

FUND MANAGERS AND CUSTODIANS IN NIGERIA'S INVESTMENT ECOSYSTEM: INDEPENDENCE, COLLABORATION AND THE SEC'S INVESTOR-PROTECTION FRAMEWORK

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Introduction

Effective investment management depends on more than the quality of decisions made on behalf of investors. It also requires a strong institutional framework for protecting investors' money and assets. Within that framework, twoparticipants are central: the fund or portfolio manager and the custodian.

Their functions are connected but deliberately separated. In broad terms, the fund manager decides how and where assets should be invested, while the custodian holds, safeguards, settles and administers those assets. This separation is not merely operational; it is a key investor-protection mechanism.

In Nigeria, both fund managers and custodians operate underthe regulatory oversight of the Securities and Exchange Commission ("SEC" or the "Commission"), the apex regulator of the Nigerian capital market. Under the Investments and Securities Act 2025 ("ISA 2025"), the SEC's statutory objectives include protecting investors, maintaining fair, efficient and transparent markets, preserving market integrity, reducing systemic risk and facilitating capital formation.

Recent amendments by the SEC to the Rules on Fund/Portfolio Management Operations further strengthen this framework. In particular, they introduce express restrictions designed to preserve independence, reduceconflicts of interest and protect retail investors' assets.

The Fund Manager: Investment Decision-Maker

A fund or portfolio manager ("Fund Manager") is responsible for managing investors' assets in line with the agreed investment objectives, mandate and regulatory requirements that govern the relationship. The SEC Rules distinguish between discretionary and non-discretionary portfolio management. In a discretionary mandate, the Fund Manager exercises judgment and independence in managing assets, securities or portfolios for the client, provided those decisions remain within the investment objectives set out in the agreement. In a non-discretionary mandate, the manager acts on the client's instructions and does not exercise independent investment discretion.

The Fund Manager therefore sits on the investment decision-making side of the relationship. Depending on the mandate, its role may include:

- developing and implementing investment strategies;
- determining asset allocation and selecting investments;
- managing portfolio risks and monitoring performance; and
- ensuring that investments remain consistent with the client's objectives, mandate and risk tolerance.

The SEC Rules also emphasise the importance of the client mandate. Before providing portfolio-management services, aFund Manager must have a formal written Client Service Agreement with each client or group of clients. Among other things, that agreement should address the investment objective, performance benchmark, client's risk profile, investment limits and restrictions, and the client'sunderstanding and acceptance of investment risks. Investment discretion is therefore not open-ended: the Fund Manager must remain within the client's mandate and the applicable regulatory perimeter.

The Custodian: Safeguarding the Investment Assets

The custodian performs a fundamentally different function from the Fund Manager. It does not determine the investment strategy. Instead, it provides the institutional infrastructure through which investment assets are held, safeguarded, settled and administered.

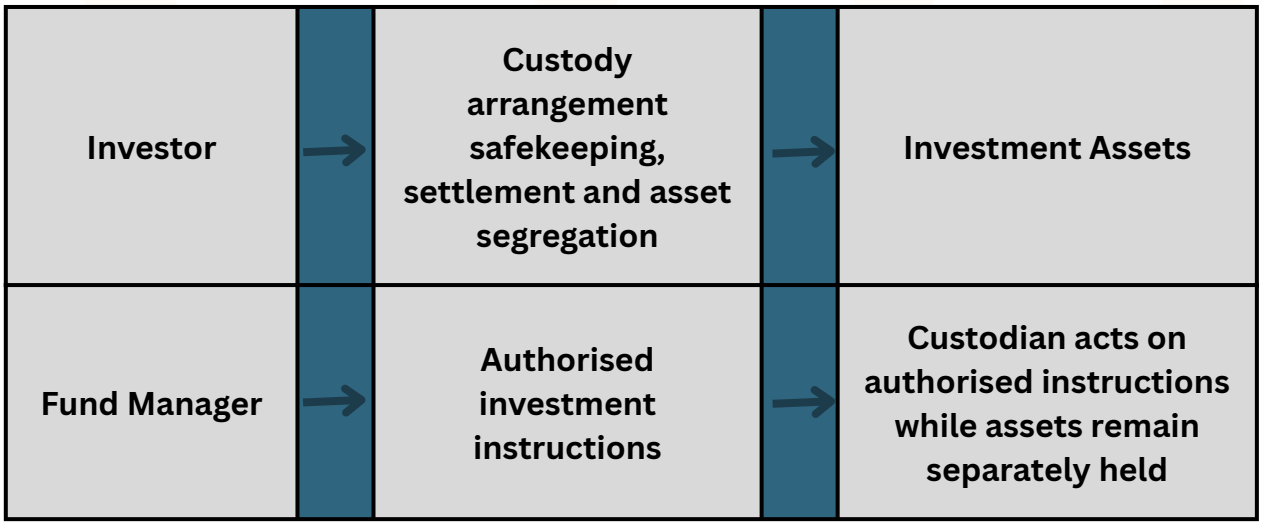
Under the SEC's regulatory framework for collective investment schemes, the custody function includes:

- holding scheme assets;
- processing and settling transactions;
- reporting on the status of assets;
- maintaining arrangements for asset protection; and
- ensuring that assets under custody are properly segregated.

The framework also contemplates that the custodian will act independently of the manager and in the interests of the scheme and its participants.

Why Separation Matters

This separation is significant because investor money should not simply become part of the Fund Manager's own corporate assets. Conceptually, the relationship may be illustrated as follows:



The Fund Manager provides the investment expertise and issues authorised investment instructions. The custodian, by contrast, provides the safekeeping and settlement infrastructure through which those instructions are implemented. For example, where a Fund Manager decides that part of a client's portfolio should be invested in government securities, that decision must be made in accordance with the client's mandate. The custodian then facilitates custody and settlement and safeguards the resulting assets.

Collaboration Without Duplication

The relationship between a Fund Manager and custodian is therefore one of collaboration coupled with functional independence. Neither participant should unnecessarily duplicate the other's function.

The Fund Manager should not ordinarily transform itself into the repository of client assets merely because it makes the investment decisions. Similarly, the custodian does not ordinarily substitute its investment judgment for that of the duly appointed Fund Manager.

Their collaboration is typically governed by contractual arrangements setting out matters such as authorised instructions, settlement procedures, asset segregation, reconciliation, reporting, income collection, corporate actions, fees, liability, confidentiality, operational controls and termination.

The commercial relationship also reflects the different services being provided. The Fund Manager earns management fees for investment management, while the custodian earns custody and related administrative fees for safeguarding and servicing the assets. This division of responsibility creates an important system of checks and balances. A Fund Manager may have authority to decide that an investment should be made, but it should not thereby enjoy unrestricted ability to appropriate or otherwise deal with the client's assets outside the applicable mandate and custody framework.

The Conflict-of-Interest Question

The value of this separation becomes particularly apparent where the Fund Manager and custodian belong to the same corporate group. A structure in which related entities manage and hold the same investors' assets can potentially weaken the independence that custody is intended to provide. It may also create actual or perceived conflicts of interest.

The SEC's recent amendment directly addresses this concern in relation to retail investors. The amended Rules expressly provide that, "Monies received from Retail Investors/Clients shall not be kept with any related party custodian."

This should be considered alongside another important restriction introduced by the amendment: retail clients' monies must not be invested in any related party's asset or instrument or co-invested in a related-party transaction.

Together, these provisions establish two important boundaries around retail money: independence in investment selection and independence in custody. The implications extend beyond obvious self-dealing. Fund management groups should examine ownership structures, common control, affiliated companies and existing custody and investment arrangements to identify relationships that could fall within the related-party framework.

What Should Market Operators Do?

Fund Managers and custodians should treat the amendments as an opportunity to review their operating models rather than merely update compliance manuals. Fund Managers should examine their client classifications, investment mandates, related-party exposures, investment approval processes and custody arrangements. Corporate groups containing multiple Capital Market Operators should pay particular attention to intra-group relationships and determine whether existing arrangements involving retail investors remain permissible.

Custodians, meanwhile, should ensure that custody arrangements preserve appropriate asset segregation, operational independence, accurate record-keeping and clear authority for investment instructions. Both parties should also ensure that their contractual arrangements establish clear responsibilities for settlement, reconciliation, reporting, liability, regulatory cooperation, cybersecurity and operational continuity.

Conclusion

The Fund Manager and custodian occupy distinct but complementary positions within the investment management structure. The former exercises discretion over investment decisions; the latter holds, safeguards, and administers the assets through which those decisions take effect. The relationship is, by design, collaborative but it is equally, and deliberately, one of separation. That separation is not a formality; it is the architecture of investor protection.

The SEC's prohibition on related-party custody of retail investors' funds read together with the corresponding restriction on related-party investments gives regulatory expression to this principle.

It reflects the Commission's recognition that investor protection cannot rest on investment competence alone. It also requires structural safeguards: institutional arrangements that insulate client assets from the conflicts of interest that inevitably arise where management and custody are vested in the same corporate family.

For Nigeria's capital market, these measures do not stand in isolation. They form part of a wider and deliberate regulatory agenda: building a market in which both domestic and international investors can place reasonable confidence that their assets are being professionally managed, independently held, and subject to oversight that carries genuine consequence. That confidence is not incidental to capital market development; it is its precondition.

As Nigeria continues its journey towards a deeper and more sophisticated capital market, the tripartite relationship between Fund Managers, custodians, and the SEC will remain one of the load-bearing pillars of that project. Getting that relationship right in substance, not merely in form is both a regulatory obligation and a market imperative.

References

1. Investment and Securities Act, 2025
2. Securities & Exchange Commission (SEC) Rules & Regulations
3. SEC, Amendment to Rules on Fund/Portfolio Management Operations (21st August 2026)

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