDF. The Fund Manager is rated “A” by Augusto &amp; Co.</p>	<p><b>Fund information</b></p> <p>Launch date 28 June 2017</p> <p>Listing FMDQ Nigeria</p> <p>Ticker CHD NIDF</p> <p><b>Financial information</b></p> <p>Units in issue 49,450,000</p> <p>NAV per Unit 104.95 (ex-dividend)</p> <p>Total Assets ₦5.190 billion</p> <p>Closing price N.A.</p> <p>Premium / (Discount) N.A.</p> <p>Financial year-end 31 December</p> <p><b>Dividend information</b></p> <p>Dividend paid / declared 0.60 Naira (interim) 4.00 Naira (Q3 )</p> <p>Dividend yield on NAV 18.8% (quarterly compounded)</p> <p>Dividend frequency Quarterly</p>
<b>Other information</b>	
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 Nigeria
Website	<a href="http://www.chapelhilldenham.com/index.php/nidf/#">http://www.chapelhilldenham.com/index.php/nidf/#</a>

*All capitalised terms have the meaning ascribed to them in the Fund’s Programme Prospectus dated 9 February 2017. “Reporting Period” refer to the period from July to September 2017. “Reporting Date” means 30 September 2017.*

### 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 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.

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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.

## 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.

## Summary of operations

After commencing formal operations on 28 June 2017, the Reporting Period was the first full quarter of operations for NIDF.

During the Reporting Period, the due diligence and negotiations were completed in respect of the third infrastructure loan to be funded out of the Initial Capital of the NIDF. This loan has also since been fully disbursed. Along with the other two infrastructure loans disbursed by the Fund earlier during the Reporting Period, the entire net proceeds from the Initial Offer are now fully deployed in infrastructure loans. This pace of deployment is well ahead of the stipulated time period permissible under the Fund's Constitutional Documents.

## Net Asset Value

As on the Reporting Date, the Net Asset Value of the Fund was 5.190 billion Naira (excluding the provisions of 197.80 million Naira for quarterly dividend). Correspondingly, the Net Asset Value per Unit of the Fund was ₦104.95 (ex-dividend).

Compared to the previously reported quarter-end Net Asset Value per Unit of ₦101.226 as on 30 June 2017, the change in reported Net Asset Value per Unit reflects:

- the interest income on infrastructure loans and short-term investments of the Fund during the Reporting Period;
- the up-front fee income on the infrastructure loans committed to by the Fund;
- the gain in fair value of infrastructure loans disbursed by the Fund during the Reporting Period; and
- accrued expenses relation to management and operation of the Fund.

In line with International Financial Reporting Standards ("IFRS"), the Fund holds the infrastructure loans at fair value using the Discounted Cash Flow technique. If the negotiated interest rates on these loans are higher (or lower) than the benchmark rate of return for the Fund, the IFRS requires the difference in the

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net present value of the loan and its face value to be recognised as a one-time gain (or loss). The fair value gains recorded during the Reporting Period are reflective of the fact that, for the initial loans disbursed by the Fund, the internal rate of return (IRR) is 22.5% - above the benchmark rate (being 10Y FGN bond yield + 3.75% = 20.12%). From an accounting perspective, this is a one-time gain. From a cash flow perspective, this "value" will be realised gradually over the life of the loan.

### Listing and trading of NIDF

On 17 July 2017, the Units of the Fund were officially admitted for trading on the FMDQ OTC Exchange. Existing Unitholders and other eligible investors are now able to trade in the Units.

### Distribution

During the Reporting Period, the Fund paid an interim dividend of 60 Kobo per Unit to the Unitholders. This distribution was based on the Fund's interim performance up to the period of 31 July 2017.

Subsequently, the Fund has announced its first full quarterly dividend of 4.00 Naira per Unit for the quarter ending 30 September 2017. This distribution shall be fully funded from the cash income generated by the Fund during the quarter.

Going forward, it is the intention of the Fund Manager to pay quarterly dividends to Unitholders, in line with the actual performance of the Fund and the provisions of the Constitutional Documents.

### Investment goals vs. Actual performance

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

Goal	Performance	Remark
Expedient deployment of capital raised	Achieved	100% capital from Initial Offer deployed in long-term infrastructure loans
Target gross spread of 300-450bps over FGN	Achieved	All initial loans will meet/exceed the target yield
Senior loans to be at least 80% of the portfolio	Achieved	All initial loans are senior loans
Portfolio to include primarily floating rate loans	Achieved	All initial loans are floating rate*
Invest primarily in long-dated loans	Achieved	The tenor of initial loans is between 7 and 10 years
Make quarterly distribution to Unitholders	Achieved	First regular quarterly distribution announced for Q3 2017

\* For certain loans, the interest rate is fixed for the first year.

### Portfolio information

During the Reporting Period, the Fund committed to and disbursed the following infrastructure loan(s):

Borrower	Description	Main terms
Gas Network Services Limited	Distribution of Compressed Natural Gas (CNG) across South-West Nigeria	Amount: ₦1.00 billion Tenor: 8 years Coupon: 10-year FGN + 3.50%

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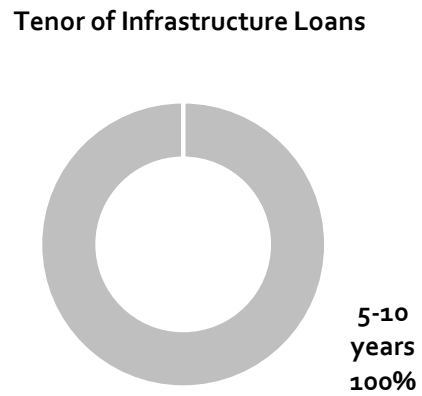
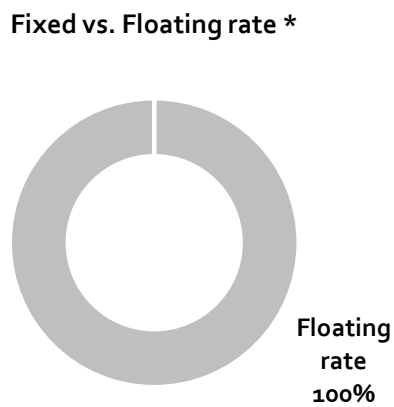
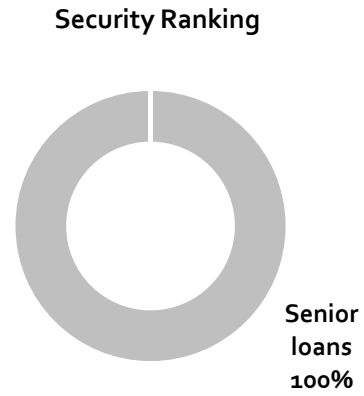
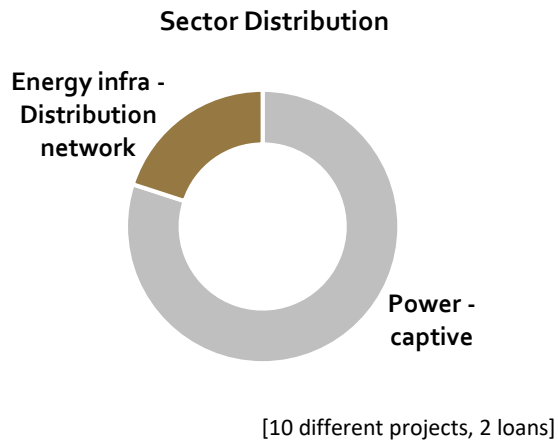
## **Future project pipeline**

The Fund Manager is actively engaged in sourcing and structuring new infrastructure loans for the Fund. Currently, it has signed term sheets for an additional loan amount of 14.3 billion Naira, as well as various stages of discussions and negotiations on loans aggregating 34.3 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 pipeline of projects with potential investment size of in excess of 400 billion Naira, which are expected to materialise during the next 12-24 months.

***This report is dated 04 October 2017.***

## Appendix: Summary of portfolio



\* For infrastructure loans only

## Important Notice

This Report is intended solely for the information of the person to whom it is provided by Chapel Hill Denham Management Limited, the manager of the Fund (“**Chapel Hill**” or the “**Fund Manager**”). This Report is not intended as and does not constitute an offer or solicitation for the purchase of Units of the 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. This document is being distributed in Nigeria only persons into whose possession this Report may come must inform themselves about, and observe any and all restrictions on the distribution of this Report and the offering, sale and trading of the Units.

The payment of dividends 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.

It is important to remember that past performance is not a guide to future performance. Furthermore, the value of any investment in the Units or the income deriving from them may go down as well as up and investors may not get back the original amount invested.

Information contained in this Report is believed to be accurate at the date of publication, but the Fund Manager does not give any representation or warranty as to the Report’s accuracy or completeness. This report does not contain and is not to be taken as containing any financial product advice or financial product recommendation. The Fund Manager does not accept any liability whatsoever for any loss (whether direct or indirect) arising from any use of this Report or its contents.

The Fund is a unit trust registered with and regulated by the Securities & Exchange Commission, Nigeria. This Report may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Fund. 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. For additional detailed information on the Fund including detailed risk factors, please refer to the Programme Prospectus of the Fund (available on request).