



# RisCura Botswana

Botswana Pension Society

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RISCURA

# Introduction

## Your Presenter



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## The Topic

Is your retirement fund portfolio designed to maximize reward and minimize risk no matter the market conditions?

# The Retirement Goal



TO PROVIDE A **STABLE INCOME** TO **MAINTAIN**  
YOUR **STANDARD OF LIVING** THROUGH  
RETIREMENT

# Unpacking the Topic – What is Return

## What is Reward/Return

- An Investment Return is the increase or decrease in the value of an assets or pool of assets.
- Investment gains can be achieved through a positive movement in the price of an asset plus income generated from the asset.
- Example 1: If you purchase one (1) share in Company XYZ at BWP100 on 1 January 2021 and the share price increases to BWP108 by 31 December 2021 then the return generated from the investment is 8%. This is called the price return.
- If Company XYZ also pays a dividend of BWP2 on the 31 of December 2021, the return of the investment would be 10% i.e 8% from the price movement of the company plus 2% from the dividend paid by the company. This is the total return of the investment (price movement plus dividends).
- Example 2: If you purchase one (1) share in Company XYZ at BWP100 on 1 January 2021 and the share price decreases to BWP90 by 31 December 2021 then the return generated from the investment is -10%.
- If Company XYZ also pays a dividend of BWP2 on the 31 of December 2021, the return of the investment would be -8% i.e -10% from the price movement of the company plus 2% from the dividend paid by the company.

# Unpacking the Topic – What is Risk

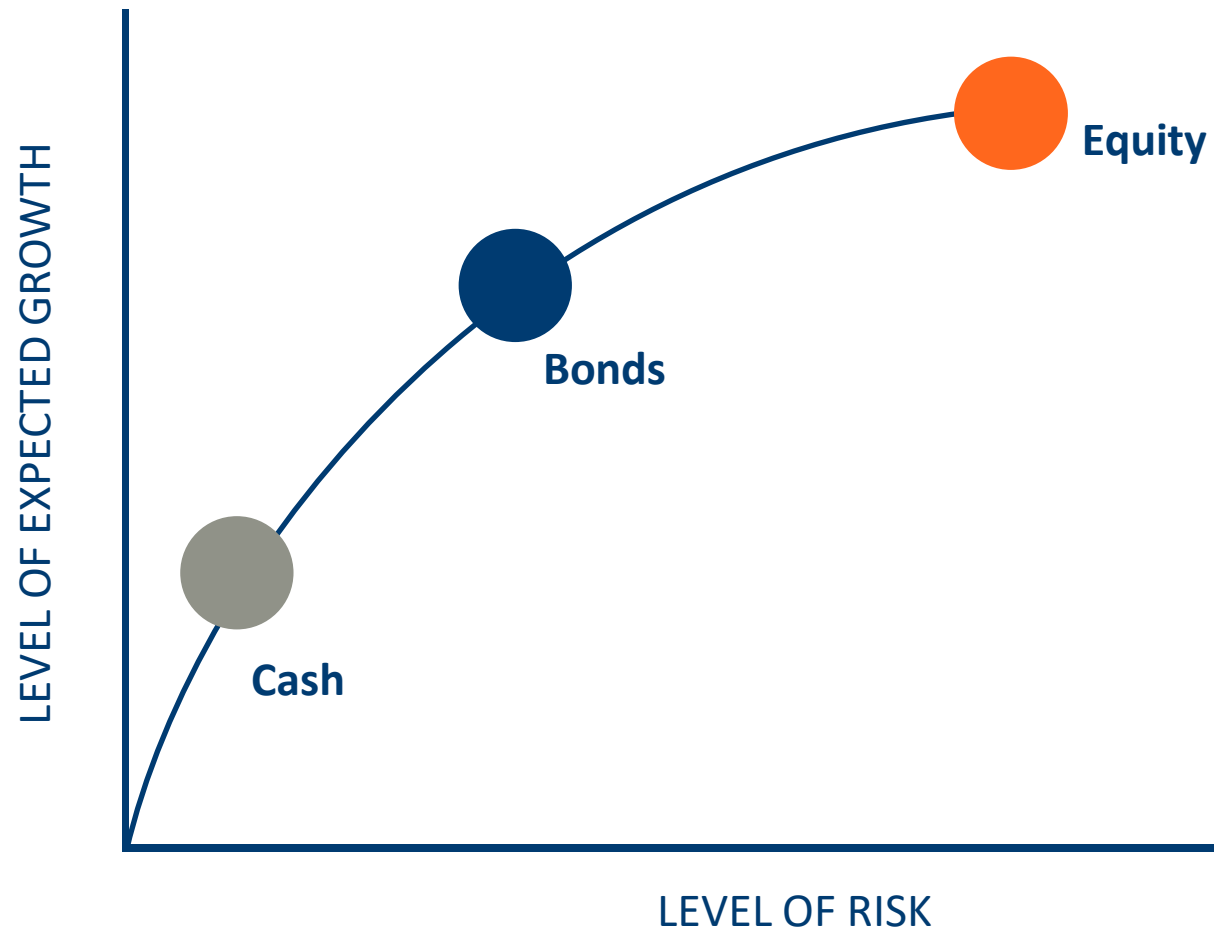
## What is Risk

The probability or uncertainty of losses rather than expected profit from investment due to a fall in the fair price of securities such as bonds, stocks, property, etc. Each type of investment is exposed to some degree of investment risk like the market risk i.e., the loss on the invested amount or the default risk.

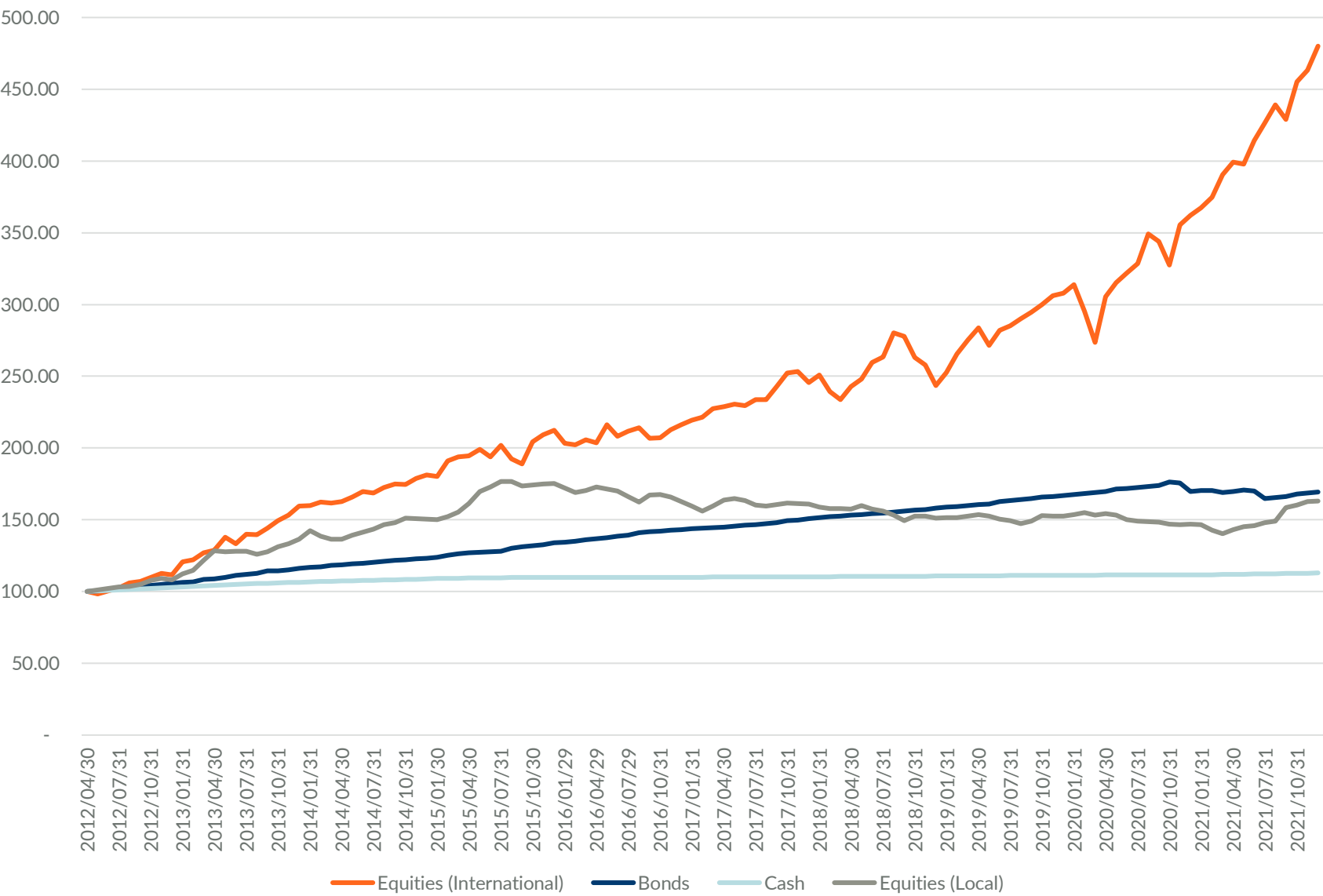
### **RISK AS IT RELATES TO A MEMBER OF A PENSION FUND**

*THE PROBABILITY THAT A FUNDS INVESTMENTS DO NOT MEET THE INVESTMENT OBJECTIVES REQUIRED TO ALLOW MEMBERS TO MAINTAIN THEIR STANDARD OF LIVING THROUGHOUT RETIREMENT*

# The Relationship between Risk and Return



# How Different Asset Classes Have Behaved



# Unpacking the Topic – Market Conditions

## What are Market Conditions

Market conditions is a term that refers to the state of an industry or economy. The term is commonly used in reference to stock and real estate markets, which are often described as being volatile or stable. These conditions are an indicator used by many to influence their decisions.

Examples of Trigger events that changed Market Conditions:

- Global Financial Crisis
- COVID 19

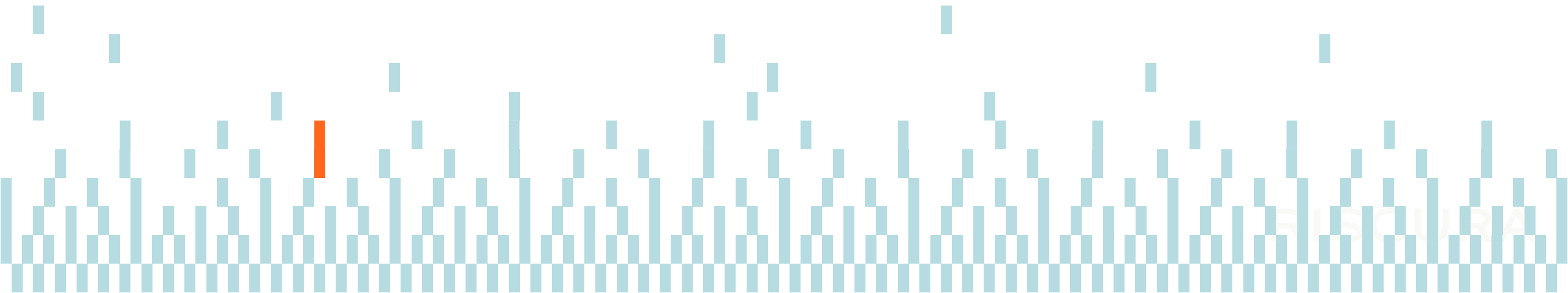
Investors tend to speak about market conditions when they are bad. This doesn't always mean that there aren't pockets of opportunities that can be exploited to make returns/gains.

During the peak of the COVID 19 pandemic, governments and their central banks assessed the state of their respective economies and made adjustments to policy in efforts to reverse negative sentiment and foster an environment that is optimal for growth. An example of this is reducing interest rates to make debt cheaper in order to allow businesses to borrow money for reinvestment into their companies and reduce the debt burden on households.

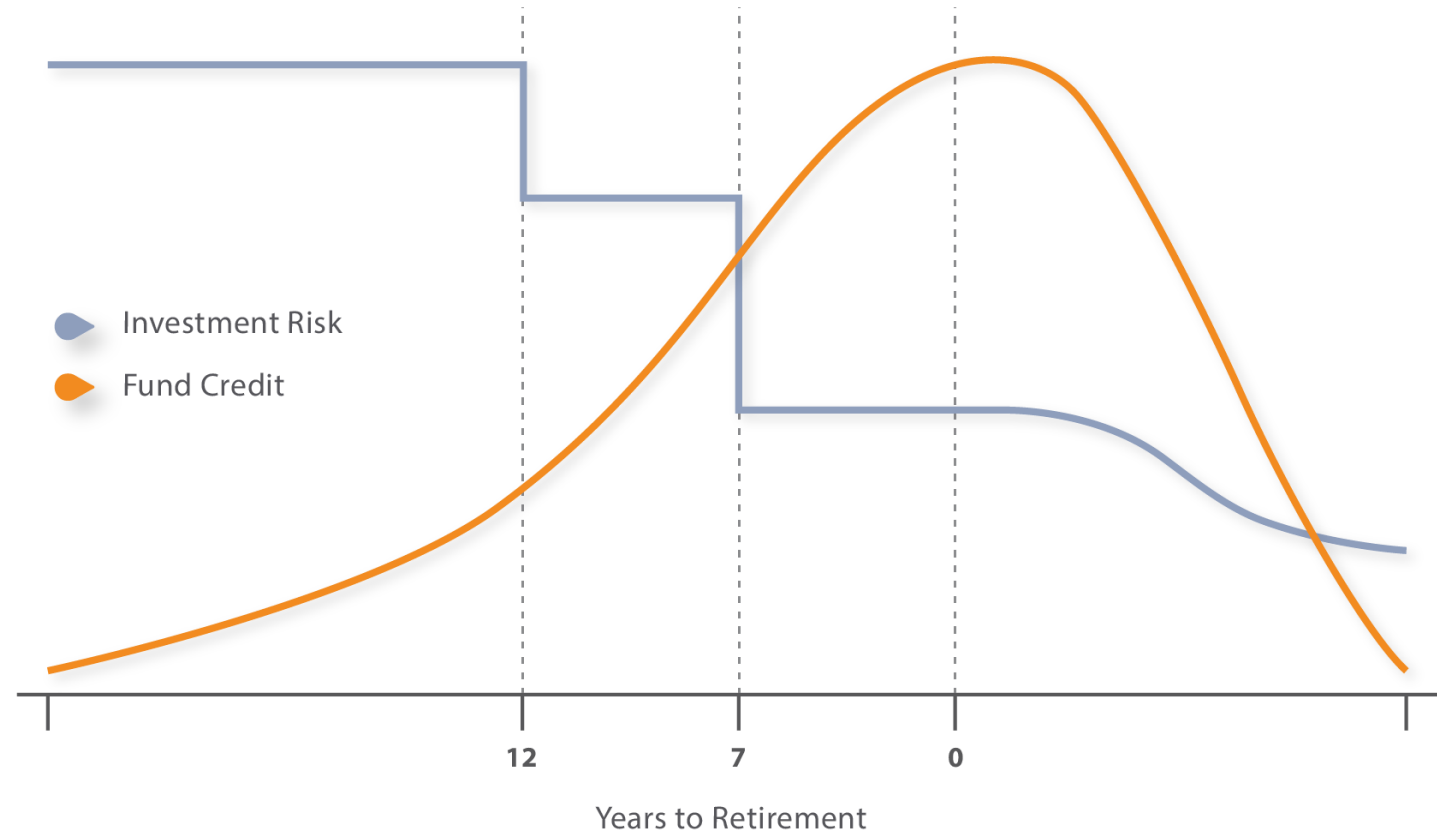
Today, the opposite is happening where they are looking to increase rates in order to prevent markets from overheating and control rising inflation.



# WHY DO THESE CONSIDERATIONS MATTER TO PENSION FUNDS



Help members  
think  
“longevity”



“Deciding what not to do is as important as deciding what to do”

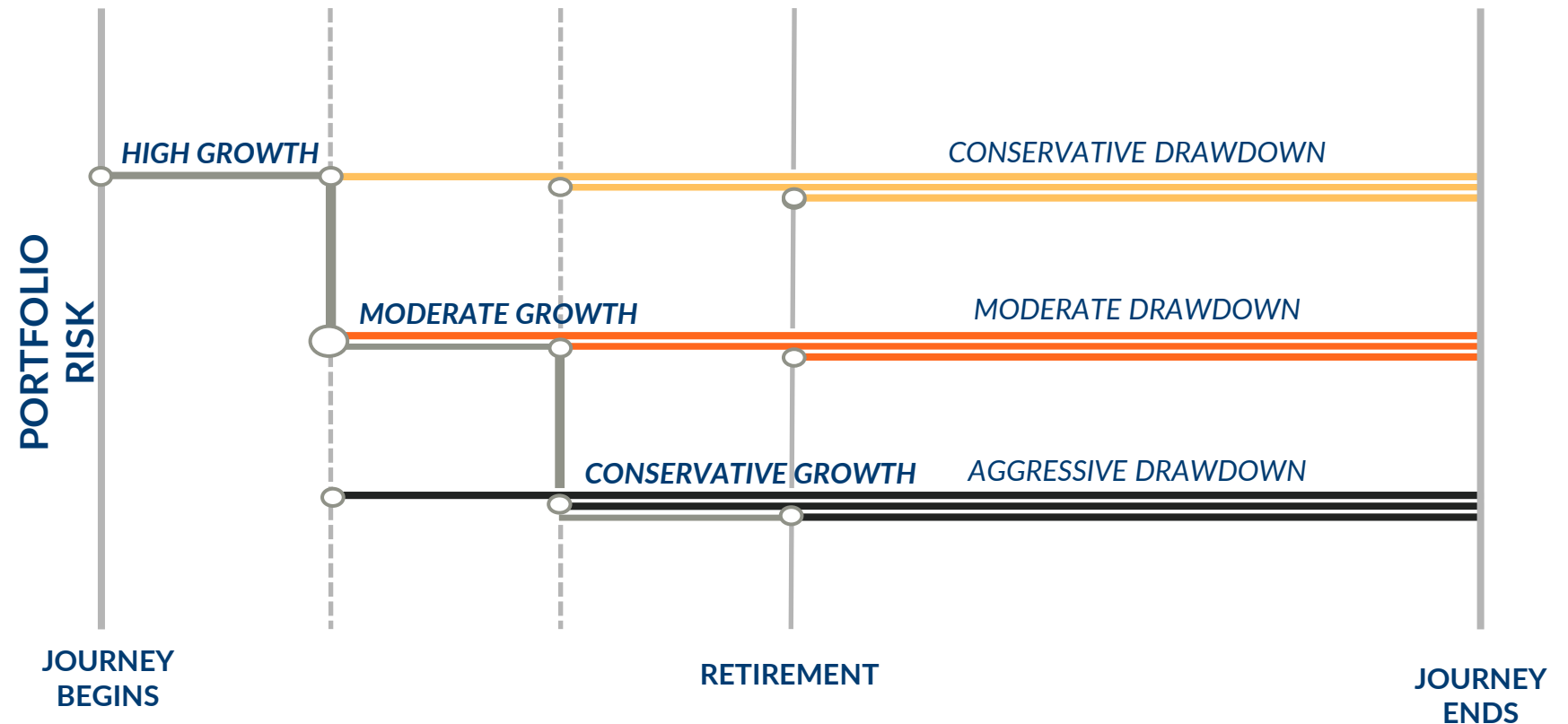
Steve Jobs

Think “Cradle to Grave” solution.

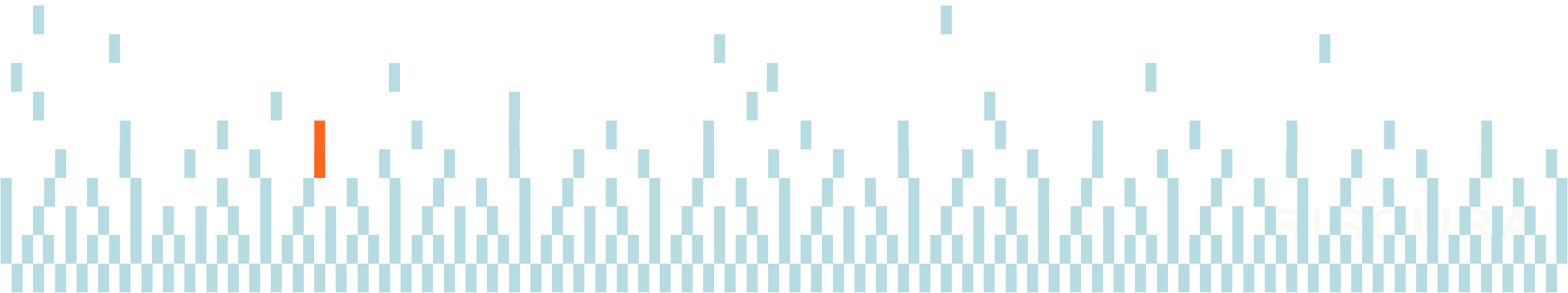
# Cradle to Grave Journey

In the context of the cradle to grave journey, the diagram below illustrates the concept of seamless transition between the various pre-retirement and post-retirement portfolios.

*Note how the level of portfolio risk reduces over the retirement journey whilst linking the pre- and post-retirement portfolios.*



# HOW RISK, RETURN AND MARKET CONSIDERATIONS MEET TO ACHIEVE THE MEMBERS OBJECTIVES



# Drawing up the Investment Policy Statement

- Requirements of Client / Law
- Provides the foundation for all investment decisions - guidepost, identifies goals and creates a systematic review process
- We ensure your investment strategy and IPS document is in line with Fund and industry requirements
- Review and re-evaluate over time given the Fund's changing liability structure, market circumstances etc.
- The OECD Core Principles bring in to focus the need for Trustees to adopt and operationalize a robust Investment Policy Statement (IPS).
- The IPS is a requirement under the Retirement Funds Act, and the PFR 2 guidelines



# NBFIRA IPS Considerations

- ▶ NBFIRA requires that the Trustees should draw up an Investment Policy.
- ▶ To be implemented by the Fund's Investment Committee
- ▶ Trustees to review the Investment Policy annually

## NBFIRA REQUIREMENT

Issues relating to liquidating

Prudential norms

Exposure limits

Stop loss limits in securities trading

Management of all investment and market risks

Management of Assets and Liabilities matching

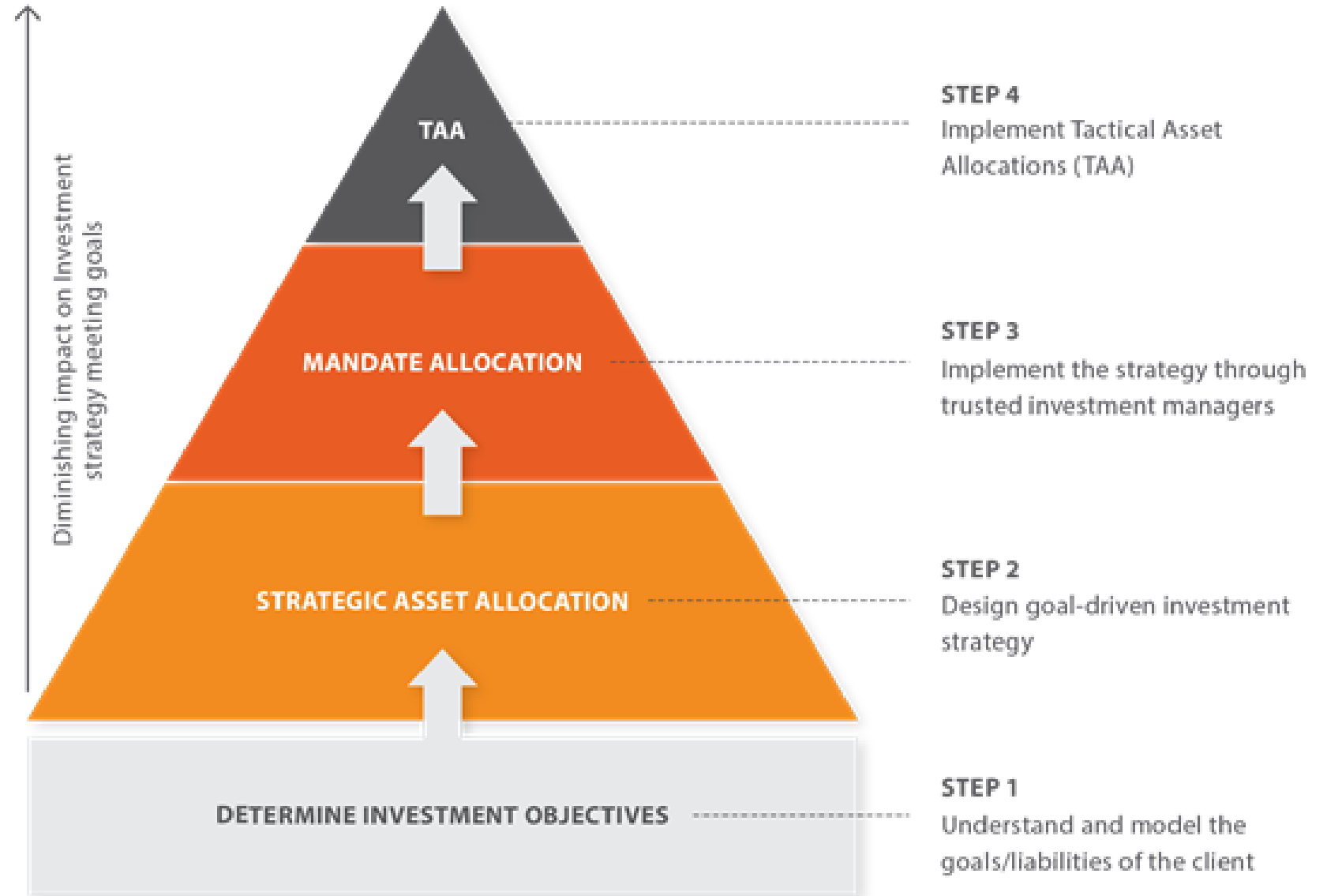
Investment audits and statistics

# Critical IPS Considerations

- The Fund's stakeholders and role players
- **Investment philosophy**
- **Investment strategy**
- **Asset allocation and ALM process**
- Rebalancing policy
- Structure of mandates
- Management fees and compensation
- Risk management
- Diversification
- Pledging and borrowing (script-lending) policy
- Voting policy
- Responsible Investing policy
- Citizens Empowerment policy
- Communication policy
- Risk policy



# Different Layers of





# Conclusion

- A well formulated Investment Strategy enables Pension Funds to design strategies that optimize the returns for members regardless of the market conditions.
- Through Asset Liability Modelling and periodic reviews of the Investment Strategy, Trustees are able to evaluate if the strategy is appropriate to continue meeting the Members objectives.
- In between strategy reviews, Tactical Asset Allocation enables pension funds to navigate prevailing market conditions by rotating out of asset classes and investment philosophies that aren't favourable and placing capital in investments that benefit from prevailing macro economic conditions (within the confines of the strategy).

YES

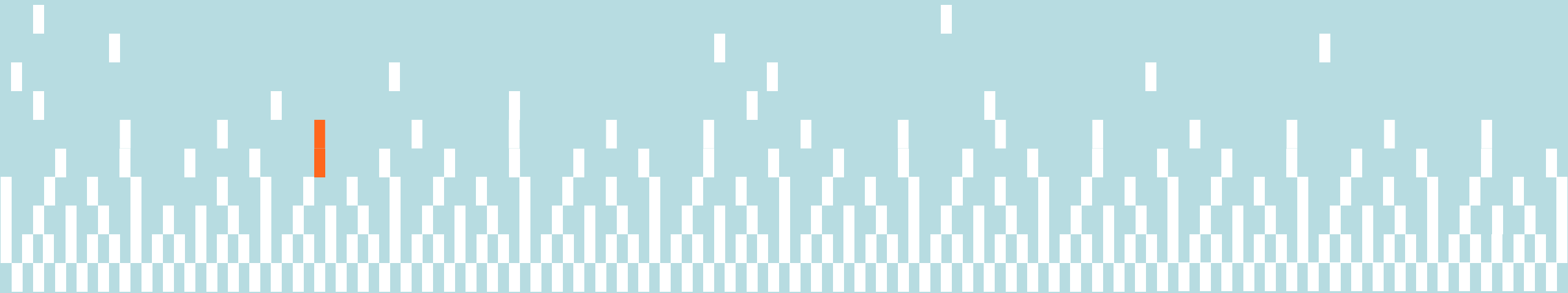
RETIREMENT FUND PORTFOLIOS ARE DESIGNED TO MAXIMIZE  
REWARD AND MINIMIZE RISK NO MATTER THE MARKET CONDITIONS

IF

THE INVESTMENT STRATEGY IS ADEQUATELY CRAFTED

Thank You

Q&A



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