

# Technology and Transformation: Redefining Investment in Collective Investment Schemes

**OALP** Finance and Capital Markets Practice Newsletter

## INTRODUCTION

Nigeria's capital market continues to evolve as a critical conduit to access capital required to stimulate growth in different sectors of the economy, offering a broad suite of instruments through which issuers can access financing. Through equity offerings and debt issuances, issuers across various sectors have been able to access financing to support expansion projects, working capital requirements and to satisfy a host of other finance needs.

Amid the numerous means to access finance from the capital market, Collective Investment Schemes (**CIS**) have emerged as an efficient means of mobilising capital. Beyond its traditional role as pooled investment vehicles for retail investors, CIS represent a structured mechanism for raising long-term capital, enabling sponsors and fund managers aggregate funds from a wide investor base and channel them into targeted sectors of the economy. By their design, CIS facilitate risk-sharing and professional management of pooled assets, creating a sustainable balance between investor protection and capital access.

In recent years, Nigeria's retail investing culture has been reshaped by advancement in technology through the increased use of smartphones and social media platforms as means of achieving easy access to investors and investments in securities, effectively democratising access to capital and expanding investor reach, allowing fund managers to harness the potential of previously underserved market segments.

This newsletter explores the CIS framework under Nigerian Law and outlines the governance structures that underpin them. It further examines how technology is transforming the traditional CIS model and expanding its utility, with particular attention to the rise of digital offerings facilitated by Financial Technology (**FinTech**) companies, and the implications of this shift for issuers, investors, regulators, and the broader capital market.

## THE CIS FRAMEWORK

The Investment and Securities Act 2025 (**ISA**) which is the principal legislation governing investments and dealing in securities in Nigeria, defines a CIS as a scheme or arrangement in whatever form, including an open-ended and close-ended investment scheme<sup>1</sup>, under which members of the public or qualified investors are invited to invest money or other assets in a portfolio, and an investment scheme via which

- (a) two or more investors contribute money or other assets to and hold a participatory interest in a portfolio of the scheme through shares, units or any other form of participatory interest;
- (b) such contributions are pooled and the portfolio of the scheme is managed as a whole; and
- (c) such investors share the risk and the benefit of investment in proportion to their participatory interest in a portfolio of a scheme or on any other basis determined in the deed<sup>2</sup>.

1. An open-ended investment scheme is a fund that continuously issues and redeems units after the initial public offering. The price of the units issued for subscription is based on the net asset value, which is the sum of all the assets of the fund less all liabilities as at the date of the acquisition or redemption. On the other hand, in a closed-ended unit trust, there is no additional issue of new units or redemption of units from the fund

2. Section 150 ISA.



Simply put, a CIS is an **aggregation vehicle** that raises money from multiple investors and invests those monies in a portfolio of securities or other eligible assets in accordance with a disclosed investment objective and strategy, while investors hold **units or shares** that track their pro rata interest in the pooled assets.

A CIS is required to be approved by the Securities and Exchange Commission (**SEC** or the **Commission**), the regulatory body established pursuant to the ISA, whose primary function is exercise of regulatory supervision over the issuance of securities in Nigeria and to give full effect to the provisions of the ISA.

The ISA recognizes that a CIS may either be administered as

- unit trust scheme<sup>3</sup>;
- an open-ended or close-ended investment company;
- real estate investment company or trust;
- specialised or alternative investment scheme; or
- such other schemes as may be approved by the Commission.<sup>4</sup>

Although the ISA recognises unit trust schemes and investment companies as types of CIS, these are essentially modes of constituting a CIS. In practice, a CIS may be structured either as a **trust-based scheme**, established by a trust deed between the fund manager and an independent trustee, or as a **corporate scheme**, set up through a company limited by shares.

This position finds credence in the text of the SEC Consolidated Rules 2013 (**SEC Rules**)<sup>5</sup> which provides for various types of unit trust schemes to include equity/aggressive/growth funds, money market funds, ethical funds, faith-based fund, fixed income fund, and balanced fund.

The table below sets out the different types of CIS and their respective asset classes:

Fund Type	Asset Allocation /Investment Objective
<b>Equity/Aggressive/Growth Fund</b>	Minimum of 70% of the fund assets is to be invested in equities listed on an exchange.
<b>Money Market Fund</b>	Investments in high quality money market instruments with financial institutions rated by a registered rating agency as may be specified from time to time by the SEC
<b>Ethical Fund</b>	Ethical investment objectives or other moral or ethical based investment strategies
<b>Faith Based Fund, including Islamic Fund</b>	Investment objectives or strategies based on religious principles including shariah compliant funds or other faith-based investment strategies
<b>Fixed Income Fund or Bond Fund</b>	Minimum of 70% of the fund's assets is to be invested in bonds or other debt instruments with a term to maturity of not less than 365 days
<b>Balanced Fund</b>	Minimum of 40% and a maximum of 60% to equities and a minimum of 40% and a maximum of 60% to fixed income and money market instruments provided that the fund shall maintain a minimum of 20% to fixed income securities at all times.

3. Any arrangement made for the purpose, or having the effect, of providing facilities for the participation of the public as beneficiaries under a trust in profits or income arising from the acquisition, holding, management or disposal of securities or any other property

4. Section 151 ISA

5. As amended in 2019



Regardless of the nature and type of a CIS, the legal and regulatory framework for CIS enshrined in the ISA and relevant SEC Rules mandates that every CIS must operate within a tripartite governance structure comprising a Fund Manager, Trustee, and Custodian, each with distinct fiduciary obligations designed to safeguard investor interests and ensure operational integrity.

Whilst the Fund Manager is statutorily entrusted with the day-to-day administration and strategic management of the fund's portfolio, the trustee, serving as the representative of unit holders, holds proprietary interest in the scheme's assets and exercises oversight functions to ensure strict compliance with the fund's trust deed and regulatory requirements and the Custodian holds legal custody of the scheme's assets, thereby providing an essential layer of asset protection and mitigating counterparty risk, which ensures adequate investor protection and safety of investments.

### **ELECTRONIC OFFERINGS OF CIS**

Asides from specialised or alternative investment schemes<sup>6</sup> whose offerings are restricted to qualified investors, the units of a CIS may be offered to retail investors for subscription and participation. These schemes and offerings, once characterized by paper-based processes and physical transactions, are increasingly being reshaped through digital platforms and mobile applications.. For issuers, these innovations have democratized access to the capital markets, reduced entry barriers for retail investors, and introduced new efficiencies in fund distribution and management. At the same time, they raise important legal, regulatory, and governance considerations that must be addressed to ensure investor protection and market integrity.

The issuance of electronically offered securities typically leverage mobile applications and digital platforms to offer units of CIS and automate portfolio management. Thus, the FinTech company acts not only as a distribution channel but also performs the function of administering and managing the pooled assets on behalf of the investors, as the company aggregates subscriptions from investors, and acting in the capacity of a fund manager, ensures the deployment of the pooled capital into specified asset classes with the objective of generating returns for investors.

include investment products within their service offerings, thus, effectively acting as fund managers, necessary regulatory oversight is required to ensure adequate investor protection and compliance with extant rules and regulations.

The SEC has demonstrated its resolve to support technology innovation in the development of the Nigerian capital market, without jeopardizing investor protection. Notably, In 2021, the SEC, for the first time issued a portfolio or fund manager licence to a FinTech company that offers investment in various money market, equity, fixed income, Islamic and balanced funds through its mobile application.

This is reflective of an era where FinTech platforms have moved from being mere marketing intermediaries to becoming licensed fund managers building a compliance first architecture for onboarding, disclosure, custodial oversight and investor protection in compliance with extant rules and regulations.

### **CONCLUSION**

CIS remain a vital instrument for mobilising capital, enhancing market liquidity, and widening retail investor participation in Nigeria's capital markets. For issuers, CIS provide a regulated, flexible and cost-efficient framework for aggregating long-term capital across a wide range of investors.

While the legal framework under the ISA and SEC Rules has long ensured a structured and investor-centric governance regime, the rise of FinTech driven distribution channels has redefined the speed, accessibility, and user experience of CIS offerings. For issuers and fund managers, this evolution presents an immense opportunity to mobilise capital at scale, leveraging technology to reach a broader and more diversified investor base. The ease with which investors can now access and subscribe to CIS through digital platforms enhances the depth and liquidity of the market, positioning CIS as a powerful mechanism for access to capital. This convergence between traditional capital markets and technological innovation offers an unprecedented opportunity to deepen financial inclusion while maintaining market integrity.

For Nigeria to fully harness this potential, continued alignment between market participants, regulators, and technology providers is critical in ensuring that innovation flourishes within a framework that safeguards investors, fosters transparency, and strengthens the capital market's role as a driver of sustainable economic growth.

<sup>6</sup> In view of this growing trend among FinTech companies to

6. These include infrastructure funds, exchange traded funds, venture capital funds and private equity funds.

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