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Key issues in the management of Retirement Funds during the COVID-19 Crisis in the context of Prudential Rule 2 (“PFR 2)”)

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Presentation Outline

Legislations, Regulations and Rules Governing Investments

Investment Performance

Compliance with PFR 2

Local Vs Offshore Investment @ a Glance (2020)

Challenges

Conclusion

Legislations, Regulations and Rules Governing Investments

- Applicable laws include:



**Retirement
Funds Act
(2014)
(Section 27)**

**Retirement
Funds
Regulations
(2017
(Regulation 17)**

**Prudential
Rules
Investment Rule
(PFR 2)**

70-30 RULE

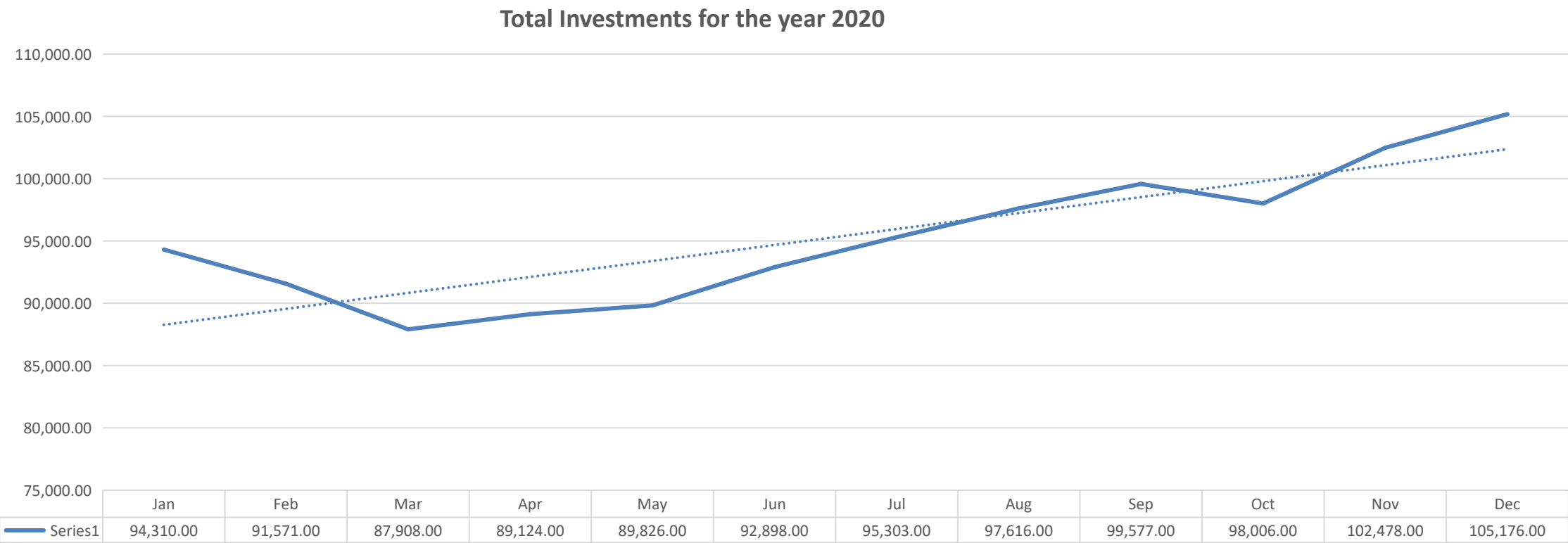
Legislations, Regulations and Rules Governing Investments

- **Section 27 of the Retirement Funds Act-** gives *the Regulatory Authority* the powers to:
 - ✓ Prohibit any Fund from making investments in certain description
 - ✓ Set maximum limits as a percentage of total fair value of the assets of the fund for each class of investment, whether foreign or Botswana
 - ✓ Take action to remedy any breach of the limit set

• Regulation 17 of the Retirement Funds Regulations

- ✓ A board of a Fund is required to have an investment policy document , which shall include an investment strategy
- ✓ Investment Policy submissions every 3 years and when there is a material change
- ✓ Minimum information to be included in the Investment Strategy
- **The Prudential Rules (PFR 2)** make provision for the following:
 - ✓ An investment strategy
 - ✓ Prescribed valuation methods for pension fund assets
 - ✓ Limitations on kinds of asset

Investment Performance @ a Glance (2020)



- Steady increase with an exception of February March and October

Compliance with PFR 2

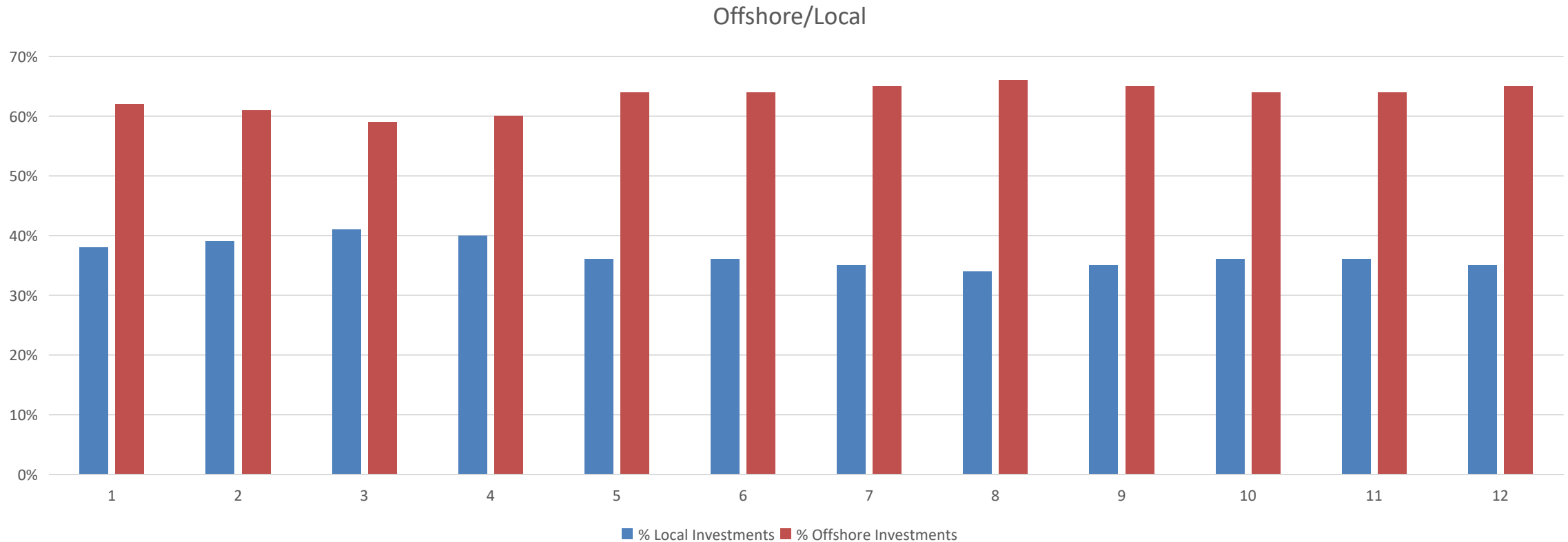
Section 7 of the investment limits sought to ensure diversification which has proven to be;

- **Risk Management for pension assets established on:**
 - ✓ **Quantitative limits: maximum limits for individual, class or class of mix assets**
- **Watch and see strategy observed**
- **Local and International investment managers are taking defensive positions as capital preservation is a key focus in these volatile markets. As a result the Trustees will maintain a disciplined investment approach during good and bad times.**
- **Risks that come with investing in financial markets cannot be eliminated, but the extent of their impact on portfolios can be managed.**

Compliance with PFR 2

- **The Funds (in line with PFR2) will review its adopted strategy whenever there is a material change to the Fund for purposes of ensuring continued prudent investment oversight will be key during these uncertain times. A material change would be either:**
 - **A 20% change in the membership profile of the Fund; or**
 - **A 20% change in the benefit structure of the Fund: or**
 - **A 20% change in asset or liability values resulting from a major market move, or transfer of members; or**
 - **A material change in taxation treatment of the Fund.**
- **The Fund and its members shall remain focused on their long-term investment goals and not let short-term disruptions change their course of action.**

Local Vs Offshore Investments



- Funds are to invest up to 70% offshore
- There has not been any breach to date

Challenges

- **Inadequate Communication-** leaves members in doubt
- **COVID-19 lockdowns** has decimated many retirement and pension plans—years of investments and gains.
- **Millions, newly unemployed,** have other, more immediate, financial priorities than saving hence pension is no longer a priority.
- **Closure of Companies** as a results of the Covid-19 effects.
- **Presidential directives for Covid relief** leading to reduced contributions has resulted in some companies opting for contribution holidays. This may latter affect the pension adequacy in the long term.

Will Pension Funds ;

- **Ensure adequate liquidity** to pay all pension benefits of contributors as and when due
- **Achieve an optimal trade-off of risk and return** through strategic asset allocation
- *COVID -19 and its economic impact continued to dominate the news agenda throughout April and to-date*

Conclusion

- **As volatility in the markets caused by COVID-19 continues.... “What should we be doing right now?”**

The recent crisis has strengthened the need for;

- **better regulation and supervision of pension funds**
- **better governance**
- **better protection of the beneficiaries**
- **better financial education and awareness**

Food for thoughts

- **“What are you doing right now?”**

Rea Leboga!

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