



“Stock market bubbles don’t grow out of thin air. They have a solid basis in reality, but reality as distorted by a misconception.” – George Soros

Index:	19,954.15	-0.6%
Cap:	N4.514trn	-0.76%
Volume:	1.7 bn	-37.86%
Value:	N9.75bn	-28.0%

Government Agency Bonds and Agency Mutual Bond Funds

Governments across the world require huge funds both to finance developmental projects and also to keep up its day to day operations. More often than not, the funds required to finance these projects are accessed through to long-term debts (bonds) issues since capital budget allocations are often not enough to meet these needs.

While the Federal Government can issue these bonds directly on its own it can also establish an agency or organization that issues and administer these bonds. These bonds are generically referred to as government agency bonds.

A Government Agency Bond is a type of bond issued by a properly authorized and recognized financial entity by the government. In effect, agency bonds are another example of a way of making a relatively safe investment, with an excellent opportunity of reaping a small increase in profits as the bond matures.

One major characteristic of government agency bonds is that the bonds of such entities are not issued directly by the central government but may have either a direct or implied government guarantee.

In some countries, government agency bonds include bonds issued by regions of the country. Examples of government agency bonds in other countries include the bonds issued by Telstra or state electric power suppliers such as Pacific Power in Australia. In the United States government agency bonds are referred to as federal agency securities.

Agency bonds are also classified by the type of issuers – those issued by federally related institutions (such as ministries and parastatals in Nigeria). And those issued by government sponsored enterprises. Federally related institutions are arms of the federal government such as Export-Import Bank of the US among other. On the other hand, government-sponsored enterprises are privately owned, publicly chartered entities. They were created by Congress to reduce the cost of capital for certain borrowing sectors of the economy deemed to be important enough warrant assistance. Examples of these include Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) Federal Agricultural Mortgage Corporation (Farmer Mac) among others.

Agency Bonds in Nigeria

In Nigeria, governments have funded infrastructure developments through capital budget allocations and where not available, through specific public infrastructure bonds, which are long term debt instruments or obligations to pay the lenders a fixed principal amount at a stated future date and a series of interest payment at agreed intervals.

Bonds issued by sovereign governments, states, or municipal governments are traditionally pegged on the legislature, the National Assembly in the case of the Federal Government, the State Assembly, or the Municipal Authority (as in the United States), passing the enabling law,

State Bonds Issued in the last 10 years			
Year	Amount	State	Purpose
1999	N1bn	Edo	Housing
2000	N3.5bn	Delta	Various Projects
2001	N2.5bn	Yobe	Various Projects
2002	N4bn	Ekiti	Various Projects
2002	N15bn	Lagos	Various Projects
2003	N4bn	Cross River	Tourism (Obudu Ranch)
2004	N6bn	Akwa Ibom	Various Projects
2006	N2.5bn	Kebbi	State University and irrigation project
2008	N275bn	Lagos	Roads etc

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authorizing the government to raise such funds. Bond Underwriters and the Nigerian Securities and Exchange Commission (SEC) require that such bond be project specific, the repayments are guaranteed by linking the redemption to the government's statutory allocation from the monthly federal revenue allocations.

By linking bond redemption to statutory allocations, the underwriters have a secured loan tied to the government's guaranteed future income. Defaults and risks are carried exclusively by the government.

Though Nigeria doesn't have a line-up of agency bonds like the US or other advanced economies, it has a rich history of bonds issued by state governments which dates back to 1978.

Following the recommendation of the financial system review committee in 1976, the FGN allowed States to raise long term capital on their own and subject themselves to market discipline.

The first State issued bond in Nigeria was the 1978 then Bendel State (now Edo and Delta States) N20 million floated on behalf of the Bendel State Development and Planning Authority to finance Housing Estates and Shopping Centers, the ten year seven percent coupon rate bond was fully subscribed when it debuted. After that Ogun, old Oyo, Lagos and old Kaduna states and one Local Government (Lagos Island) between them floated bonds totaling N330 million for various projects between 1978 and 1992 and on goes the list.

The federal government of Nigeria has often funded infrastructure developments through capital budget allocations

A Government/Municipal Bond is a claim on the State or Local Government constituted in form of a negotiable instrument, which pays the bondholder a rate of interest at periodic intervals

Bond Mutual Funds

As the name suggests, bond mutual funds invest in bonds and other debt securities. As such they are conservative

investments that aim to protect the invested principal while paying out a regular income, rather than taking on more risk in search of superior returns. Investors in Bond Mutual Funds often receive monthly dividends from the fund that include interest payments on the fund's underlying securities plus any capital appreciation in the prices of the portfolio's bonds. As with other types of mutual funds, bond funds have a net asset value (NAV) that is the naira value of one share in the fund; this is the price that investors pay or receive when they buy or sell shares in the fund.

Many investors who want to reap the good returns available in the bond market buy shares in bond mutual funds instead of individual bonds—or in addition to individual bonds. They do so for the same reasons investors have flocked to mutual funds of all kinds in recent years—diversification, professional management, modest minimum investments, automatic dividend reinvestment, and other convenience features

Diversification is an especially important advantage of bond funds. Many investors in individual bonds buy only a few securities, thus concentrating their risk. A fund manager, by contrast, spreads credit risk, interest-rate risk and, indeed, all other kinds of risk, over many bonds. Different issuers, sectors, credit ratings, coupons and maturities are all represented in a diversified portfolio.

Investors typically choose to buy bond funds for two reasons: income and diversification. Bond funds tend to pay higher dividends than money market and savings accounts, and they usually pay out dividends more frequently than individual bonds. Bond funds are also considered to be “low risk” investments that can provide stability to a portfolio that is weighted heavily with stock.

However, lower risk does not mean any risk. All the underlying risks that affect bonds affect bond funds—but not as sharply. You should be aware that prices of bond fund shares fluctuate inversely with interest rates, just as individual bonds' prices do, and when you sell fund shares; they may be worth more or less than you paid for them

It should be noted, however, that bond funds are not risk-free investments — they are still subject to the same credit and interest rate risks as regular bonds. But since the fund's investments are spread out among many bonds, the overall risk is usually lower. Bond funds are also more liquid investments than individual bonds; shares can be bought and sold much more easily. Like some types of bonds, certain bond funds may be exempt from federal and/or state taxes.

Advantages of bond mutual funds

Bond mutual funds offer small investors the opportunity to own a fraction of a diversified bond portfolio. By investing the minimum amounts allowed by the mutual fund, investors can own a share of a cross section of bonds, whereas buying individual bond issues would require a huge investment for a diversified portfolio.