

**AFENA**  
CAPITAL

*Where excellence prevails*



**Building Partnerships for  
Long Term Development**

## What does a retirement fund member need?

- Safety of savings
  - Maintaining the real value of retirement capital
- Good return
  - Commensurate with the risk taken
  - Low volatility
- Value for money
  - Costs and services
- Transparency
  - Regular communication
  - Advice where needed
- Dignified Retirement
  - A function of:
    - Capital saved
    - Society you live in e.g. stable and secure
    - Economic development of your environment

# The Faces of Change

Six medium term factors growing in influence on pension fund development

## Improvements in Governance

## Risk Management Focus

## Pension Design, Towards a DC Model

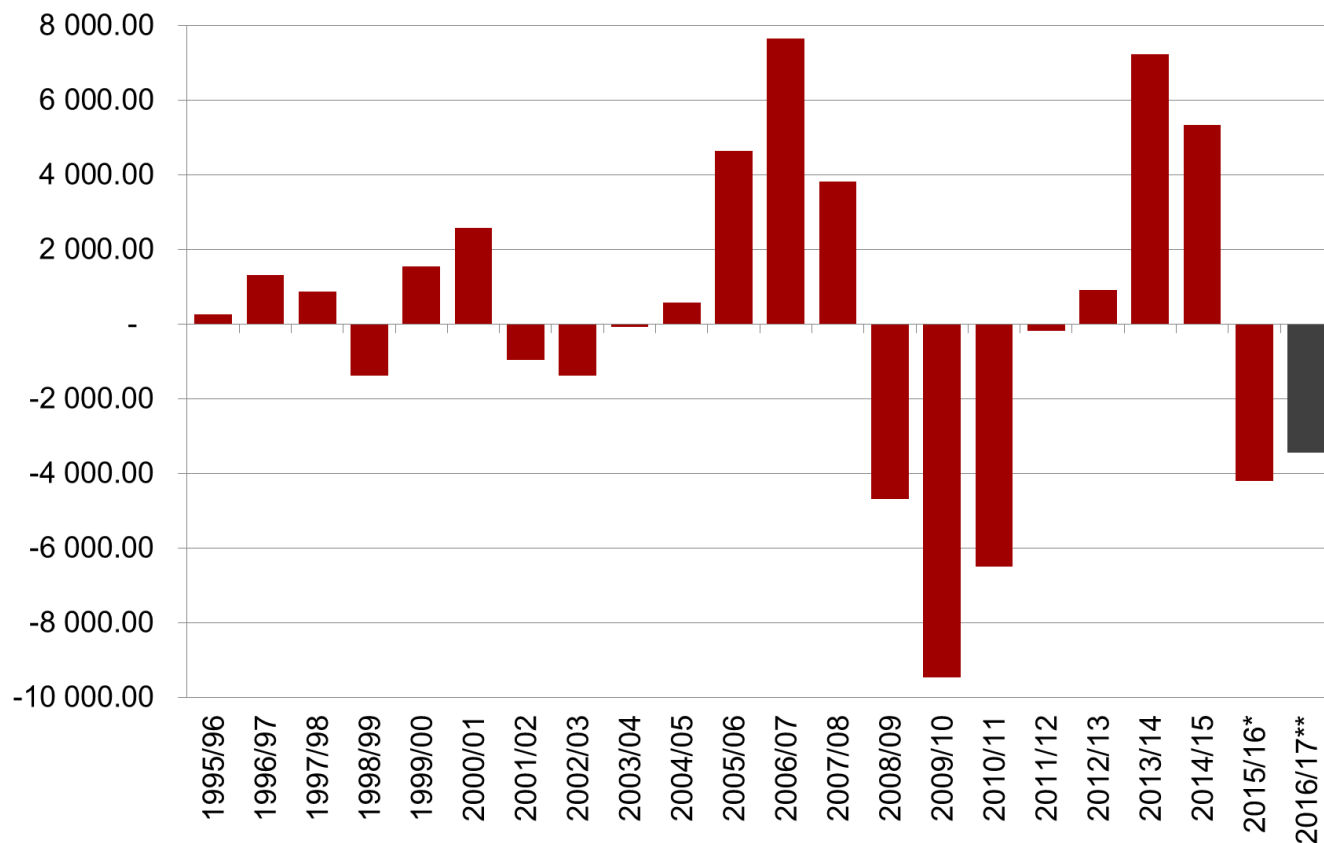
## Pressure for Talent

## New Value Chain

## New Ideology Emerging

- Improved recognition of return on governance feeds through in increased attention and growing focus on performance from all sources; more talent attracted to Chief Investment Officer role at funds.
- Funds focus on risk intensifies, with two separate groups: those where the appetite for risk is trimmed from previous levels; those needing risk for their situation
- DC becomes the dominant global model with its attendant risk transfer causing tension in the balance of ownership and control
- Strong competition for talent, particularly on the leadership level, despite the reduced short-term demands as a result of the financial crisis.
- A more effective “value chain” will emerge, where expense on various activities has a better value proposition than exists today. The use of passive approaches and smart betas is leading to modest fee compression.
- Some shift from a pure finance way of seeing pension investing (where short-term performance is paramount) to one where the longer-term sustainable growth aspect is considered (where longer term cash flow and stakeholder value with a longer term focus are critical); in this model, more integrated approaches to ESG and better stewardship exercised over ownership will be present

# Government: Budget Summary (P million)



- Fiscal constraints mean increased government dissaving
- ESP targets long term development e.g. infrastructure, which requires significant capital
- Borrowings and dipping into government savings not sustainable as sources of capital

# Post 2008 Global Financial Crisis

## Banks Increasingly Constrained in Long Term Financing Activities

### Stricter Capital and Liquidity Requirements

- Additional Tier 1 Capital, e.g. Shareholder Equity, which is more expensive
- Potentially billions of additional equity required (McKinsey Report in 2010 estimated over €1bn for European Banks and over €600bn for US banks)

### Net Stable Funding Requirement

- Long term lending to be backed by assets with maturity of at least 12 months
- Retirement fund capital is ideally suited to playing role of the provider of long term capital :
  - Source of long term funding to meet NSFR so banks may continue to engage in long term project finance
  - Providing long term capital directly to projects such as infrastructure through appropriate instruments

With government finances under pressure globally, and given the levels of capital required, retirement funds must play a key role if long term funding for infrastructure and long term entrepreneurial activity is to be sustained and improved upon.

Botswana is part of the global financial community  
These issues are as real for us as for any economy

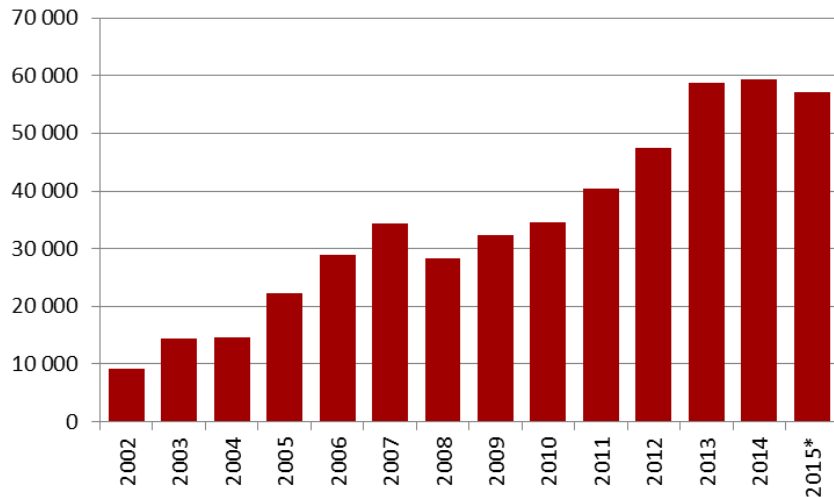
“...regulations and practices have evolved in line with international norms, and are currently being updated to comply with Basel II/III principles”

*Bank of Botswana Annual Report 2014*

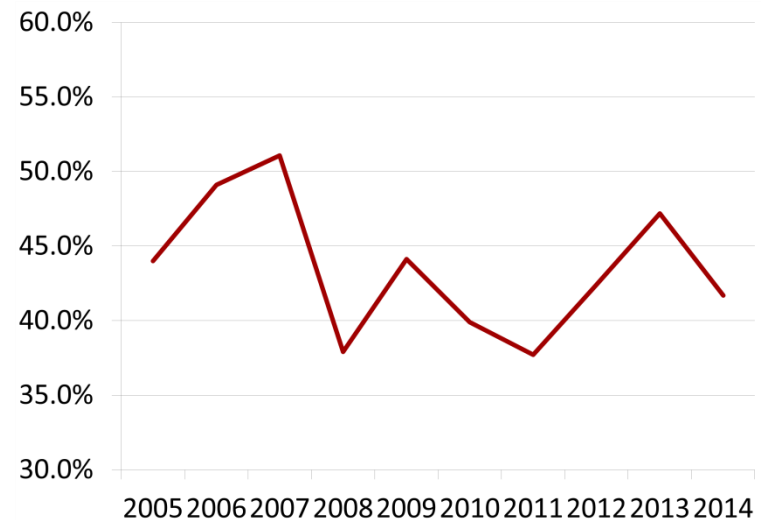


# Summary of Botswana Pension Savings

**Growth in Botswana Retirement Fund Assets (P' millions)**

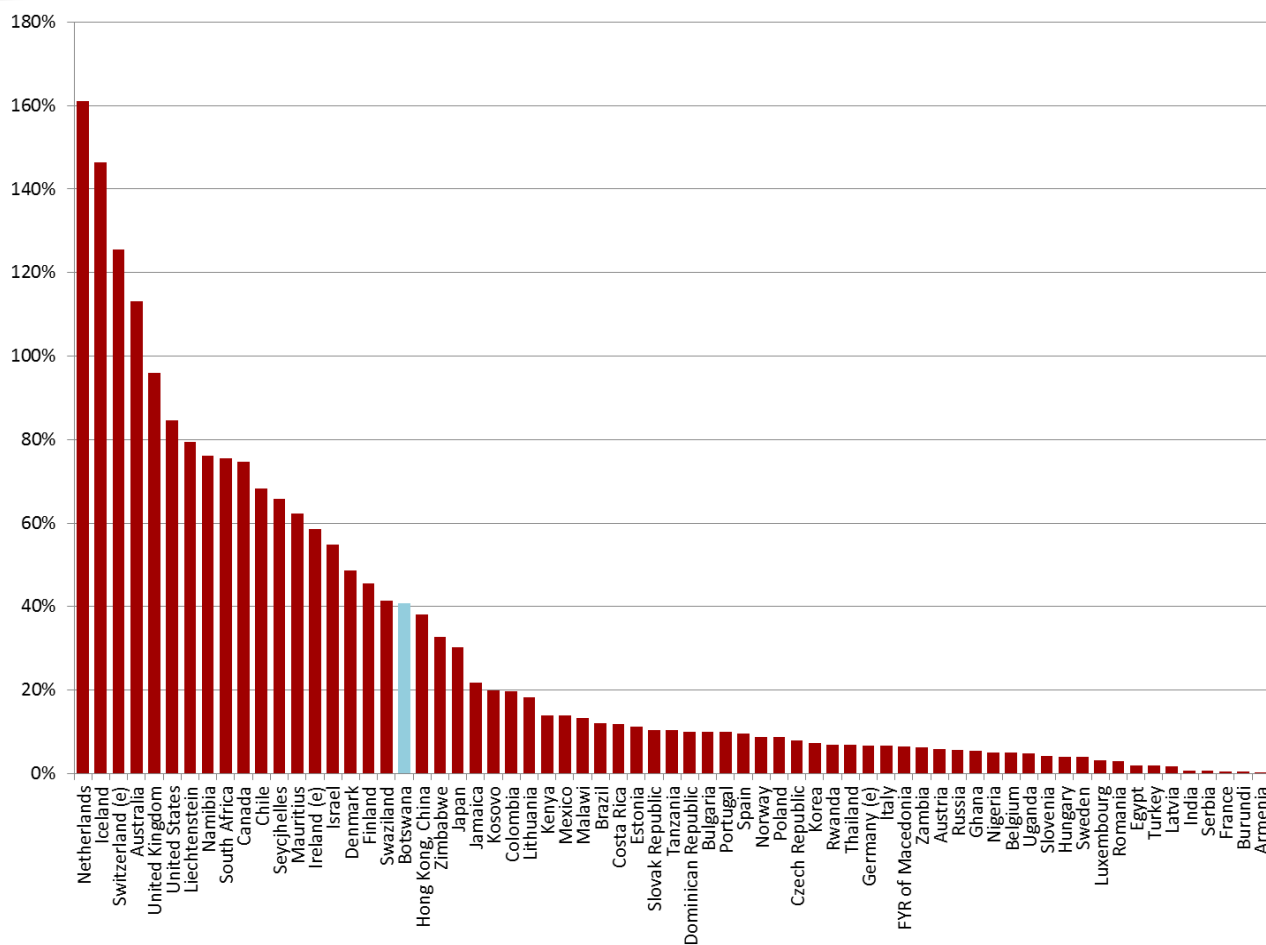


**Botswana Retirement Fund Assets as % of GDP**



At P58 billion and around 40% of GDP, Botswana retirement savings comprise a very important potential source of capital to fund long term investments that contribute to sustainable economic growth and job creation in Botswana

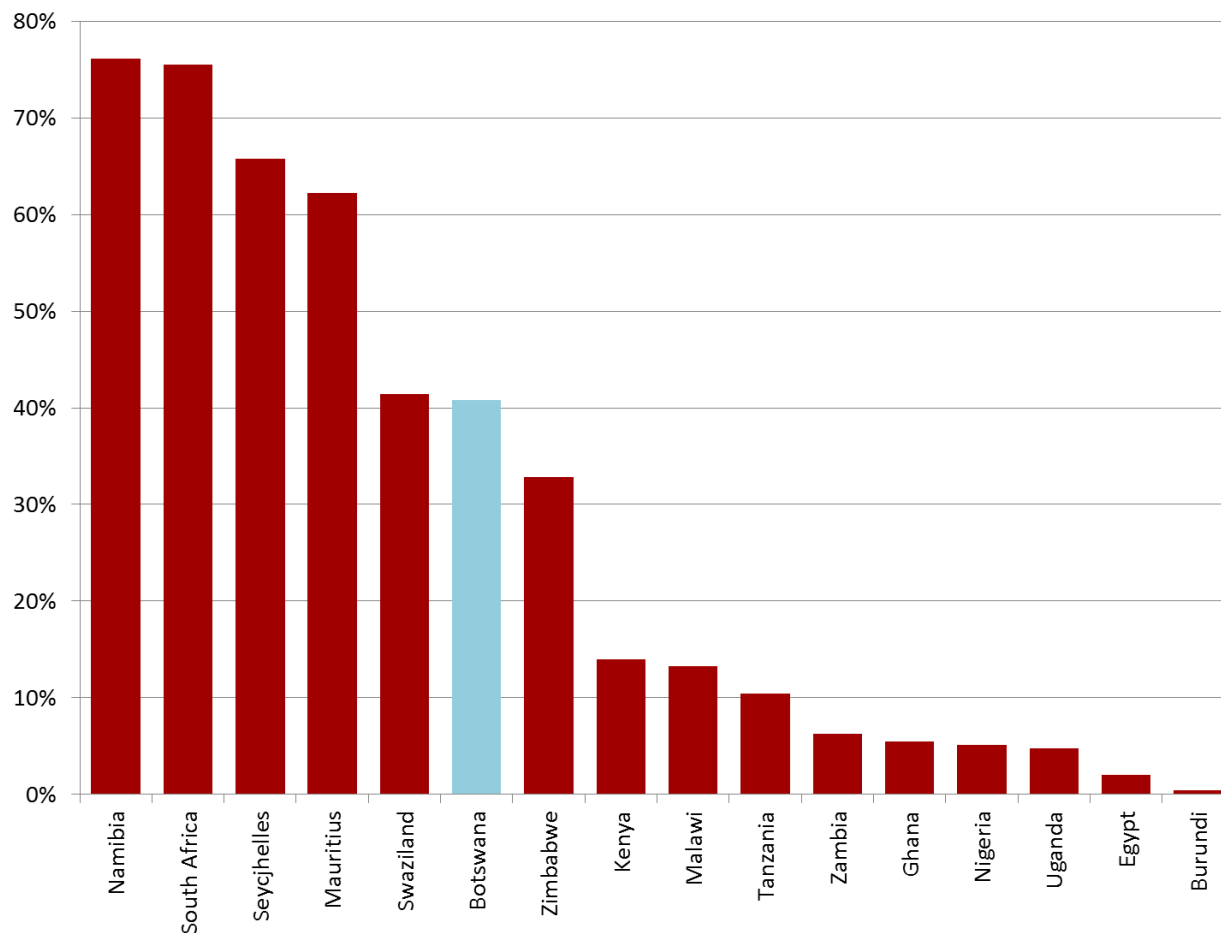
# Retirement Fund Assets as % of GDP 2014 Global Comparison



Botswana's retirement savings relative to the size of the economy are amongst the higher in the world and similar to economies such as Denmark, Finland, Hong Kong (China) and Japan

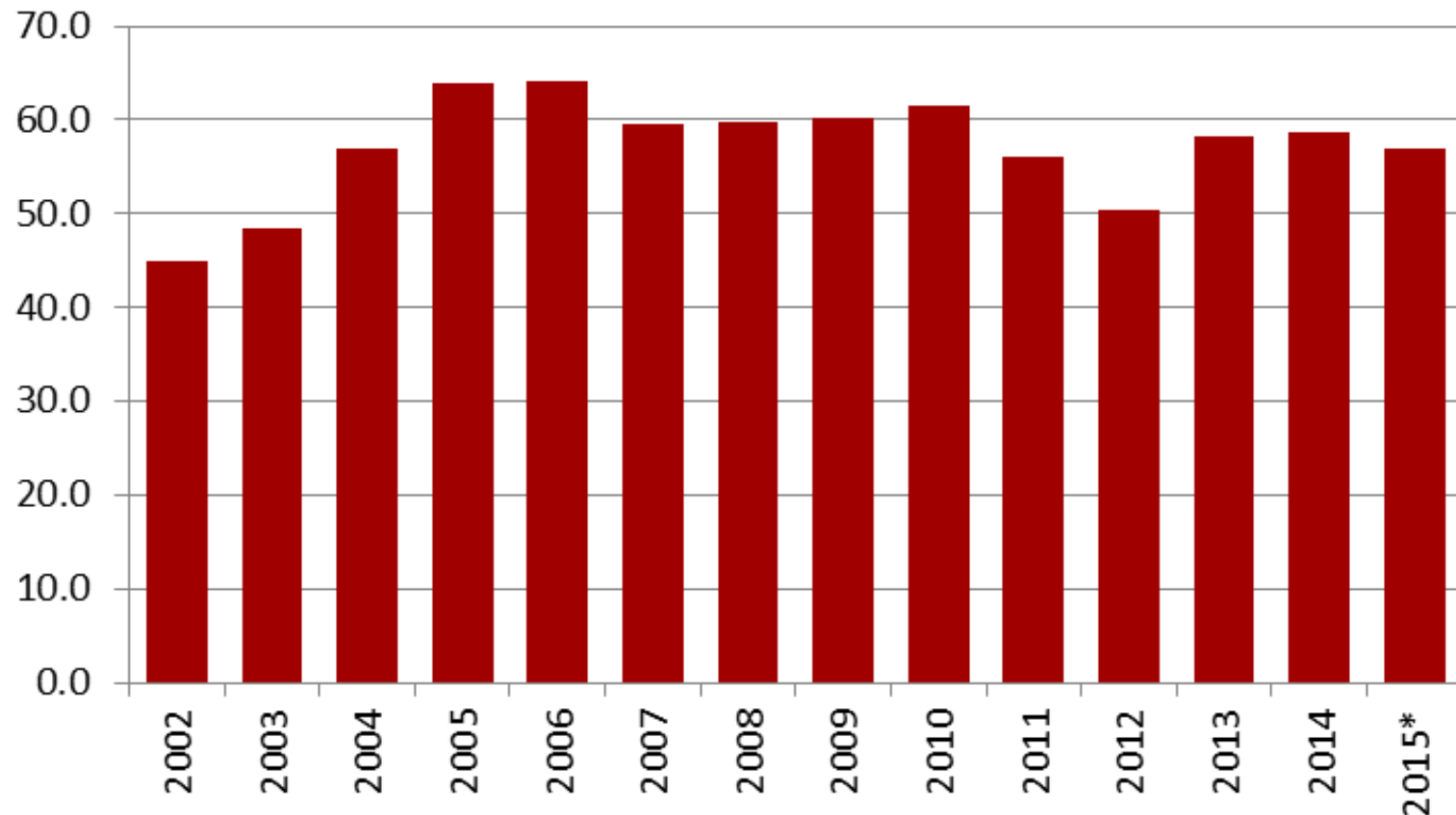


# Retirement Fund Assets as % of GDP 2014 African Comparison



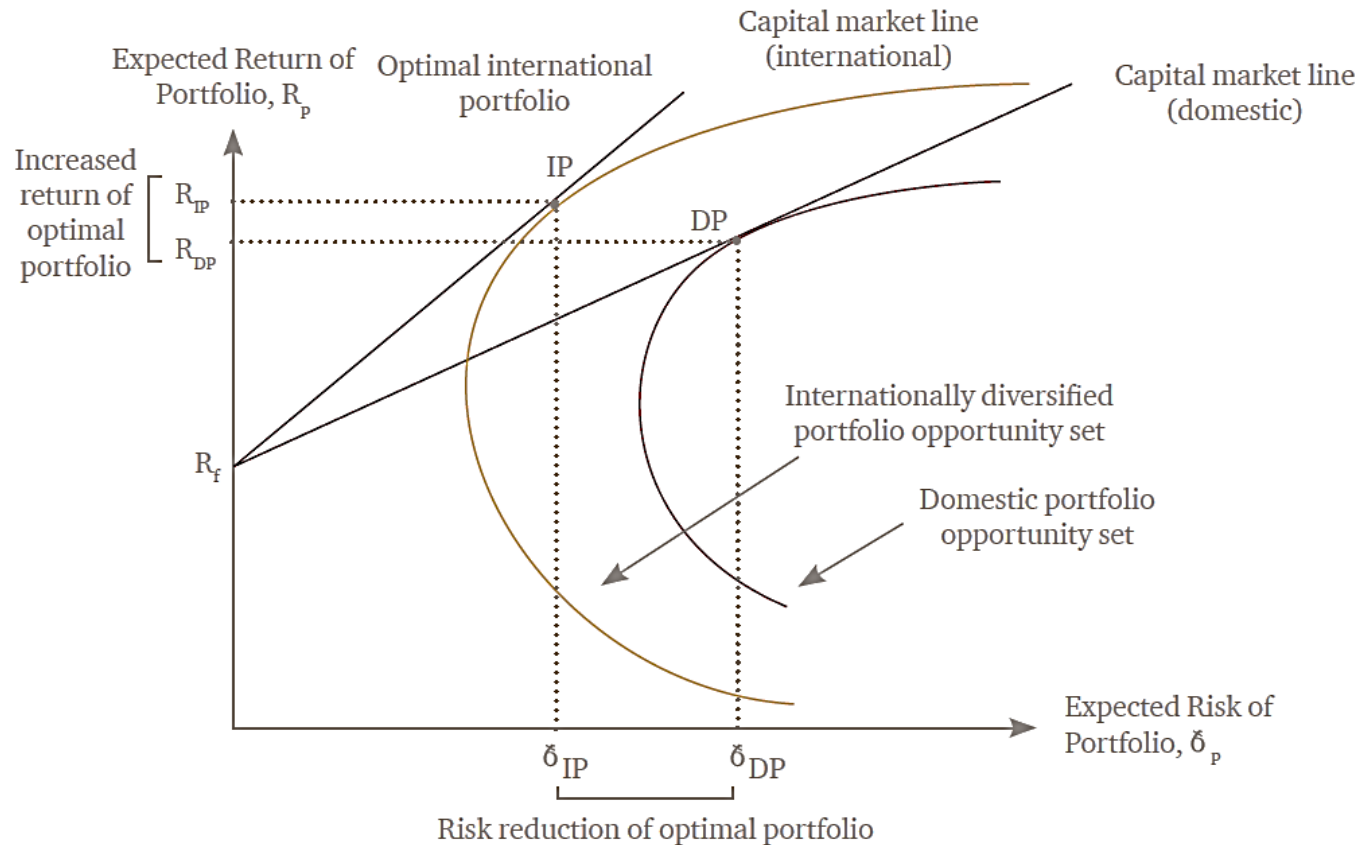
Compared to other African countries, with exception of SA/Namibia and island economies, Botswana's retirement savings are amongst the strongest relative to the economy

## Botswana Retirement Funds Offshore Allocations (%)



Offshore allocation has averaged 57% over the past 12 years

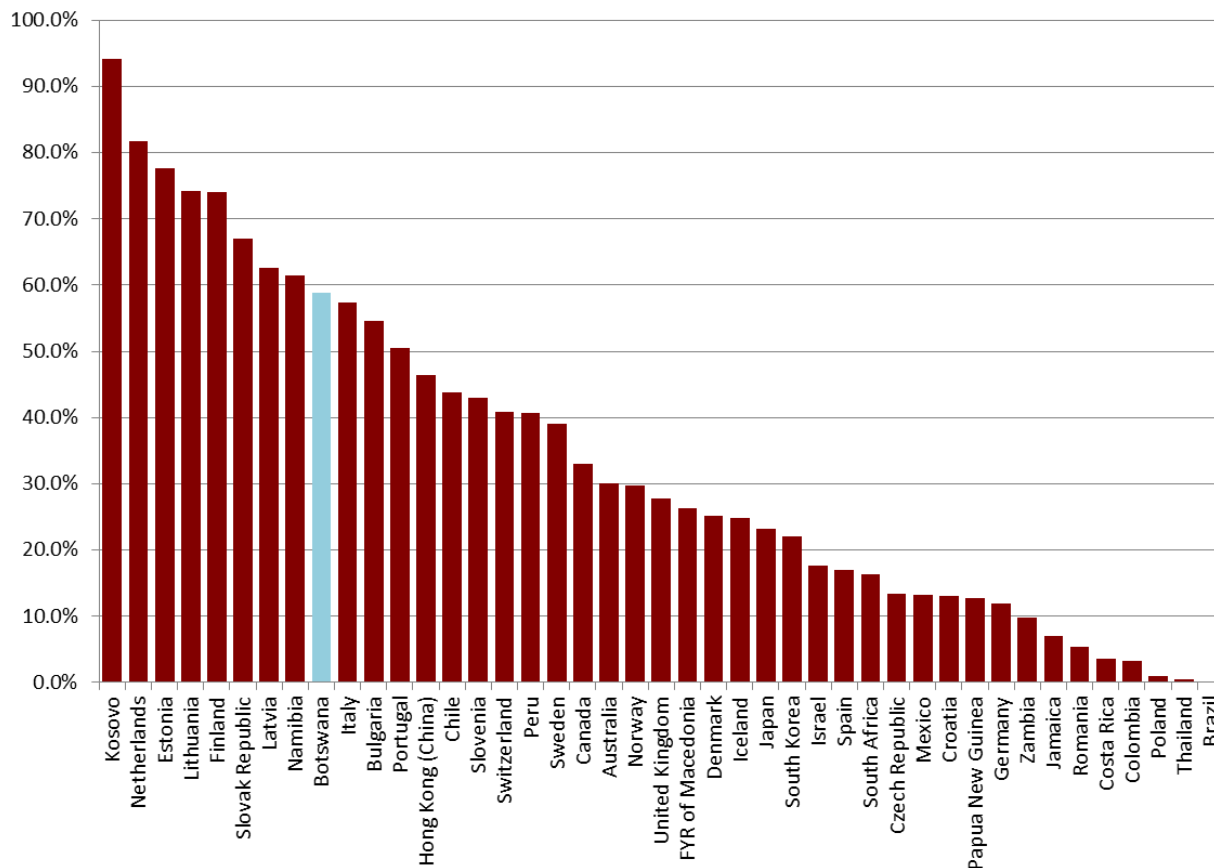
# A necessary condition for portfolio diversification



- Domestic portfolio opportunity set has historically been limited
- International diversification was/is therefore important to increase returns and reduce volatility

Ideally if the opportunity set allowed, it should be lower..

### Offshore Allocations of Retirement Funds Around the World



- Botswana's retirement funds offshore allocation is amongst the highest in the world
- The average offshore allocation of retirement funds around the world is **36.6%** (OECD Annual Survey of Large Pension Funds and Public Pension Reserve Funds 2014)

# Can we create and/or identify P11.5 billion worth of viable domestic investment opportunities?

Year	Total Botswana Retirement Assets	Offshore Allocation	Target Allocation	Difference	Capital for Domestic Investment Opportunities (Pula)
2005	22 329	63.9%	36.6%	27.3%	6 101
2006	29 019	64.1%	36.6%	27.5%	7 980
2007	34 293	59.6%	36.6%	23.0%	7 896
2008	28 326	59.8%	36.6%	23.2%	6 563
2009	32 411	60.2%	36.6%	23.6%	7 658
2010	34 662	61.5%	36.6%	24.9%	8 617
2011	40 448	56.0%	36.6%	19.4%	7 844
2012	47 449	50.3%	36.6%	13.7%	6 508
2013	58 651	58.3%	36.6%	21.7%	12 738
2014	59 393	58.8%	36.6%	22.2%	13 176
2015*	57 103	56.8%	36.6%	20.2%	11 553

Having the majority of a country's pension funds' assets invested locally makes sense for two primary reasons – to fund the pension fund payments which are paid in the local currency and to provide the long term capital that drives domestic investment opportunities and the economy.

# There is economic activity in Botswana but are the key partners talking about how to cooperate?

## Economic Stimulus Programme

- Infrastructure development (Water, Energy and others)
- Tourism development,
- Agriculture production
- Manufacturing
- Information and Communication Technology

## Economic Diversification Drive

- Development of entrepreneurs
- Government and parastatal organisations to prioritise procurement of locally produced goods and services, in addition to awarding price preference to local enterprises.

## Special Economic Zones

- International Diamond Activities
- Agro-Processing
- Financial Services
- Integrated Farming
- Food Processing

Can Governments' decision to “bring back” foreign reserves to stimulate the economy be complemented by the Retirement Fund industry “bringing back” capital to invest in the economy in a manner that meets the return and risk requirements of members?

# Three main categories of barriers to pension fund investment in infrastructure

Categories	Barriers
1. The Investment Opportunities	<ul style="list-style-type: none"> <li>• Lack of political commitment over the long term</li> <li>• Regulatory instability</li> <li>• Fragmentation of the market among different levels of governments</li> <li>• No clarity on investment opportunities</li> <li>• High bidding costs</li> <li>• Infrastructure investment opportunities in the market are perceived as too risky</li> </ul>
2. The Investor Capability	<ul style="list-style-type: none"> <li>• Lack of expertise in the infrastructure sector</li> <li>• Problems of scale of pension funds</li> <li>• Misalignment of interests between infrastructure funds and pension funds</li> <li>• Regulatory barriers</li> <li>• Short-termism of investors</li> </ul>
3. The Conditions for Investment	<ul style="list-style-type: none"> <li>• Negative perception of the infrastructure value</li> <li>• Lack of transparency in the infrastructure sector</li> <li>• Shortage of data on infrastructure projects</li> </ul>



# Policy Actions to Support Overcoming Barriers The Investor Opportunity

Policy Action	Objective
1. Appropriate regulatory, supervisory and tax frameworks for institutional investors to develop	Create the necessary preconditions for the development of institutional investors
2. Improve trustee composition and knowledge	Better pension fund governance
3. Support consolidation of smaller funds, pooling of funds	Foster collaborative strategies and resource pooling
4. Regulatory frameworks and OECD guidelines to favour transparency in business models and alignment of interests	Better alignment of interest between pension funds and the infrastructure industry
5. Reform of funding regulation for DB schemes	Adjust the prudential regulatory frameworks towards long term investment
6. Change in pension accounting rules	
7. Ease quantitative investments restrictions	

## Why infrastructure is attractive for retirement fund investors?

- Characterised by long-term liabilities attractive to institutional investors:
- Assist with liability driven investments and provide duration hedging
- Expected to produce predictable and stable cash-flows over the long term
- Improve the diversification of the portfolio and reduces its volatility
- Assets linked to inflation could hedge liability sensitivity to increasing inflation



# We live in the era of Sustainable Development characterised by Partnerships



It is imperative that the long term savings industry (retirement funds, asset managers, insurance companies, banks, etc.) and policy makers and project drivers (mainly Government and/or state owned organisations) have positive, continuous and frank conversations, with intent, to ensure Botswana responsibly utilises all sources of its savings and wealth for positive economic development that benefits all stakeholders.





# THANK YOU

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