

**NON-BANK FINANCIAL INSTITUTIONS REGULATORY
AUTHORITY
(NBFIRA)**

PENSION PRUDENTIAL RULES

In terms of Section 4 (d) of the NBFIRA Act, 2016 read with Section 52 of
the Retirement Funds Act, 2014

**PFR2
Fund Investment Rules
Revised 2017 Version**

ISSUED: 12/12/2017

Table of Contents

1. INTRODUCTION.....	3
1.1 Definitions.....	3
2. INVESTMENT POLICY.....	6
3. VALUATION OF ASSETS.....	8
3.1 Valuation Methodology.....	8
3.2 Disallowed assets.....	9
3.3 Derivatives.....	9
3.4 Limits on Investments.....	9
3.5 Limits on Asset Classes.....	10
3.6 Limitation on Foreign Investment.....	10
4. RISK MANAGEMENT.....	11
5. REGULATORY AUTHORITY'S EXEMPTION.....	12
6. TRANSITIONAL ARRANGEMENTS.....	12
7. INVESTMENT LIMITS.....	12

ISSUED: 12/12/2017

1. INTRODUCTION

1.1 Definitions

In these Requirements, unless the context indicates otherwise:

- i. "Act" means the Retirement Funds Act, 2014;
- ii. "board" means the governing body of a Fund;
- iii. "bond" means either a government bond or a corporate bond;
- iv. "cash" means cash in hand, bank notes issued or caused to be issued in terms of the Bank of Botswana Act, 1996 (Act No 19 of 1996), and credit balances;
- v. "credit balances" means a credit balance in an account with, or a deposit, including a negotiable deposit and a bill accepted by, or a promissory note issued by:
 - a. an institution registered under the Banking Act, 1995 (Act No. 13 of 1995); or
 - b. an institution incorporated outside of Botswana which would have been a banking institution under the Banking Act;
- vi. "contract for differences" means a contract the purpose of which is to secure a profit or avoid a loss by reference to fluctuations in the value or price of:
 - a. an asset;
 - b. income from such asset;
 - c. an index of such assets or the income therefrom;
- vii. "corporate bonds" means bonds, other than government bonds, which are issued by a body corporate registered in terms of the law;
- viii. "derivatives" means an asset whose price depends on or is derived from, the price of another asset, this includes but is not limited to options, futures and contracts for differences;
- ix. "fair value" means the fair value of an asset determined by reference to the International Financial Reporting Standards;
- x. "foreign cash" means cash in a currency which is not legal tender in Botswana;
- xi. "fund" means fund as defined in terms of the Act;
- xii. "futures contract" means a standardized contract the effect of which is that:
 - a. a person agrees to deliver to or receive from another person a certain quantity of corporeal or incorporeal things before or on a future date at a pre-arranged price; or
 - b. an amount of money will be paid to or received from another person before or on a future date according to whether the pre-arranged value or price of:

ISSUED: 12/12/2017

- aa. an asset;
- bb. an index as a means of indicator that reflects changes in the value of one or more groups of shares or securities on one or more exchanges;
- cc. currency;
- dd. a rate of interest; or
- ee. any other factor,

is higher or lower before or on that future date than the pre – arranged value or price;

- xiii “government bonds” means securities issued by the Government of Botswana;
 - xiv “holding company” means a holding company according to the Companies Act;
 - xv “IFRS” means International Financial Reporting Standards developed and maintained by the International Accounting Standards Board;
 - xvi “listed” means listed on a stock exchange or similar trading facility, which is recognised generally by the international community of institutional investors;
 - xvii “multilateral Development Finance Organizations” means organizations formed between three or more nations to work on development issues that relate to all the countries in the organization;
 - xviii. “option contract” means a standardised contract the effect of which is that a person acquires the option:
 - a. to buy from or to sell to another person a certain quantity of corporeal or incorporeal things before or on a future date at a pre-arranged price; or
 - b. for an amount of money to be paid to or received from another person before or on a future date according to whether the pre-arranged value or price of:
 - i. an asset;
 - ii. an index as a means of indicator that reflects changes in the value of one or more groups of shares or securities on one or more exchanges;
 - iii. a currency;
 - iv. a rate of interest; or
 - v. any other factor;
- is higher or lower before or on that future date than the pre-arranged value or price;
- ixx. “property Company” means a company -
 - a. which owns immovable property as its principal business; or
 - b. all of the shares in a company;
 - whose principal business consists of the ownership of immovable property; or
 - which exercises control, as defined in the International Accounting Standards, over a

ISSUED: 12/12/2017

company whose principal business consists of the ownership of immovable property;
or

- constitutes, in the aggregate, 50 per cent or more of the market value of its assets;
- c. which derives 50 percent or more of its income, in the aggregate, from:
- investments in immovable property;
 - investments in another company which derives 50 per cent or more of its income from investments in immovable property; or
- d. which exercises control, in terms of the International Accounting Standards, over a company referred to in paragraph (i) or (ii);
- xx “share” means an interest in the capital of a company; including share stock;
- xxi “sponsoring employer”, means
- i. in relation to a fund established to provide benefits for employees of a company, means the company for whom the member works, where only one company participates in a fund; any company within a group, where
“group” describes a company and its subsidiaries (where the company owns at least 50% of the subsidiary), or all companies with a common holding company, and the employee works for one of the companies in such group; and
 - ii. in relation to a fund established for the employees of a body corporate other than a company including government and local authorities and bodies established by a law, the body that has the right in terms of the rules of the fund to appoint trustees other than member-elected trustees.
- xxii “supra-national bonds” means debt instruments issued by Multilateral Development Finance Organizations, of which Botswana is a member.

2. INVESTMENT POLICY

- 2.1 A board of a fund shall have an investment policy for the fund, in the form of an investment policy document. The investment policy shall have an investment strategy which is to be submitted to the Regulatory Authority at the initial licensing stage and once every three (3) years or if there is a material change.
- 2.2 A material change to the fund includes-
- i. A change of 20% or more in the membership of the fund;
 - ii. A change in the benefit structure which will change the value of the accrued liabilities by 20% or more;
 - iii. A change in the asset and, or liability values by more than 20% as a result of movement in the market;
 - iv. The transfer of at least 20% of the assets or liabilities into or out of the fund; or
 - v. A change in valuation assumptions which has resulted in a change of more than 20% to the actuarial values of either the assets or the liabilities.
- 2.3 The board shall consult experts with sufficient skill and experience to advise the board on an appropriate investment strategy, unless the board itself includes members with sufficient skills and experience to perform such function.
- 2.4 The board shall establish an investment strategy that shall take due account of:
- i. the investment objectives of the fund;
 - ii. the nature and term of the liabilities of the fund;
 - iii. the funding methods used in the fund, including, in case of a defined contribution fund, any smoothing of investment returns accrued to individual member accounts;
 - iv. the effect of taxation on the investment return earned;
 - v. the need to diversify the assets of the fund; and
 - vi. the risks to which the assets and the liabilities of the fund will be exposed.
- 2.5 The board shall review the investment strategy of a fund, either when there is a material change to the fund or in anticipation of a major change or, failing such a change, on at least an annual basis.
- 2.6 Where the strategy does not restrict pooled investment portfolios offered through insurance policies or collective investment undertakings:

- i. the strategy shall set out in writing what percentages of the total fair value of the assets of the fund may be invested in each of the various classes, which shall be subject to the limitations imposed by these rules, and categories of asset [the strategic asset allocation (“SAA”)], and what powers the investment manager will have to diverge from the SAA (which may be expressed as a range for the percentages in each asset class around the SAA) with, or without, the consent of the board, subject to the limits set out in this Rule;
- ii. the strategy document shall include the criteria upon which investment managers shall be selected and the manner in which, and the frequency with which, their performance shall be assessed. If performance assessment requires the use of a benchmark, such benchmark shall be included in the document; and
- iii. where the fund will be investing only in pooled investment portfolios offered through insurance policies or collective investment schemes, the strategy document shall set out the criteria with which such investment portfolios shall be selected and the manner in which, and the frequency with which, their performance shall be assessed. If performance assessment requires the use of a benchmark, such benchmark shall be included in the document.

2.7 Certification by the Actuary

2.7.1 An actuary shall confirm that he or she is satisfied that the strategy is consistent with the objectives of the fund and the management of the risks to which the fund is exposed, and that the strategy will result in an appropriate relationship between the assets and the liabilities of the fund. The actuary shall issue a certificate to this effect whenever the investment strategy is changed to a material extent, or, failing such a change, at least once every three years, provided that:

- i. if the fund is exempt from actuarial valuations, or application is to be made for such exemption, such a certificate shall accompany the request for exemption or renewal of this exemption; or
- ii. if the fund is not exempt from actuarial valuations, such certificate shall accompany the report on the valuation in terms of Section 25 of the Act.

2.8 Communication with Members

2.8.1 The board shall report annually to members the strategy, in summary form and in such manner as shall be determined by the board (which may differ between active members, pensioners and deferred pensioners), in such a way that a typical member will be able to:

- i. understand the objectives set for the investment manager, where investment is in assets other than pooled investment portfolios offered through policies of insurance or collective investment undertakings, and reconcile these objectives with the overall investment strategy set by the board; or

- ii. understand the strategy lying behind the selection of the particular pooled investment portfolio/s.

2.9 Individual member choice

2.8.1 Where the board offers all, or some, members' choice over the investment medium in which those particular members' interest in the fund shall be invested, the board shall ensure that:

- i. any members who are offered choice over the investment medium in which their interest in the fund is invested have access to advisors who have such skills and expertise and who will advise the members on their choice of investment medium if they do not have the skills and expertise to manage such choice themselves;
- ii. the investment portfolios in which members may invest are selected because the portfolios have strategies which are consistent with those that the trustees feel may be appropriate to members of different risk profiles and ages, or which offer members the opportunity to combine in such a way that an appropriate individual strategy may be matched;
- iii. investment portfolios shall comply with the limits set out in section 7;
- iv. the performance of each investment portfolio is monitored and compared with criteria established by the board prior to appointment of the investment manager.
- v. if an investment manager is not adhering to the strategy notified to the board and the members, the appointment of the investment manager is reviewed by the board and, if they decide to retain the investment portfolio as an option for members, members are informed of the failure to adhere to the strategy set out, and are invited to review their selection of investment portfolio; where the board does not retain the investment portfolio as a permitted investment option, they shall transfer members' interests in that portfolio to another portfolio of the member's choice, failing which, to the default portfolio;
- vi. the strategies adopted by the investment managers in respect of each such investment portfolio are explained to members in a language that they can reasonably understand; and
- vii. in case any members who are entitled to select their investment portfolio do not exercise a choice, the board shall establish a default investment option in which the fund shall invest those members' interests in the fund: Provided that such default option may include a range of investment options depending on factors such as the age of the member.

3. VALUATION OF ASSETS

3.1 Valuation Methodology

3.1.1 In principle, assets must be valued at fair value, except where indicated otherwise.

3.1.2 Where there is no reliable market price the valuation of an independent expert in the valuation of that type of asset or an actuarial value using a discounted cash flow approach,

with assumptions as to future investment returns and growth in values of assets of the different classes consistent with the assumptions used to value the liabilities, may be used.

- 3.1.3 If in the opinion of the Regulatory Authority a value determined in respect of an asset by a fund is not a fair estimate, the Regulatory Authority may define the valuation methodology used to determine the value of the asset.

3.2 Disallowed assets

- 3.2.1 A fund shall not -

- i. encumber its assets except in circumstances allowed by the Act;
- ii. allow its assets to be held by another person on its behalf, except where a contractual custodial relationship is in existence;
- iii. by means of suretyship or any other form of personal security, whether under a primary or accessory obligation, give security in relation to obligations between other persons;
- iv. include in its assets, shares held directly or indirectly in its sponsoring employer, or any holding company of that sponsoring employer, in excess of five (5) % of the total assets of the fund, without the approval of the Regulatory Authority, given generally or in a particular case, and subject to such conditions as the Regulatory Authority may determine.

3.3 Derivatives

- 3.3.1 A fund shall not invest in derivatives other than for one or more of the following reasons:

- i. for the purpose of efficient portfolio management;
- ii. for the purpose of reducing investment risk, and the Actuary has agreed in writing thereto; provided that in respect of paragraphs i. and ii., the fund will, or reasonably expects to, have an asset at the settlement date of the derivative instrument which matches the obligations under that instrument and from which it can discharge those obligations.

- 3.3.2 The board shall ensure that any agreement concluded with an investment manager for the management of any of the fund's assets shall include a limitation on the use of derivative products and as approved by the Regulatory Authority in writing.

- 3.3.4 Where the investment manager may invest in derivative products in the name of the fund, the board must get written approval of their derivative policy from their Actuary and the Regulatory Authority. In approving the policy, the fund's Actuary must take account of the fund's overall strategic investment policy, asset-liability management strategy, and risk tolerance. Such policy must be reviewed annually by the board.

3.4 Limits on Investments

- 3.4.1 The value of the assets held by each fund in respect of the kinds or categories of assets set out in the first column of section 7 below shall not exceed the percentage set out opposite

ISSUED: 12/12/2017

each such kind or category of asset in that table, which percentage expresses a percentage of the total fair assets of the fund. In applying these limits the effective exposure will take account of the impact of any derivative holdings in that class of asset. Provided that:

- i. no more than 90% may be invested in a combination equities and property.
- ii. no single asset shall comprise more than 5% of the fair value of the portfolio, unless the asset is a listed domestic equity, where the maximum is set out in Section 7.

3.5 Limits on Asset Classes

3.5.1 The assets held by a fund where there is no limitation asset class, include bills, bonds or securities issued, or guaranteed by the Government of Botswana, or any corporate body established by an Act of Parliament or local authority in Botswana, or Multilateral Development Finance Organizations that is approved by the Regulatory Authority.

3.5.2 When determining the limitations on the kinds of assets referred to in Section 7, the look through principle should be applied to investments in policies of insurance and collective investment undertakings, provided that:

- i. an insurer or collective investment undertakings may report to the fund only the percentages invested in the different classes of asset and not to the percentages invested in particular investments within those classes;
- ii. insurers and collective investment undertakings are only required to report at the fund's reporting dates only, and the percentages invested in different classes of asset will not need to be continuously monitored by the fund; and
- iii. the Regulatory Authority may exempt a fund from complying with the look through principle in relation to an investment in a foreign collective investment undertakings provided that the fund allocates that full investment to a particular class of asset.

3.6 Limitation on Foreign Investment

3.6.1 Subject to the conditions set out in Section 7, no fund shall, in respect of its fund investment strategy, invest less than thirty (30) % of its total assets in Botswana; provided that assets consisting of shares in a company incorporated outside Botswana shall, if such shares have:

- i. been designated by the Regulatory Authority for the purpose of this paragraph; and
- ii. been acquired on the Botswana Stock Exchange;

shall be regarded as assets invested in Botswana.

4. RISK MANAGEMENT

- 4.1 Every fund shall appoint a Risk Officer, whose functions shall include the assessment and evaluation of potential risks facing the fund and identifying the risk mitigating strategies to be applied. The Risk Officer should submit a quarterly report to the board.
- 4.2 Every fund shall appoint a Compliance Officer. The role of a compliance officer shall be to ensure that the fund is at all times, in compliance with relevant financial services laws, international standards and acceptable business practices.
- 4.3 The board should establish a Risk Management Committee, which should consist of the Principal Officer, the Risk Officer and an independent board member.
- 4.4 The board should draw up a Risk Policy and submit the same to the Regulatory Authority for approval. In framing such a policy; the board shall be guided by:
- i. Risk management strategies;
 - ii. Disaster recovery and business contingency plans;
 - iii. Insurance cover against risks;
 - iv. Ensuring a risk adjusted return to members consistent with the protection, safety and liquidity of the fund.
- 4.5 The risk policy will be implemented by the Risk Management Committee. The Risk Management Committee shall meet at least once every quarter to discuss risk management issues pertaining to the portfolio.
- 4.6 The board shall review the Risk Policy on a half yearly basis or in cases where there is a need to make modifications in the existing policy to bring it in line with the requirements of the prevailing legislation.
- 4.7 The Risk Management Committee may engage services of risk management professionals if they find it necessary to do so.

5. REGULATORY AUTHORITY'S EXEMPTION

5.1 The Regulatory Authority may on prior written application by a fund, grant such fund exemption from any of the provisions of this prudential rule upon such conditions as it may impose.

5.2 In particular:

- i. A fund may be exempted from the quantitative limits set out in section 7 where the fund demonstrates to the Regulatory Authority that the fund is of sufficient size and has access to appropriate expertise to enable it to determine and manage its own investment strategy.
- ii. A fund shall have a period of three (3) months from the reporting date at which a breach is first reported to the Regulatory Authority in which to comply with this prudential rule: provided that the fund satisfies the Regulatory Authority that the breach was a result of market movements.

6. TRANSITIONAL ARRANGEMENTS

The Regulatory Authority may agree a time limit with a fund for that fund for its compliance with this rule where that fund is in breach of this rule at the time that it becomes mandatory: provided that the time limit shall not be less than three (3) months from the date on which this rule becomes mandatory. The rule become mandatory from **December 01, 2017**.

7. INVESTMENT LIMITS

Asset Category	Total Limit	Per Issuer
Total Cash exposure: 55%		
Local Cash	25%	5%
Foreign cash	30%	5%
Botswana Government Debt Instruments		
Bills, bonds, or securities guaranteed by or issued by the Government of Botswana, including supra-national bonds.	100%	N/A
Bills, bonds, or securities guaranteed by or issued by corporate body established by Act of Parliament or local authority in Botswana that is approved by the Regulatory Authority.	20%	5%
Bills, bonds, or securities guaranteed by or issued by the development bank.	20%	5%
Local Corporate Bonds		

ISSUED: 12/12/2017

Total Listed and Unlisted corporate bonds	40%	N/A
Corporate Bonds listed on the Botswana Stock Exchange provided that the Regulatory Authority has approved the listing criteria;	35%	5%
Unlisted Corporate Bonds approved by the Regulatory Authority.		5%
Total exposure to Foreign Bonds (government, local authorities and corporate): 50%		
Foreign bonds	50%	5%
Property (Local and Offshore)		
Immovable property, units in property collective investment undertakings, and shares in, loans to and debentures, both convertible and non-convertible, of, property companies, in Botswana or deemed to be in Botswana.	25%	5%
Listed units in property collective investment undertakings and debentures, both convertible and non-convertible, of, property companies, outside Botswana.	10%	5%
Local Equity		
Preference and ordinary shares in companies (excluding property companies), convertible debentures, whether voluntarily or compulsorily convertible (but excluding such debentures of property companies), and units in collective investment schemes (but excluding units in collective investment schemes invested primarily in property shares).	70%	n/a
Shares and convertible debentures in a single company listed on the Botswana Stock Exchange	Market Cap > P500m- 5% Market Cap <P500m> P1500m- 10% Market Cap <1500m -15%	
Unlisted shares	20%	5%
Paid up shares in a building society	10%	
Loans and equity investment in the sponsoring employer together with loans and equity investment in the holding company of the sponsoring employer, if any	5%	N/A
Offshore Equity		
Listed shares in foreign companies listed on a foreign stock exchange	50%	5%

ISSUED: 12/12/2017

Unlisted shares in foreign companies exchange (in aggregate)	5%	
Commodities		
Instruments based on the value of an underlying commodity commodities, where the instruments are settled in cash (in aggregate for all such instruments)	10%	Per commodity – 5% Per instrument- 5%
Alternative Investments		
Exposure to alternative investments	15%	N/A
Hedge Funds and other assets not listed in the rules	5%	2.5%
Funds of hedge		5%
Local private equity	5%	2.5%
Offshore private equity	5%	2.5%

ISSUED: 12/12/2017