



GLOBAL EVENTS, LOCAL IMPACT

Botswana Pensions Society

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a presentation by

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of

**Fleming Asset Management
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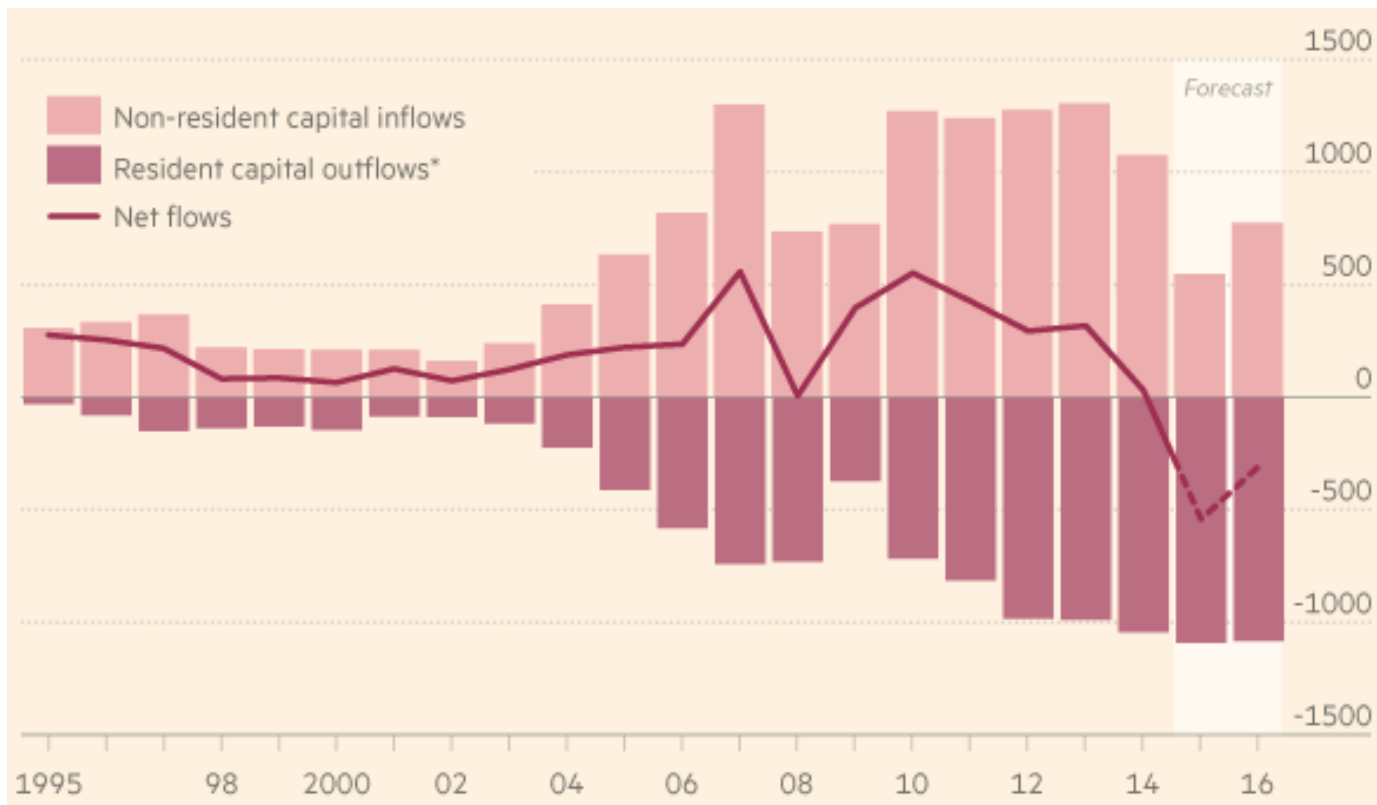
1. Global Events with Local Spill-Overs





1.1 US Fed Interest Rate Hike

EMs net capital inflows have been falling since 2010

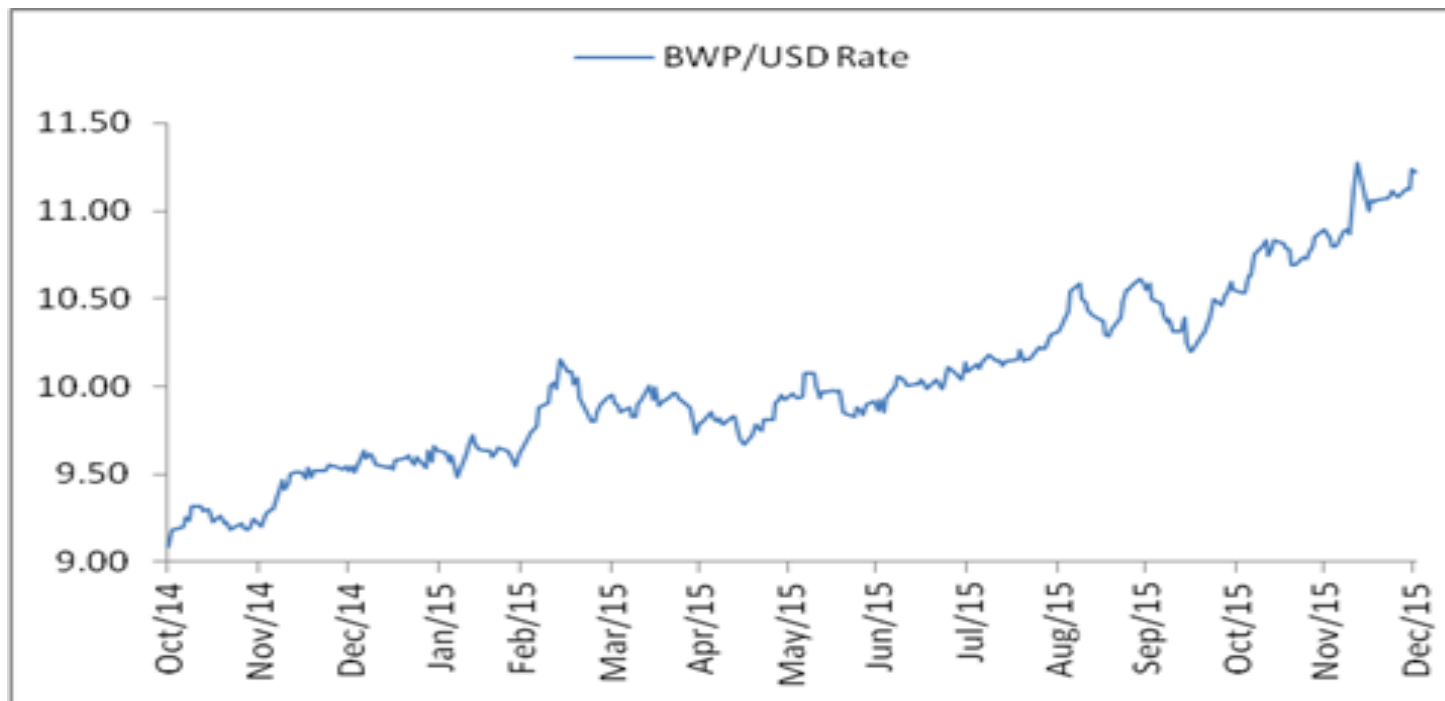


Source: Institute of International Finance;
Financial Times



1.1 US Fed Interest Rate Hike

- Pula not spared
- Currently 50 percent pegged to the South African Rand

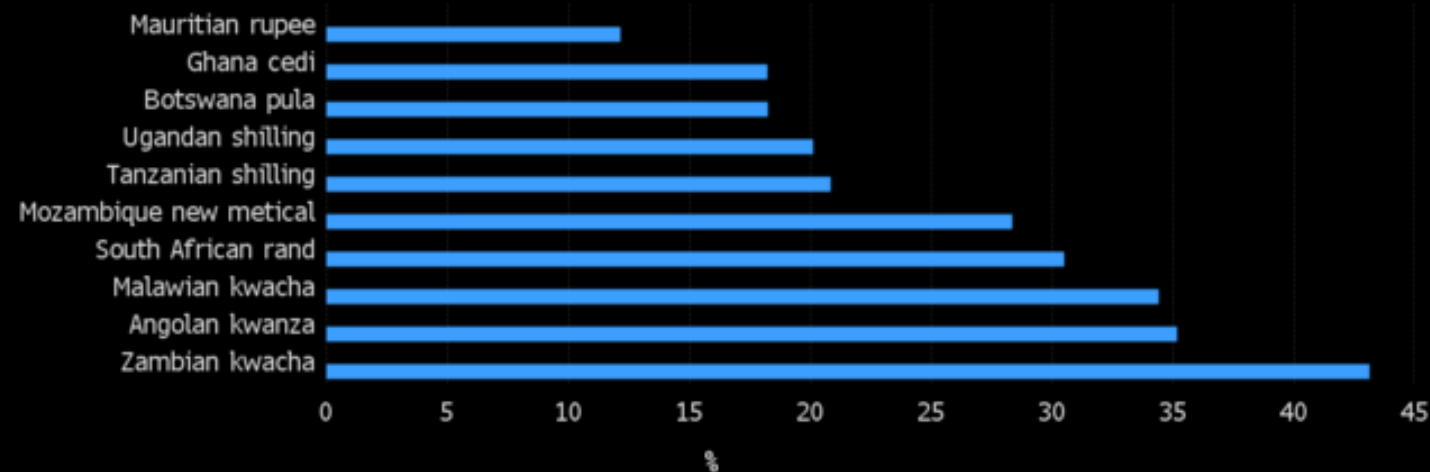




1.1 US Fed Interest Rate Hike

African Currencies Among Worst Hit by Change in Investor Sentiment

Fall against dollar since start of 2015



Source: Bloomberg

Bloomberg

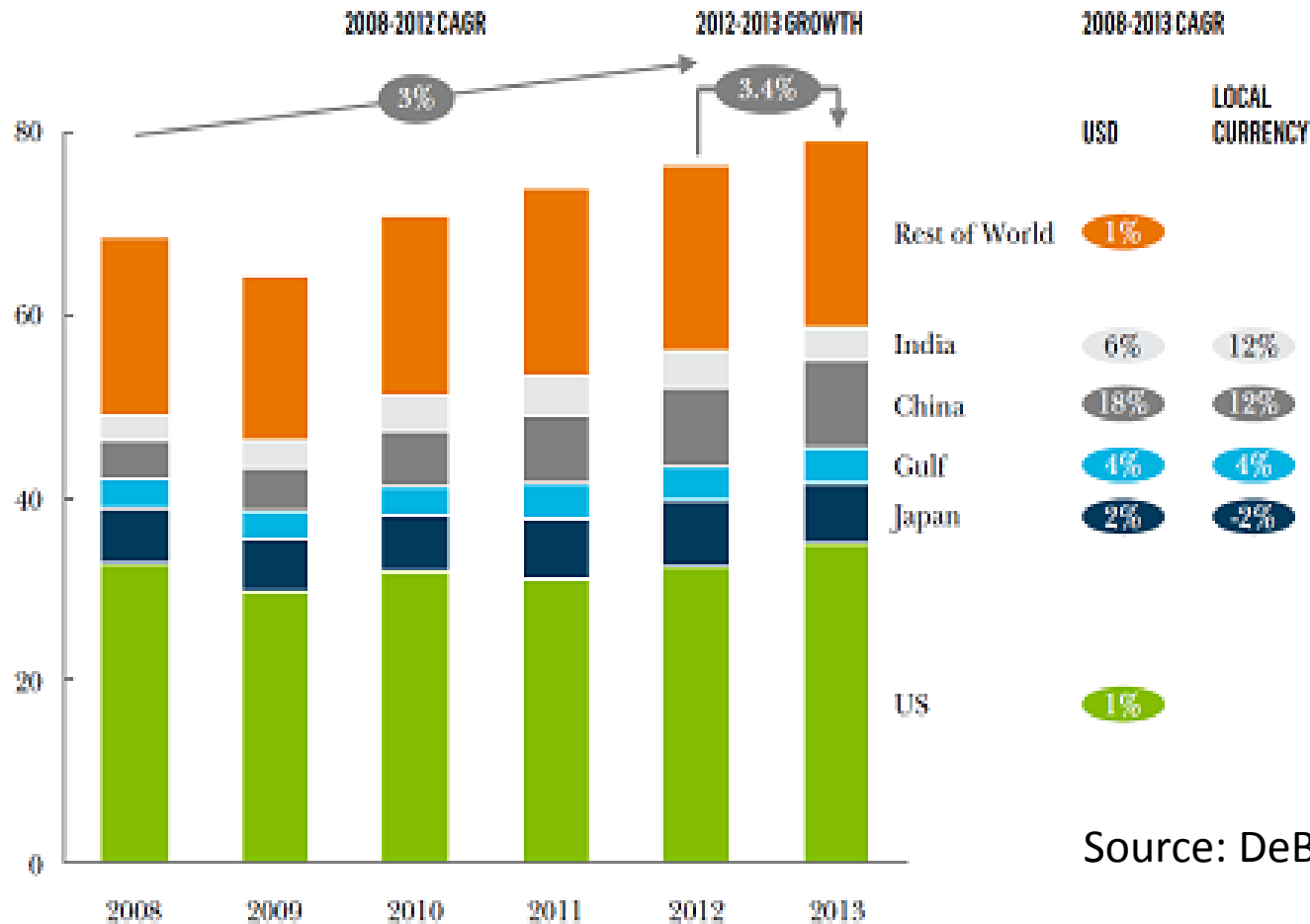
*as at January 25 2016



1.2 Chinese Economic Slowdown

China – Important destination for our diamonds

USD billion (nominal)

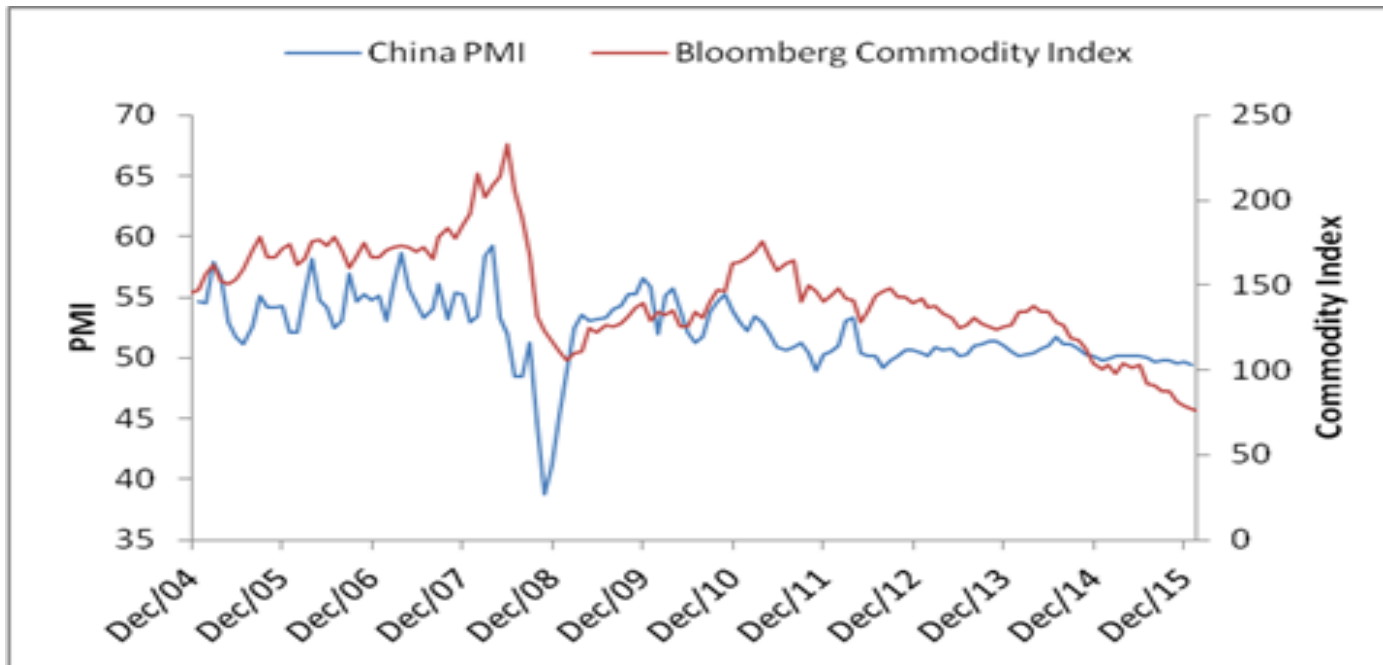


Source: DeBeers



1.2 Chinese Economic Slowdown

Chinese economy slowing down...

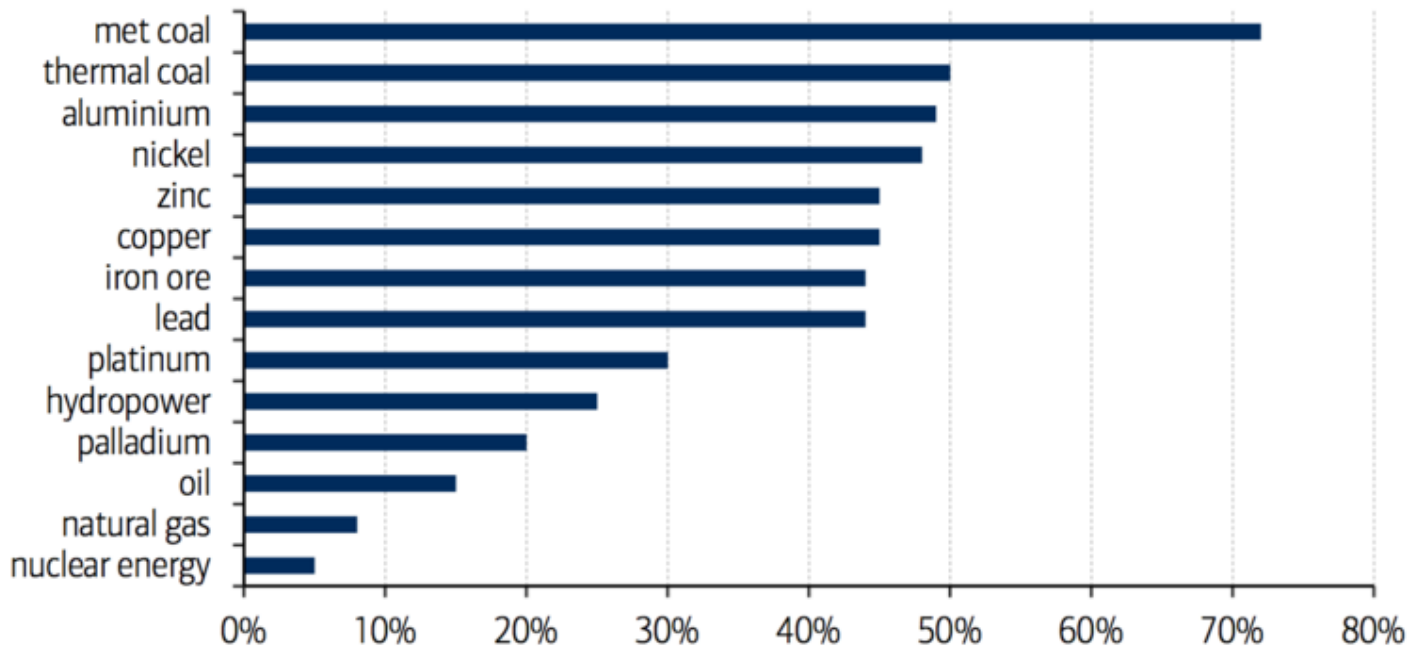


Source: Bloomberg

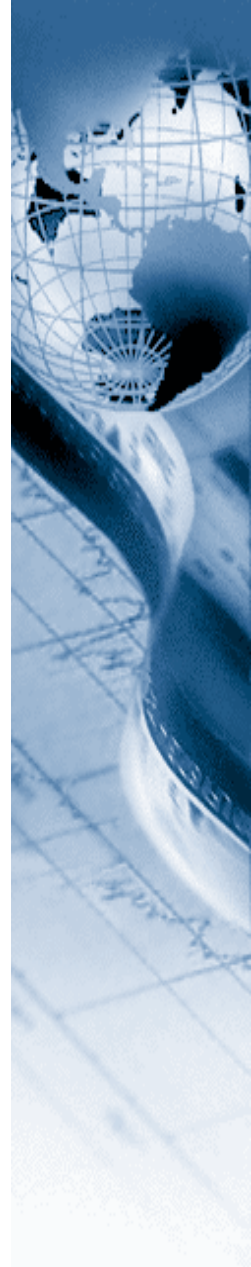


1.2 Chinese Economic Slowdown

- China an important export market of commodities
- Africa, Latin American countries and Australia to suffer



Source: Bank of America Merrill Lynch





1.3 Climate Change

- ❑ World experiencing extreme weather events
 - ✓ El-Nino Cyclical but made worse by extreme conditions
- ❑ Lack of Rain – Detrimental to Agriculture
- ❑ Food Security – Net Importer of food items
- ❑ Electricity Shortage
 - ✓ Kariba Lake (low water levels) resulting in low power supply
- ❑ Drought conditions
 - ✓ Detrimental to Inflation Objectives





1.4 Geo-Political Risk

Tourism in Botswana has a lot of potential to be a wealth creator

Tourism services are labour intensive compared to mining – good for employment creation

Terrorism reduces global travel as various countries issue “Travel Alerts”

17% of tourists to Botswana from North America





1.5 Commodities



Low input
prices benefit
manufacturers

Reduced
national and
government
income

More
disposable
income for
consumers

Retrenchments
in Commodity
Sector





2. Botswana Diversification Drive





Coal and Copper

- ❑ Favoured to diversify GDP, export mix and government revenue away from diamonds

Feasible?

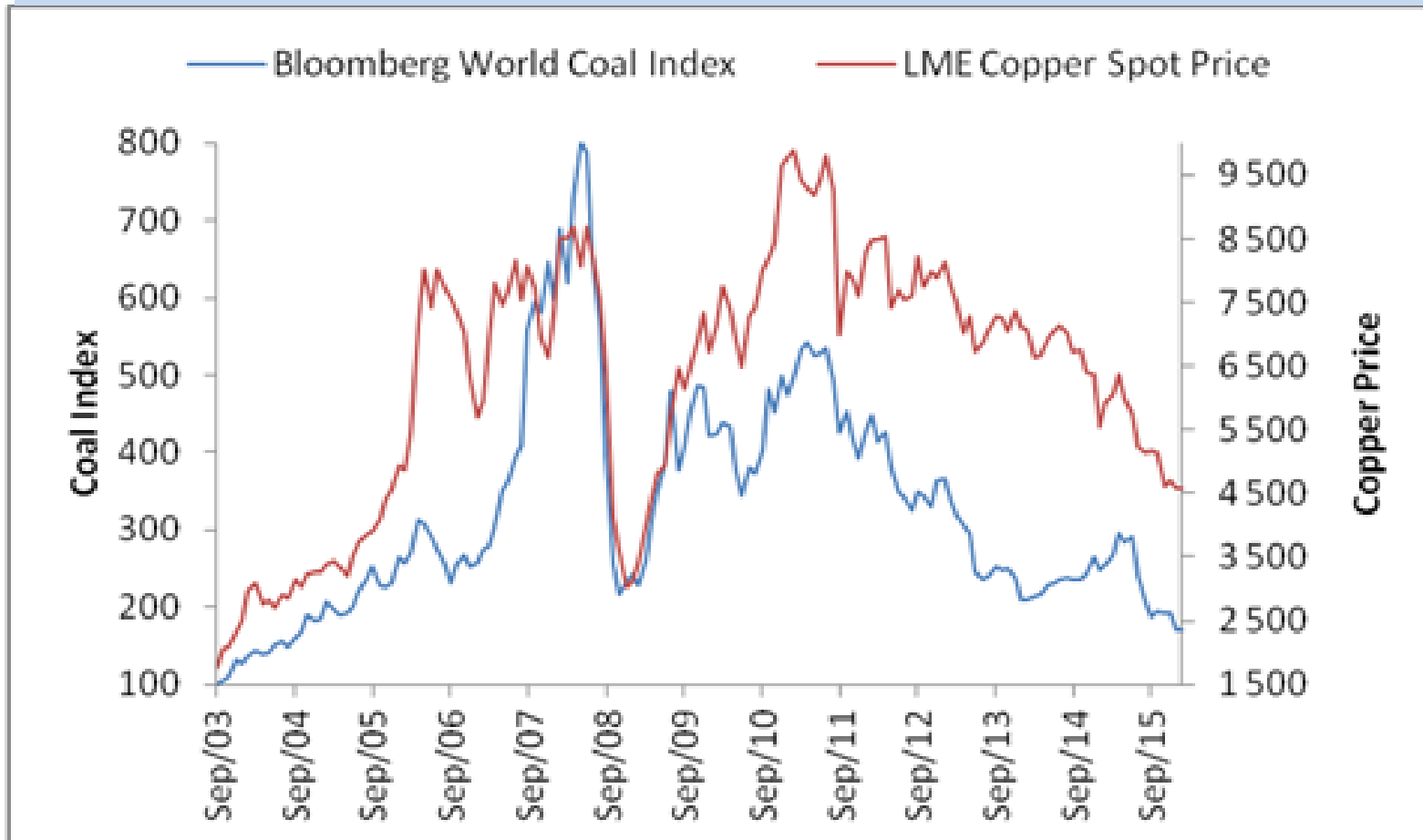
- ❑ Prices of copper and coal have dropped by half since 2011 (Retrospective)
- ❑ Major economies including China and India moving away from coal in favour of cleaner energy
- ❑ Paris Conference climate deal aims to curb global emissions





Coal and Copper

The billion dollar question: Trans-Kalahari Railway line?





Where to Now?

- ❑ China driven commodity super-cycle over
- ❑ Downstream activities are prone to the same risks
- ❑ Botswana should move away from mining the ground to mining the ingenuity of its people (Singapore, Israel model)
- ❑ Services and skills based economies are generally more resilient than those of commodity or extractives based economies
- ❑ Requires adequate investment in capital (physical and human) as well as an enabling regulatory environment





2. Impact on Pension Funds





Pension Fund Mandates

- ☐ Pension Funds provide income security for members
- ☐ Trustees and service providers owe a fiduciary duty to the members
- ☐ Funds have exposure to markets and economies
 - ✓ Both are intertwined
- ☐ Most mandates are global mandates
- ☐ Biggest risk to member - outliving their pension assets
- ☐ Pressure to invest locally





Implication to Pension Funds

Factors to consider - Shrinking offshore investments weight

Members already highly exposed to Botswana (jobs, property, businesses)

Botswana economy is not well diversified

Defined Contribution schemes dominate, which place investment risk on members

Social/developmental/patriotism may come at the expense of risk/return

Are members cognisant of the potential trade-off?





Key Take Aways

Intertwined World, Economic Diversification, Pension Stewardship

- ✓ World economies are intertwined
- ✓ World markets are interconnected
- ✓ Economic Diversification is crucial to Botswana
 - Away from extractives sector – into services
- ✓ Cognisance of global events is important
- ✓ Pension Fund Assets key to members' income security
- ✓ Stewardship is responsibility for all
- ✓ Risk/Reward trade-off is primary consideration when investing





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