The Content of Investment Mandates

Standard GEN. 10-12

made by NAMFISA under subsection 410(2) (hh) of the Financial Institutions and Markets Act, 2021

THE CONTENT OF INVESTMENT MANDATES

1. Definitions

In this Standard:

(a) “Investment Mandate” means the agreement between an Institutional Investor and an investment manager with respect to the investments of the Institutional Investor; and

(b) “Institutional Investor” means a financial institution that is a party to an Investment Mandate.

2. Citation of Standard

This Standard may be cited as Standard GEN. 10-12

3. Interpretation of Standard

This Standard applies to:

(a) every Institutional Investor; and

(b) every investment manager registered under the Act that is a party to an Investment Mandate.

4. Investment Mandate Assessment

(1) An Investment Mandate and all amendments thereto and renewals thereof must be in writing, and must be signed by the Institutional Investor and the investment manager before the Investment Mandate, or any renewal or amendment of the Investment Mandate commences.

(2) Discretion must be exercised by an Institutional Investor in assessing the appropriateness and adequacy of the provisions of an Investment Mandate and must take into account all relevant matters including, but not limited to, the following:

(a) the investment objective of the Institutional Investor;

(b) investment and counterparty restrictions;

(c) expected returns and risk tolerance;

(d) nature of mandate (e.g., discretionary);

(e) portfolio and risk management;

(f) custody and use of assets;

(g) reporting and disclosure requirements;

(h) fees and remuneration of the investment manager; and

(i) delegation of mandate and termination.

(3) Subject to an evaluation of the particular circumstances, NAMFISA must determine whether an Investment Mandate contains appropriate and adequate contents with reference to the criteria referred to in sub-clause 3 (2) .

5. Objective

(1) The factors set out in sub-clauses 3(2) (a) to (c) are relevant to the assessment of the adequacy and appropriateness of the objective of an Investment Mandate, which must, at a minimum, address:

(a) the investment objectives of the Institutional Investor;

(b) the investment strategy to be adopted in the short and long term; and

(c) the terms and conditions of appointment of the investment manager.

6. Portfolio management

(1) The Investment Mandate must, at minimum, set out the following:

(a) the duties of the investment manager;

(b) the types and classes of assets in which investments are to be made;

(c) the composition of asset classes and limits thereto;

(d) jurisdictional gross exposure to asset classes and restrictions thereto;

(e) maximum exposure limits for each asset class;

(f) the index or other measure to be used for benchmarking performance;

(g) actions and procedures in the case of non-performance; and

(h) valuation methods and policies adopted in valuing the listed and unlisted assets in the portfolio.

7. Custody of assets

(1) The Investment Mandate should, at minimum, address the following:

(a) the provision of a power of attorney for the investment manager to perform investment management functions on behalf of the Institutional Investor;

(b) responsibility for appointing a custodian or nominee;

(c) the separation of the funds and assets of the Institutional Investor from the funds and assets of the investment manager and its affiliates and associates, and those of any other clients;

(d) the obligation of the investment manager to deal with the funds of the investor in accordance with the requirements of the Act and the Investment Mandate immediately upon receipt; and

(e) any other information that NAMFISA deems necessary.

8. Reporting

(1) The Investment Mandate must stipulate:

(a) the provision of monthly statements to the Institutional Investor, reflecting at a minimum, the following:

(i) a statement of the investment objectives governing the portfolio as at the closing and starting date of the monthly statement;

(ii) a summary of the portfolio structure;

(iii) investments purchased or sold during the reporting period;

(iv) investments delivered or returned to the Institutional Investor or its nominee;

(v) cash received and payments made;

(vi) details of non-cash transactions;

(vii) income accruals earned and expenses incurred;

(viii) aggregate charges of the investment manager and any subsidiaries, affiliates or associates of the investment manager;

(ix) any remuneration received by the investment manager or any of its subsidiaries, affiliates or associates from a third party in respect of the transactions entered into, or in respect of any other services provided, in connection with the portfolio; and

(x) book and market values of all investments in the portfolio;

(b) a quarterly portfolio report to the Institutional Investor, setting out at a minimum the following:

(i) all information required by sub-clause 8 (1);

(ii) a statement with respect to how the Investment Mandate was executed;

(iii) rates of return and comparison to relevant benchmarks;

(iv) commentary on the investment outlook; and

(v) the investment strategy the investment manager intends to follow in the short and long term;

(c) the appointment of an auditor to the investment manager as required by section 103(1) of the Act and the audit of the financial records of the investment manager;

(d) access to the audited records and other reports of the investment manager by the auditor of the Institutional Investor or other person designated by the Institutional Investor; and

(e) the requirement that all records pertaining to the Institutional Investor and the Investment Mandate must be maintained for at least 5 years or the duration of the Investment Mandate, whichever is longer.

9. Fees and remuneration

(1) The Investment Mandate, at minimum, should address:

(a) the basis for calculating the investment management and performance fees of the investment manager and any other remuneration; and

(b) the responsibility for transactional, brokerage, transfer and other incidental fees borne by the investment manager or charged to the funds of the Institutional Investor.

10. Risk management

(1) The Investment Mandate should provide for:

(a) acknowledgment of possibility of loss by the Institutional Investor;

(b) the policy of the investment manager on risk management and internal controls;

(c) acquisition by the investment manager of fidelity guarantee insurance;

(d) procedures regarding amendments to, and renewal of, the Investment Mandate;

(e) confidentiality and custody of the Institutional Investor's information;

(f) corporate governance policies of the investment manager and how they are applied to investment policies and the Investment Mandate;

(g) procedures to deal with conflicts of interest;

(h) procedures to be followed in the event of a breach of any of the terms of the Investment Mandate by the investment manager or the Institutional Investor; and

(i) arbitration and dispute resolution procedures.