



A Dignified Legacy.

2020 TRUSTEES **REPORT**



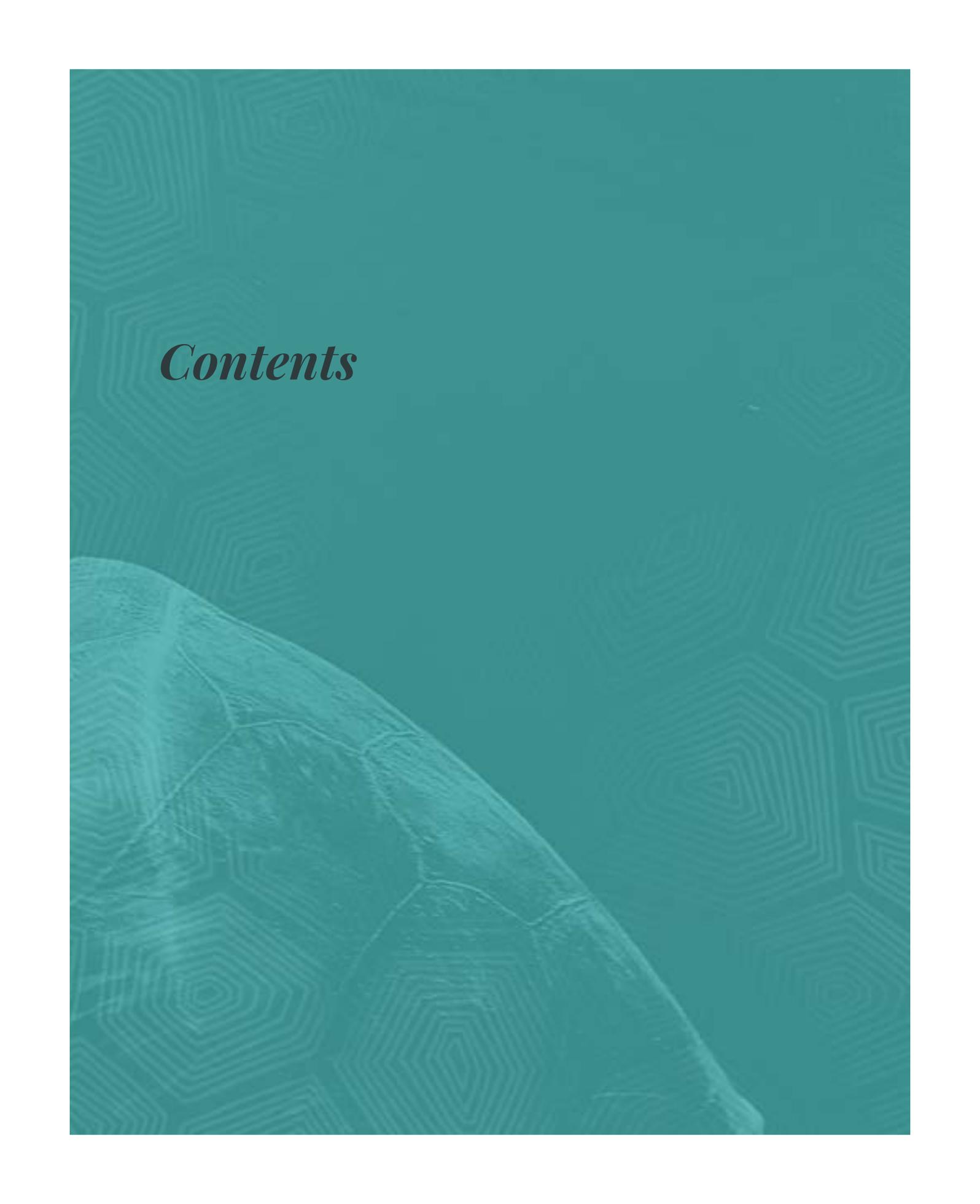
A Dignified Legacy

The Khudu has been represented throughout Setswana literature as a wise, resilient and dependable character.

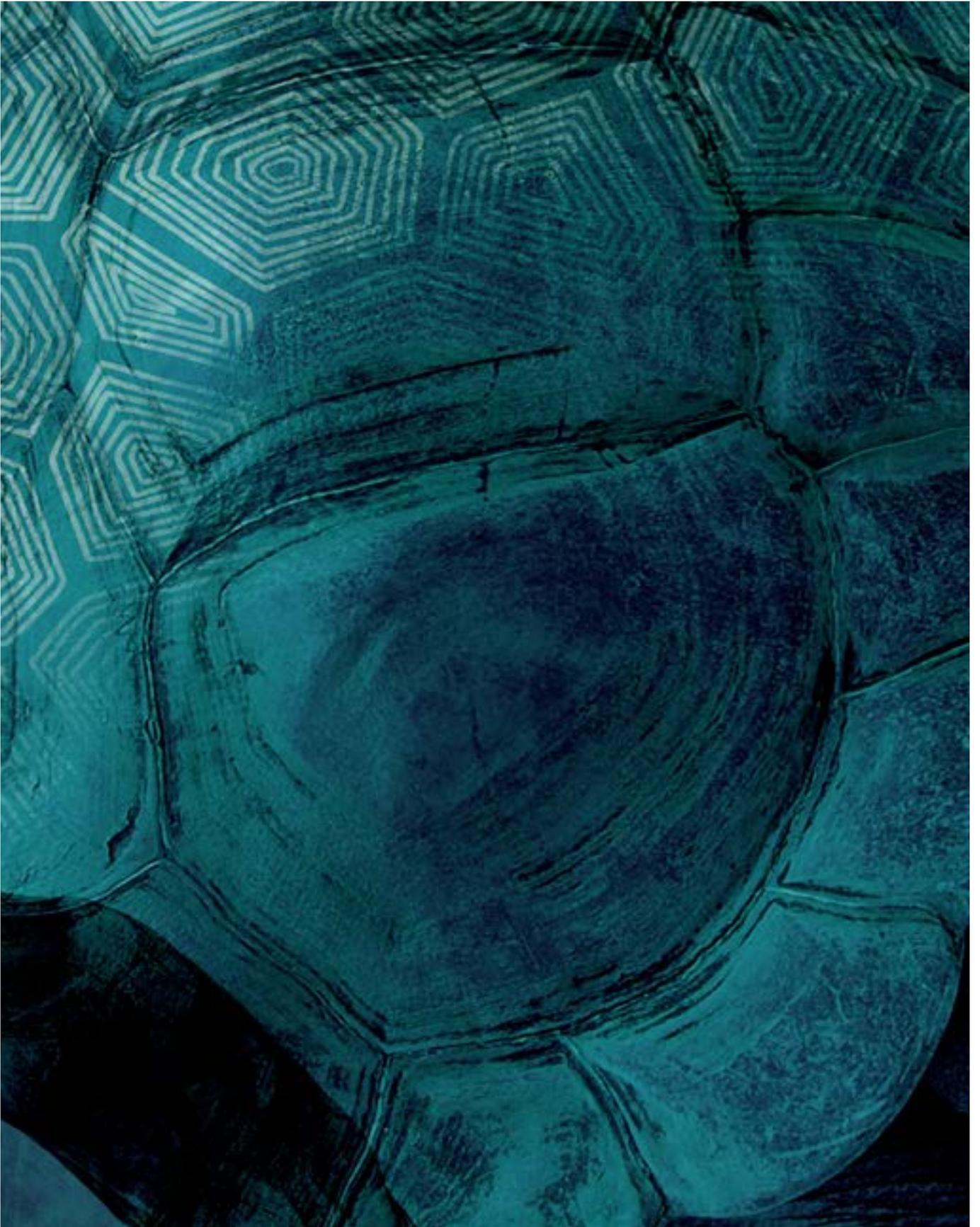
Using intuition and sensitivity to navigate through any environment, the Khudu uses its sturdy shell as a secure habitat, protecting it from the elements and most importantly, from danger.

We are inspired by the Khudu's resolve.

Diligently forging a path for our Members' towards a predetermined destination and enabling them to pass forward the gift of '*A Dignified Legacy*', for generations to come.



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Annuity Fund

Introduction

INTRODUCTION



A historical relationship exists between Botswana Life Retirement Annuity Fund (“BLRAF”) and Botswana Life Insurance Limited (“BLIL”). BLIL as a licensed life insurance company sponsors, and previously administered, six separate umbrella retirement annuity funds registered with Botswana Unified Revenue Service (BURS), with a combined membership base of over 80,000 members and assets in excess of P1.6 billion.

Each of the funds were originally established as permanent funds for the sole purpose of providing life annuities for members and annuities for the widows, children, dependants and beneficiaries of deceased members. The Funds were set up in 1987/1988 and approved by the Commissioner of Taxes. Each of the six funds were set up as tax approved funds with their own rules using the BLIL life fund. The resulting business was issued as a retail life licence retirement annuity fund, offering voluntary membership to individual clients or voluntary member groups not associated with any employer.

Historically, the six funds were administered as a form of insurance business by BLIL. In all cases, members were issued with an individual fund investment policy/certificate reflecting the material terms of the member’s financial entitlement which together with incorporation of the applicable fund rules, reflected all the terms of the member’s commercial rights in the contract.

On the 4th June 2017 in Circular 4 of 2017, Non-Bank Financial Institutions Regulatory Authority (NBFIRA) advised that all existing retirement funds were required to apply for licensing in terms of the new Retirement Funds Act 2014 (“the Act”). By the 13th January 2017, BLIL had applied for licensing, culminating in the licensing of BLRAF as an “individual retirement fund” on 13th September 2019.

BLRAF has been established as an umbrella fund, to incorporate and accommodate the existing six funds by way of specific sub rules set up for each sub fund.

As a licensed retirement fund, section 6(1) of the Act provides that BLRAF is a body corporate capable of acting in its own name and exercising its powers and functions in terms of its rules (in this case, including the sub rules).

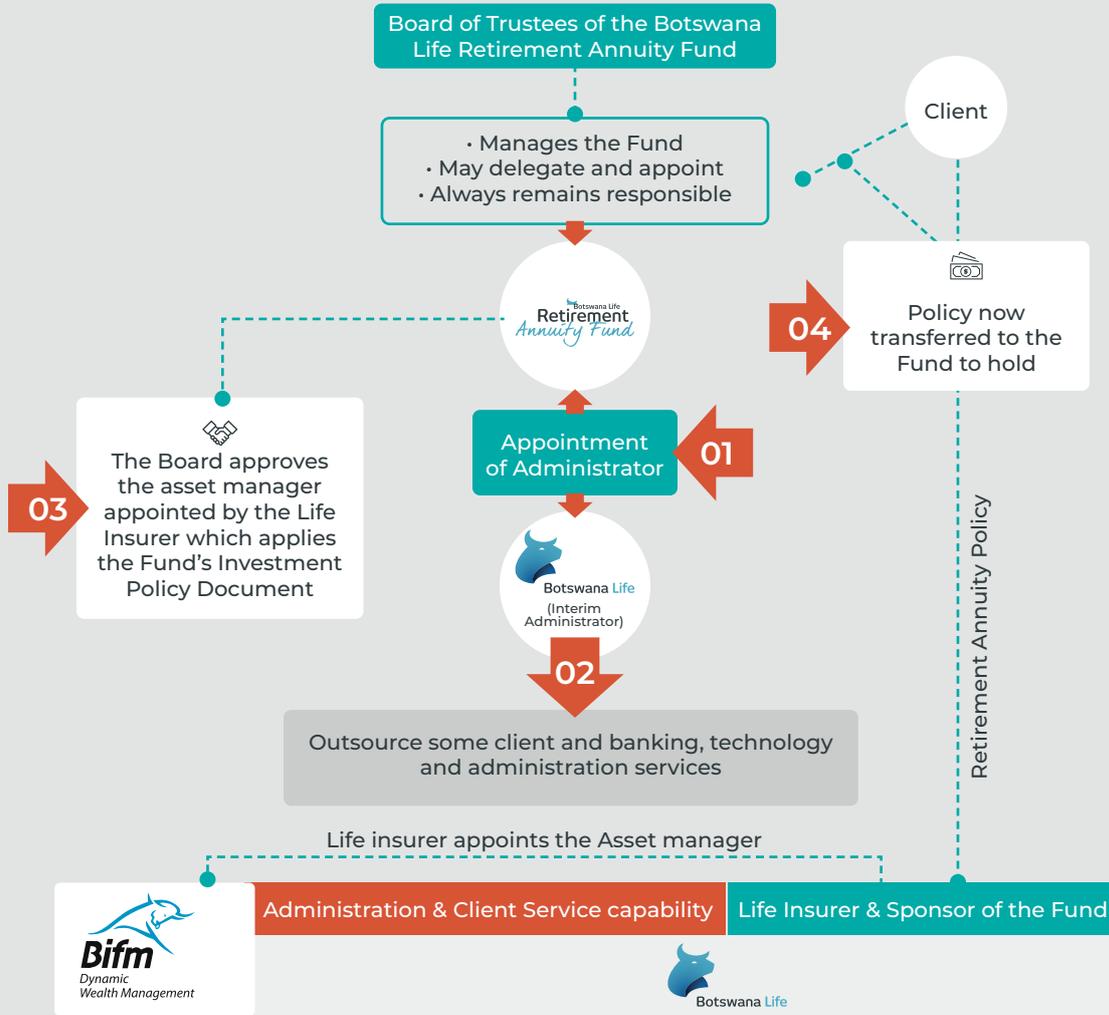
Each existing fund will then be compliant in terms of the Act and able to continue to operate within the umbrella of BLRAF.

This mechanism is useful because it means that each of the six funds will continue to exist, still “separate” with all of their members, asset and liabilities intact and accounted for, housed within the umbrella of BLRAF.

RELATIONSHIP CHART



The relevant parties in the retirement annuity value chain and how their relationship has changed to comply with the new Retirement Funds law



The write up below explains the diagram above:

Item 1:

The Board of the Fund appoints an administrator in terms of The Act;

Item 2:

The Administrator, as required, sets up its own systems and administration making full use of available systems and services available in the Group, whilst ensuring compliance with the Act;

Item 3:

The Board of Trustees of the Fund directs the Administrator to link in and use the asset manager nominated by the Board to manage assets in terms of the Investment Policy Statement;

Item 4:

The infrastructure has now been established for the Fund to be open for business. The first transaction to be implemented is the transfer of the current book of business (Assets & Liabilities) from BLIL to the BLRAF: This entails a transfer of liabilities (Liabilities held in terms of individual client policies issued by BLIL) to the BLRAF and the transfer of assets (Assets held to fund individual client policies issued by BLIL) to the BLRAF.

MISSION, VISION & VALUES

OUR MISSION

“We create legacies and meet our clients’ need for financial security through the best retirement funding solutions.”

OUR VISION

“To be Botswana’s first choice in retirement fund solutions that enable our clients to have dignified post working lives.”

MISSION, VISION & VALUES

OUR VALUES

Collaboration	<ul style="list-style-type: none"> • Internally and externally (partners). • We fervently drive to find a win-win, energetically finding mutually beneficial outcomes. • We maintain a high sense of teamwork, seeking first to understand, before being understood. • We prioritize facetime over email contact, thus creating warmth in our engagements. • We respectfully and lovingly give and receive constructive feedback, transcending the self.
Agility & Innovation	<ul style="list-style-type: none"> • Our courage gives us the willingness and discipline to search for and try new things directly related to the success and growth of our fund. Specifically, we protect a culture of: <ul style="list-style-type: none"> - continuous improvement - embracing new technologies and business models, and - pursuing new markets • We learn from our mistakes, seeing them as a sure way to conscious improvement. • Each day we strive to do better than the day prior. • We respond readily to challenges with a mindset to find on point solutions.
Corporate Citizenship	<ul style="list-style-type: none"> • We do the right thing even when no one is looking (integrity). • We uplift the communities that we serve. • We value the protective and clarifying nature of policy and regulation and do adhere to them most gladly as we climb the success ladder.
Member Centricity	<ul style="list-style-type: none"> • We put our valued members first at all times. Our priority is to delight them, and to go beyond the call of duty in assisting them. We are on point the first time we engage. • We reward our members handsomely for longevity because are aware of the great value they bring to our fund growth and success. • Botho (Respect) lies at the foundation of our success, so we care. • Our stakeholders form very important and secure building blocks to our business, so our engagement with them is impeccable and deliberate.
High Performance	<ul style="list-style-type: none"> • We fully understand that knowledge is key, so we foster a vibrant culture of learning. • We develop our people as a demonstration of our appreciation of them, equipping them for high performance. • Our culture of high accountability (not making excuses) is at the foundation of our massive success. • We are so efficient that each time, we deliver higher than expected, well before the anticipated time. • Servant leadership is our way. We place humility, Botho and purpose before success.



“On behalf of the Board Of Trustees, thank you to our P.O, Fund Management and all key Stakeholders”

CHAIRPERSON’S STATEMENT

Mpho Morale

It is my pleasure to bring to you the annual report and Financial Statements of the Botswana Retirement Annuity Fund (BLRAF), for the year ended 31 December 2020. This report, since the licencing and formation of the fund, is being written at a time of uncertainty and sadness in the world. A positive start to the year and quarter, was abruptly overturned by the outbreak of the Novel Coronavirus, a highly infectious virus that causes the disease named COVID-19.

The virus spread rapidly across the world so much so that the World Health Organisation (WHO) declared it a pandemic in March 2020. As a result, almost all countries around the world effected drastic measures to limit the spread of the virus.

These measures include restricting travel and imposing

extreme social distancing by declaring national lockdowns. Following the incidence of COVID-19 in Botswana, the Government announced a State of Public Emergency and a 28-day lockdown to curb and minimise the spread of the Coronavirus. Botswana is still on a State of Public Emergency as a way to deal with the pandemic. The scourge of COVID-19 continues to affect the entire nation, and sadly we continue to receive daily reports of ongoing infections and fatalities worldwide.

Despite these circumstances, the Trustees remain committed and responsible to ensure that the best interests of our Members continue to be served. Post re-licencing in line with the requirement of the new Retirement Funds Act & Regulations, BLRAF has made significant progress to achieve overall compliance and as such 2020 was a particularly eventful year mainly in

CHAIRPERSON'S STATEMENT

a positive way. The report and the Principal Officer's message will detail all the important information relating to the Fund. Additionally, communication with members on the implications of the legislative changes continues in a phased approach.

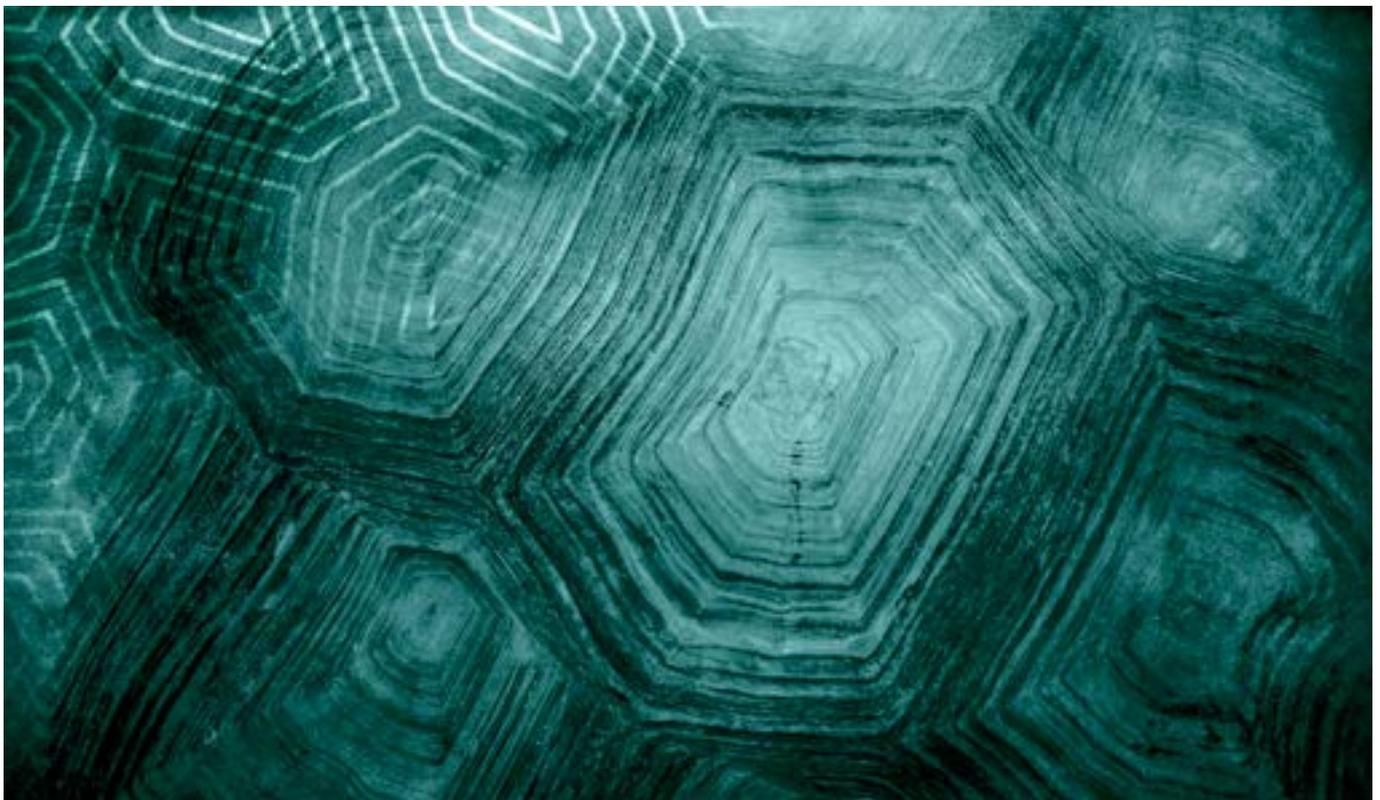
The Board acknowledges its responsibility for the investments of the Fund and need to give key information to members on the fund's investment performance. Part of the key future strategic changes is the intention to adopt a Life Stage Model, and the intention of this investment model is to ensure Members are invested in portfolios appropriate for their age and number of years to retirement.

In conclusion, on behalf of the Board of Trustees, I convey our words of gratitude to the Principal Officer and management of the Fund and all key stakeholders for the efforts towards ensuring that the Fund attains position as Botswana's first choice in retirement fund solutions which enable our members to have dignified post working lives.



Mpho Morale

Chairperson





“We sincerely thank our members for their support and continuing confidence.”

PRINCIPAL OFFICER’S LETTER

Duncan Hule

An important legal requirement introduced by the new Retirement Funds Act is that all existing retirement annuity insurance business must now be housed within a licensed retirement annuity fund, to be administered by a specialist administrator.

In line with this requirement, all Botswana Life retirement annuity policy holders have automatically become members of the new Botswana Life Retirement Annuity Fund (BLRAF), which is administered by a dedicated fund administrator. Essentially, BLRAF is a new standalone retirement fund re-licensed in terms of the Retirement Funds Act, dedicated to looking after the interests of its members.

BLRAF is governed by a Board of Trustees, including an Independent Trustee, who have been vetted and approved by the Regulator. Their fiduciary responsibility

is to ensure that the Fund complies with the law and the Rules of the Fund, that members’ interests are protected and that all the assets of the Fund, including all retirement annuity policies, are now held and controlled by the Fund for the benefit of its members.

While BLRAF is a separate legal entity acting in its own name and capacity, it remains sponsored by Botswana Life Insurance Limited (BLIL) (a subsidiary of the BIHL Group). By sponsoring the new Fund, BLIL has designed and helped implement sound product and service foundations so that the Fund’s Board of Trustees are better able to protect their members and can also attract new members from the marketplace.

The two key differences between the Retirement Annuity Policy and Retirement Annuity Fund are that each retirement annuity policyholder now becomes

A Dignified, Legacy.

PRINCIPAL OFFICER'S LETTER

a member of the Fund. Each current retirement annuity policy previously issued remains intact and operational, but the Fund now exercises legal control over these policies. Practically, this means two things to the policyholders/members: all their rights and benefits remain protected and unchanged and previously, a policyholder (now a member) would have sent a change request to the insurer, now the same request will go to the Fund.

It is important to understand that all these legislative changes have been introduced for the protection of policyholders/members, and to bring the retirement annuity policy practice in line with global best practice. To ensure that policyholders and members are provided with all the details they need, a formal letter is being sent to each current Botswana Life retirement annuity policyholder. The letter will provide extensive information and will confirm that:

- to comply with legislative changes, each policyholder's Retirement Annuity Policy is now held by BLRAF;
- each current retirement annuity policyholder has automatically become a member of BLRAF;
- each original Retirement Annuity Policy continues but now shows BLRAF as policyholder and the client as the principal member of the Fund.
- Botswana Life as agent for BLRAF will continue to collect policy premiums (contributions) from the policyholder/members. No new debits orders are required.
- All other retirement annuity policy details and benefits remain the same. Clients/members will be provided with a reissued policy document in due course showing the new details.
- Like all retirement funds, BLRAF has its own set of Rules approved by the Regulator to protect members' interests and to regulate the Fund's business. The full Rules can be viewed on the website. A summary of the Rules will be provided to members with the re-issued Policy document.

The new Botswana Life Retirement Annuity Fund is a modern vehicle that is now fully up to date with regulatory requirements. The legislative changes incorporated in

the Fund will further protect the interest of members and strengthen retirement fund governance by separating the Fund from the insurer and mandating a Board of Trustees to look after the Fund.

A major Rule is the set up and composition of the Board of Trustees with authority over the assets of the fund. Another Rule is the establishment of specialist subcommittees. A further important Rule is the provision of a formal investment strategy for the Fund in line with regulatory requirements.

Beyond ensuring regulatory compliance, the Rules were carefully drafted in accordance with best practice, to allow for innovative solutions and generally to fulfill members' requirements.

The changes are a welcome development in ensuring even greater member protection and participation through communication, transparency and the introduction of a dedicated administrator. The Fund outcomes will be increased agility and efficiency in a best practice environment with continuing high-quality security protocols and client confidentiality. Ultimately, this Fund must continue to be a member's first choice to save for retirement or to preserve their pension withdrawal.

We sincerely thank our members for their support and continuing confidence and assure them that their rights and benefits remain secure and well protected. Additionally, I convey sincere gratitude to the Board of Trustees and all stakeholders especially the Regulatory Authority for their support during such an important milestone particularly regarding the transition of the fund.



Duncan Hule
Principal Officer





*Fund Governance
& Organisational Structure*

FUND GOVERNANCE & ORGANISATIONAL STRUCTURE

To ensure that the best interests of members are maintained, Botswana Life Retirement Annuity Fund has implemented a sound and comprehensive governance structure. The Fund is managed by a professional Board of Trustees and Fund Officials.

The Fund's formal structure includes a variety of legislative and professional parties, to ensure that members' investments are safe.



The Board of Trustees and Fund Officials are supported by three Sub-committees that:

- take care of specific day-to-day issues
- formally report to the full Board which remains responsible for taking final decisions.

The Sub-committees are:

Administration & Benefits

Finance & Audit

Risk & Investment

The individuals who make up these Sub-committees including the Chairpersons, have a wealth of experience in the retirement fund industry and manage these Sub-committees according to specific guidelines. Members of the Board of Trustees serve on each of these Sub-committees.

The Fund is managed by a Board of Trustees ("the Board"), of whom one must be independent of the Fund, sponsor, and associated companies. The Fund is served by a Principal Officer.

The Board is ultimately responsible for the governance of the Fund, in particular exercising oversight over the administration of the Fund, the investment of Fund assets and the payment of Fund benefits.

The following persons serve as Trustees and Officials of the Fund:

TRUSTEES AND OFFICIALS OF THE FUND



Mpho Morale
Chairperson



Lesego Ntebela
Trustee (Deputy Chairperson
& Member Representative)



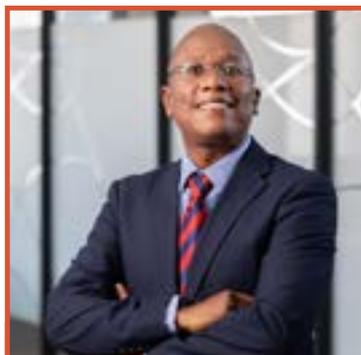
Rorisang Modikana
Trustee



Ezweni Tshuma
Trustee



Thabo Matthews
Independent Trustee



Duncan Hule
Principal Officer



Thabang Oliphant
Risk Officer

PROFILES OF TRUSTEES & FUND OFFICIALS

TRUSTEES PROFILES

MPHO MORALE Chairperson

Mpho holds a Bachelor's degree in Accounting and an MSc Strategic Management from University of Derby. He has over 15 years' work experience in the Insurance Industry. Mpho has worked in various departments of Botswana Life starting with the Finance and Accounting Department in 2002.

In 2011 he moved to the Financial Institution, Employee Benefits and Affinity Groups department to manage the administration of the Annuity portfolio until the beginning of 2018. Currently Mpho is the Service Manager - North, responsible for all our service offices in the northern side of Botswana, being Palapye, Selibe - Phikwe, Francistown, Maun and Kasane satellite office.

LESEGO ALMOND NTEBELA Trustee (Deputy Chairperson & Member Representative)

Lesego holds a Bachelors in Business Administration, majoring in Actuarial Science/Finance, from Drake University in the United States of America. He is currently pursuing his Actuarial qualification with the Institute of Actuaries in the United Kingdom. Lesego has 16 years' experience in the Actuarial and Insurance Industry.

Over the past 16 years he has worked in various portfolios which involved pricing of products, valuation of reserves, and determination of Capital Adequacy Requirements, data integrity validations, and product configuration. He has been instrumental in the launching of the various system projects within Botswana Life. He is well rounded, having been exposed to various departments of Botswana Life Insurance, among which include the Premium Administration, Information Technology and Actuarial departments. Currently he is the Applications & Business Applications Manager responsible for all Group Company systems and Applications within the Business Technology department. He currently chairs the Board of Trustees of the BIHL Defined Contribution Retirement Fund.

RORISANG MODIKANA Trustee

Rorisang has 20 years' experience in finance, having worked for Ernst & Young Botswana and the BIHL Group in different capacities. She is a Fellow Member of the ACCA (UK) and BICA, having qualified in 2001. She holds a Postgraduate Diploma in Corporate Law from the University of Johannesburg and a Postgraduate Certificate in Enterprise Risk Management from BAC.

A commercially astute professional, she started her career at Ernst & Young in 1998 as an Audit Trainee and left in 2008 as a Senior Manager-Audit. She joined the BIHL Group as a Company Secretary and Group Finance Manager responsible for Corporate Governance, Secretarial and Group financial reporting. She served in this role for 8 years.

She currently works as the Chief Financial Officer for Botswana Life Insurance Ltd. Her responsibilities include financial accounting, financial data analysis, internal controls, treasury, statutory and regulatory reporting. She is a Trustee of the BIHL Staff Retirement Fund and also a member of the Botswana Unified Revenue Service – (BURS) Board's Finance and Audit Committee, since 2013.

EZWENI TSHUMA Trustee

Ezweni holds an MBA from Edinburgh Business School in Scotland. He is a qualified actuary regulated by the Actuarial Society of South Africa (ASSA) and Institute & Faculty of Actuaries (UK). Ezweni has 18 years' work experience in actuarial consulting and insurance industry.

Over the past 18 years, he worked as a Marketing Actuary for Hannover Life Reassurance based in Johannesburg, managing the African Portfolio. He left Hannover Re in 2012 to join Alexander Forbes Financial Services where he was heading the life actuarial consulting division also based in South Africa. Currently, Ezweni is the Product Development Actuary responsible for the development, pricing and management of the Botswana Life products.

PROFILES OF TRUSTEES & FUND OFFICIALS

TRUSTEES PROFILES

THABO KAGISO MATTHEWS Independent Trustee

Thabo holds a Bachelor of Arts (Honours) in Economics and Computer Science (Joint Major) from the University of Sussex in the United Kingdom. He has 18 years' work experience primarily in management consulting, banking and the mobile communications industry.

Thabo has more than 15 years of senior management experience having worked for multi-national institutions such as Barclays Bank, Accenture, KPMG Consulting, and Deloitte Consulting as well as large corporations such as Mascom Wireless Botswana. In 2014 Thabo left his position at Deloitte as of Head of Consulting to establish MConsulting, the brand under which he provides management consulting services as an independent contractor.

DUNCAN T. HULE Principal Officer

Duncan holds Post Graduate Diploma in Financial Planning – specialising in Employee Benefits/Retirement Funds and another in Investments & Risk Management both from the University of the Free State as well as other pension and tax qualifications and is a Fellow member of the Chartered Governance Institute (FCG) and Fellow member of the Insurance Institute of South Africa (IIISA).

His career spans over 17 years of vast experience in the field of Employee Benefits and he has previously worked for some of the top firms in all these fields such

as Alexander Forbes as well as AON prior to joining Botswana Life Insurance Ltd as the Relationship Manager – Employee Benefits responsible for the Annuity & Group Risk portfolios within Corporate Business department. He subsequently took up the role of Business Development & Broker Support Manager at Affluent department before assuming the role of Principal Officer of the Botswana Life Retirement Annuity Fund.

THABANG OLIPHANT Risk Officer

Thabang holds a BSc (Statistics) from the University of Cape Town and has completed his Actuarial Exams from the Institute and Faculty of Actuaries (IFoA). He now qualifies to be an Actuary and a Chartered Enterprise Risk Actuary (CERA) holder.

Thabang has 8 years of working experience with Botswana Life Insurance Limited (BLIL). In this time, he has been involved in the BLIL Annuity Pricing and Sales Strategy, Reporting and Valuation of the Annuity Portfolio, developing and running the company's Enterprise Risk Management framework, Acquisition Projects and Experience Analysis and Monitoring, within the company. Thabang currently is the Risk, Capital and Investments Actuarial Manager, in which he oversees the Risk and Capital Management process within the organisation and he's also overseeing the process of developing, maintaining and monitoring the company investment strategies.

ADMINISTRATION AND BENEFITS COMMITTEE (ABC)

Administration and Benefits Committee Members & Invitees

	ROLE	NAME	
1.	Trustee Representative (Chairperson)	Mpho Morale	Member
2.	Exco Representative	Patricia Raditholo	Member
3.	Exco Representative	Priscillah Ndadi	Member
4.	Claims & Benefit Payments	Thuso Seitei	Member
5.	Principal Officer	Duncan Hule	Member
6.	Administrator - Finance & Operations Manager	Jacob Keakabetse	By Invitation
7.	Business Process Manager	Itumeleng Botshelo	By Invitation

ADMINISTRATION AND BENEFIT COMMITTEE MANDATE

The committee's objective is to perform the functions of retirement fund benefit and administration which includes but not limited to

- Ensuring that proper administration, control, and management systems are employed by or on behalf of the Fund which comply with all Legal Requirements.
- Keeping proper books, registers and records that are essential to the proper functioning and operations of the Fund.
- Maintain oversight of the actions and outcomes of the administrator by regularly reviewing its reports, systems, processes, and outputs.
- Regularly review and approve claims made and benefits paid in terms of the Legal Requirements and the Rules and shall cause full and true accounts of the claims and payments to be kept and reported to the Board each quarter.

FUND MEMBERSHIP

The total membership of the Fund as at December 2020 is as follows;

MEMBERSHIP STATUS	DEC 2020
CONTRIBUTING	55,987
DEFERRED	29,294
TOTAL	85,281

ADMINISTRATION AND BENEFITS COMMITTEE (ABC)

The total membership of the Fund grew by 2% from September 2019 (83,684) to December 2020 (85,281). The Fund also experienced an increase of 11% in Deferred members from 25,896 in 2019 to 29,294 in 2020. There was a total of 4,511 new members recorded for the reporting period.

The below graph shows quarterly membership growth for the period under review (2020).



BENEFITS PAID

Total benefits to the value of P134 million were paid during the reporting period. The number of exit cases constitutes 2% of the total membership of the Fund.

TYPE OF EXIT	NO OF CASES	AMOUNT (BWP)
RETIREMENT (NORMAL) PAID	2,172	131,896,000
DEATH PAID	145	2,592,000
TOTAL	2,317	134,488,000

FINANCE AND AUDIT COMMITTEE

	ROLE	NAME	
1.	Independent Trustee (Chairperson)	Thabo Matthews	Member
2.	Risk Officer	Thabang Oliphant	Member
3.	Finance Representative/Exco/Trustee	Rorisang Modikana	Member
4.	Principal Officer	Duncan Hule	Member
5.	Administrator - Finance & Operations Manager	Jacob Keakabetse	By Invitation
6.	Actuarial Representative	Bapasi Motlhanka	By Invitation
7.	Auditor Representatives	Internal & External Auditors	By Invitation

FINANCE AND AUDIT COMMITTEE MANDATE:

The Sub-committee shall perform the functions customarily performed by retirement fund financial and audit Sub-committees and do all things reasonably necessary to:

- Attain the Fund's objectives and ensure the Fund fulfils its duties and obligations;
- Ensure that the financial accounting affairs of the business of the Fund are conducted in accordance with good accounting practice, the Legal Requirements and the Rules;
- Obtain expert advice on matters where the Subcommittee may lack sufficient expertise;
- Appoint and arrange for the appointment and remuneration of Fund officers, advisers, accountants, auditors, internal auditors and other required service and product providers;
- Continuously monitor and regularly review the financial and accounting functioning, operations and outcomes of the Fund;
- Ensure it has access to all relevant Fund information and the necessary resources reasonably required to perform its duties;
- Ensure that the business of the Fund operates within its stipulated annual operating and capital budget and review its performance quarterly;
- Obtain or create and approve applicable policies, standing agendas and protocols for application by, or for, the Fund as listed in Annexure A, and ensure they are complied with and reviewed annually.

CONTRIBUTIONS

For the 15 months period ended 31 December 2020, the Fund's contributions were as per below table.

CONTRIBUTIONS	AMOUNT (BWP)
Recurring	355,685,297
Transfer In	8,474,573
Total	364,159,870

FINANCE AND AUDIT COMMITTEE

INVESTMENTS

The fund realised a growth in assets under management during the 15 months period. The portfolio balances are as follow.

ASSET CLASS	AMOUNT (BWP)
Fixed Income	22,167,341
Local Bonds	366,393,812
Local Equities	258,935,567
Local Properties	284,813,539
Offshore Money Markets	14,336,738
Offshore Cash	6,383,073
Offshore Bonds	133,700,140
Offshore Equities	744,935,351
Offshore Properties	26,428,965
Offshore Private Equities	31,754,502

RISK AND INVESTMENT COMMITTEE

	ROLE	NAME	
1.	Trustee Representative (Chairperson)	Lesego Ntebela	Member
2.	Independent Trustee	Thabo Matthews	Member
3.	Risk Officer	Thabang Oliphant	Member
4.	Principal Officer	Duncan Hule	Member
5.	Actuarial/Exco Representative	Lebeilwe Semadi	Member
6.	Finance Representative	Samuel Nage	Member
7.	Administrator - Finance & Operations Manager	Jacob Keakabetse	By Invitation

RISK AND INVESTMENT COMMITTEE MANDATE

On behalf of the Board and in accordance with the Legal Requirements, the Rules and Terms, the Committee is mandated to assist the Board to;

- Fulfil its investment oversight responsibilities by reviewing the systems, processes and outputs of the control and management of the Fund's investments and by monitoring that they comply with the Legal Requirements and the Rules.
- Ensure that prudent and fiduciary stewardship in the management and investment of the Fund's members' funds is exercised, within best industry practice standards of corporate governance and transparency, taking care to avoid any conflict of interest always.
- Ensure that the Board is always kept informed of all material matters affecting the Investment Policy and the investment affairs of the Fund.

ECONOMIC REVIEW

The biggest headline that affected markets globally and locally was the COVID-19 pandemic. As the pandemic broke out in March 2020, most liquid financial markets lost as much 30% given the uncertainty concerning the virus. Globally, economies suffered because of the lockdown measures imposed with most economies experiencing recessions. By the end of September however, most markets had recovered, and as at the end of Dec 2020, the US stock market (largest allocation excluding Botswana) was at an all-time high. This was driven largely by the unparalleled measures central banks and governments took to ensure stability in the markets. Evidence of this is that an estimated 93% of economies underwent a recession in the year 2020, meanwhile financial markets closed the year positively.

The local economy experienced a delayed response to the global pandemic, with the current state of emergency still negatively affecting listed companies. In 2020 the local equity market lost around 4% on a total return basis. The impact on the Fund has however been muted because of the fund's positive returns in other assets such as debt and cash instruments.

Given that most of the Fund's assets are invested offshore, positive offshore returns had a meaningful impact on the Funds total return. Another contributing factor was the Pula's deterioration against major currencies, which propelled offshore returns when presented in local currency terms. Within the Fund, the Mompoti Medium Equity fund (accounts for more than 90% of fund) overall performance for the year was 8.37%. This was slightly below the benchmark, but above the set inflation related target.

RISK AND INVESTMENT COMMITTEE

PORTFOLIO(S) PERFORMANCE

The following is the investment performance of the Fund's main Portfolio as at Dec 2020.

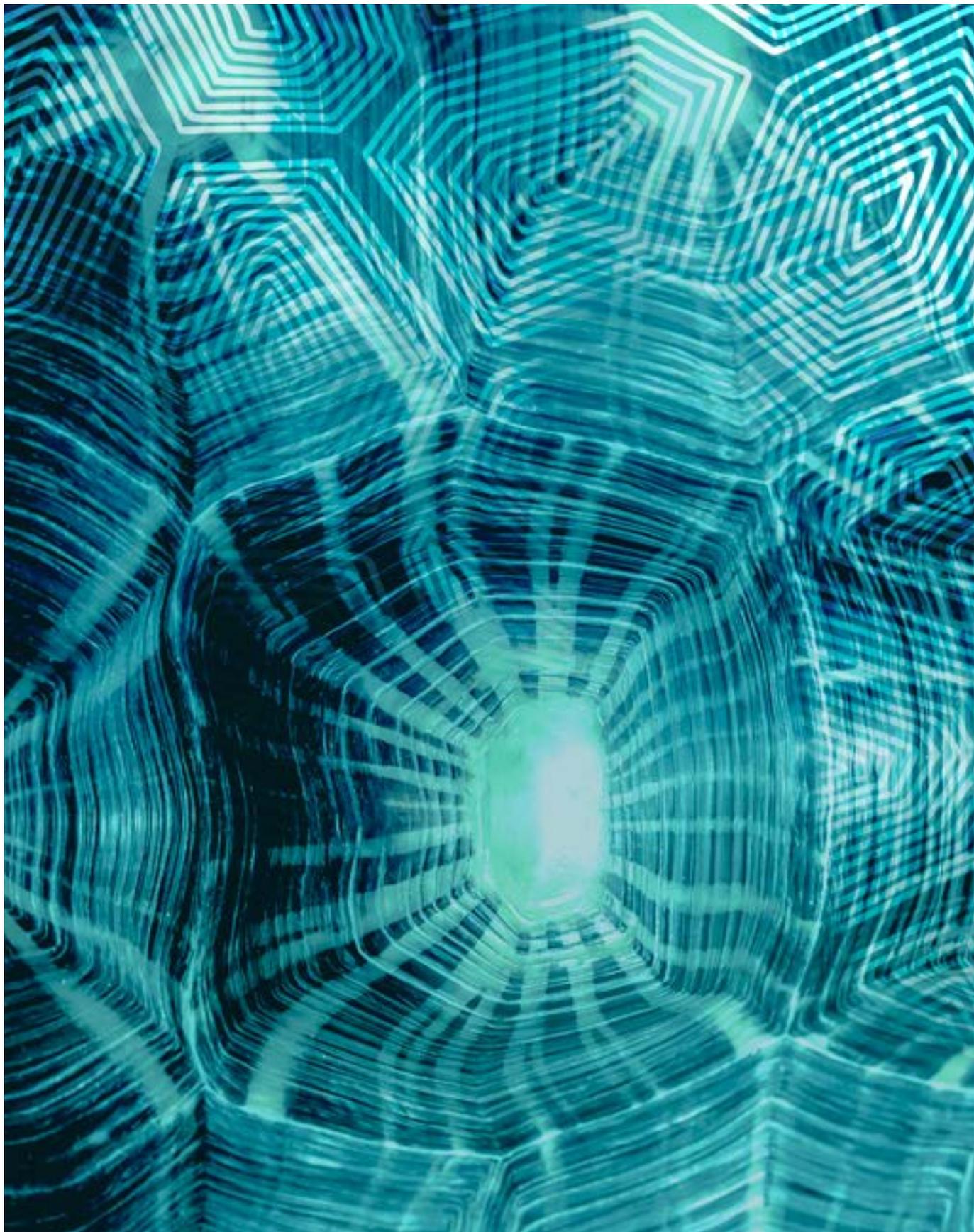
PORTFOLIO	1 YEAR	3 YEARS	5 YEARS
Mompoti Retirement Fund (Medium Equity)	8.37%	7.48%	5.56%
Fund's Benchmark Performance	8.77%	7.59%	5.91%
Inflation + 3%	5.21%	5.70%	5.90%

RISK MANAGEMENT

The Botswana Life Retirement Annuity Fund Board and management have identified that effective and prudent Risk Management and Corporate Governance are critical factors to the operations and success of the Fund. One key objective of the risk management process is to identify risks before they emerge and establish effective techniques that best resolves and mitigates their negative risk impacts.

For the financial year 2020, with the Fund being newly registered by NBFIRA, satisfying all Regulatory Compliance requirements was amongst the most important objectives within the risk management environment. Other key risks identified included Operational Process Risks, Strategic, and Investment Risks.

The Board meets quarterly to discuss the risks that the Fund is exposed to and is fully committed to ensuring that the Fund is compliant with requirements and international best practice in risk management.





*Looking Back at the Past Year
&
Looking Forward Into the Future*

LOOKING BACK AT THE PAST YEAR

Looking Back at the Past Year

Following the re-licensing of the Botswana Life Retirement Annuity Fund in September 2019, an inaugural BLRAF Trustee & Sub-committee members' training and meeting was held in November 2019.

At this session, it was agreed that a strategic plan for the fund be developed to streamline the Fund's immediate priorities. The strategic plan will immediately focus on achieving the following key result areas, being:

- a) Preservation,
- b) Fund compliance, effectiveness and efficiency and
- c) Member satisfaction/delight.

The strategic planning process demonstrates our ongoing commitment to the sustained success of the BLRAF.

It reaffirms acknowledgement of the changes that have occurred, the direction that needs to be taken and more importantly, the need to refine the strategic priorities that will focus all the efforts of those that are concerned with the Fund.

The future is where we can achieve client delight (in line with strategic objective of the sponsor) in serving as an individual member retirement fund and providing service that exceeds evolving expectations of our members.

The above have been considered in developing an inaugural Strategic Plan as well as considering the prevailing trends in the global and local retirement fund space.

The global context, characterized by a world that faces an increased demographic crisis for pension funds, driven by longer life expectancies and declining birth rates, has now become critical.

The need to balance the needs of sponsor and members means spending smartly on the part of sponsor while ensuring the plan is meeting tax and regulatory guidelines. The threat of an increased digital and automated world requires pension funds to create strategies for information protection through increased cyber security.

Locally, the retirement fund environment is faced with new legislative and regulatory instruments to contend with such as the Retirement Fund Act of 2014 and PRF2 (investment guidelines).

The development of this inaugural strategic plan comes after a period of significant change and transformation emanating from the decision to put in place a separate governance structure with separate (from sponsor) fund administration services to be offered by a separately registered/licenced retirement fund administrator.



LOOKING BACK AT THE PAST YEAR

The Executive Management of the sponsor as well as BLRAF Board of Trustees therefore have a significant input into the development of the strategic plan that will span the next four years, to focus on:

- achieving compliance with relevant legislation;
- growing membership base &
- creating increased value for the members.

“There is potential to be the largest individual member retirement fund from the current membership base of just over 80,000, and to be the most efficiently run retirement fund in the land.”

In developing the inaugural strategic plan, the Fund is introspecting and endeavours to address the following critical questions in order to ensure success for the future:

- How to unlock value for members?
- What does the Fund stand for?
- How can the Fund streamline and simplify its offering in order to serve members better?
- What can the Fund learn from other institutions that that have been where we are today?

The strategic priorities for the next years are embodied in strategic goals that the Fund has set itself over the next years to:

- Establish (and embed) operational capability that will allow the Fund to comply with the Retirement Funds Act and its Regulations. This capability needs to enable the take-on of the retirement annuity policies transferred from BLIL (into BLRAF), the take-on of new business and maintenance of the book of business so established;
- Grow membership base from current 80,000 to at least 90,000 over the strategy period;
- Grow Assets Under Management (AUM) from BWP1.4 Billion to at least BWP2 Billion
- Reduce member expenses/cost per member
- Client centric approach: providing optimal retirement solutions relevant to our clientele (review and accordingly place membership according to the most optimal retirement funding categories)
 - 1st category: members contributing a fixed amount/percentage of salary;
 - 2nd category: members transferring/who

transferred from other retirement funds
3rd category: members “transferring in” from other retirement funds and would like to continue to contribute additionally going forward).

To achieve these strategic goals, the strategic plan will focus on the following areas:

1. Leveraging the asset & membership base;
2. Optimising the operating model (exploit group synergies);
3. Strict adherence to risk management and compliance;
4. Adoption of group values – high performance, agility & innovation, collaboration, member/ client centricity & good citizenship (member education)
5. Refinement of processes. This will entail an assessment of all applied and connected systems and business processes to streamline and align the architecture to best practise to improve productivity and efficiency and establish a real competitive edge in the market.

We look forward to guiding the Fund well on this important next phase as a fully-fledged retirement fund in line with the new Retirement Funds Act and Regulations.

Corporate Governance

Since the re-licencing of the Fund, the Board has developed governance policies for the Fund, in accordance with the guidelines set out in PF Circular 130. The governance policies and procedures adopted by the Board to date include the following:

- Code of Conduct
- Investment Policy Document
- Risk Policy & Matrix
- Anti-Money Laundering Policy
- Ethics Policy
- Outsourcing Policy
- Conflict of Interest Policy
- Communication Policy
- Board Training & Development Policy

LOOKING FORWARD INTO THE FUTURE

Looking Forward into the Future

- **Life Stage Investment Model**

As part of a review of its current investment strategy, the Trustees of the Botswana Life Retirement Funds will be adopting a default Life Stage Investment Model for the Funds. A Life Stage Investment Model simply means that each member of a Fund is invested in an investment portfolio based on their age and the number of years to normal retirement, which is between 55 and 70, as defined by the Fund. The following table contains the allocation of members to the various investment portfolios that are part of the Life Stage Model.

Years To Retirement	High Equity	Medium Equity	Low Equity
More than 8 years	100%	-	-
6-8 years	50%	50%	-
4-6 years	-	100%	-
2-4 years	-	50%	50%
2 years and less	-	-	100%

Table 1: Life Stage Model

The main benefit of a default life stage model is that it ensures that each member is invested in the most appropriate portfolio given the time they have to retirement. While the member is still 8 years or more from retirement they can afford to be in a portfolio that is largely invested in equities. However, as the member approaches retirement the amount of equities needs to be reduced in the member's portfolio in order to reduce the investment risk. The reason for this is that a member purchasing a life annuity at retirement cannot afford a reduction in their investment value should the equity market decline. This would result in the member receiving a lower level of income during their retirement years. The new Life Stage Model will ensure that the reduction in investment risk is done automatically on behalf of the member without the member having to make any decisions as they approach retirement.

LOOKING FORWARD INTO THE FUTURE

All Fund members will be invested in the High Equity Portfolio until age 47. Once a member reaches the age of 48, their share of the investments of the Fund will automatically be moved from the High Equity Portfolio to a 50%/50% combination of the High Equity and Medium Equity Portfolio and they will remain in this portfolio until 6 years before retirement. Once the member is within 6 years of retirement their share of the investments of the Fund will automatically be invested 100% in the Medium Equity Portfolio. Once the member reaches the point where they are 4 years from retirement their share of the investments of the Fund will be moved to a 50%/50% split between the Medium Equity Portfolio and the Low Equity Portfolio. Once the member is within 2 years of retirement, their share of the investments of the Fund will automatically be invested 100% in the Low Equity Portfolio where they will remain invested until the date of retirement.

• Portfolio Changes

Following the reissuance of BLRAF's licence in terms of the Retirement Fund Act 2014, the Fund's investment portfolios must comply with the NBFIRA prescribed asset allocation regulations (Pension Fund Regulations 2 - PFR2). PFR2 are Pension Fund Investment Rules as issued by NBFIRA in terms of Section 4(2) (d) of the NBFIRA Act (2016) & Section 52 of the Retirement Funds Act (2014), which limits the extent to which retirement funds (like Botswana Life Retirement Annuity Fund) may be invested in particular kinds or categories of assets. The main objective of PFR2 being to protect the members' retirement provision from the effects of poorly diversified investment portfolios.

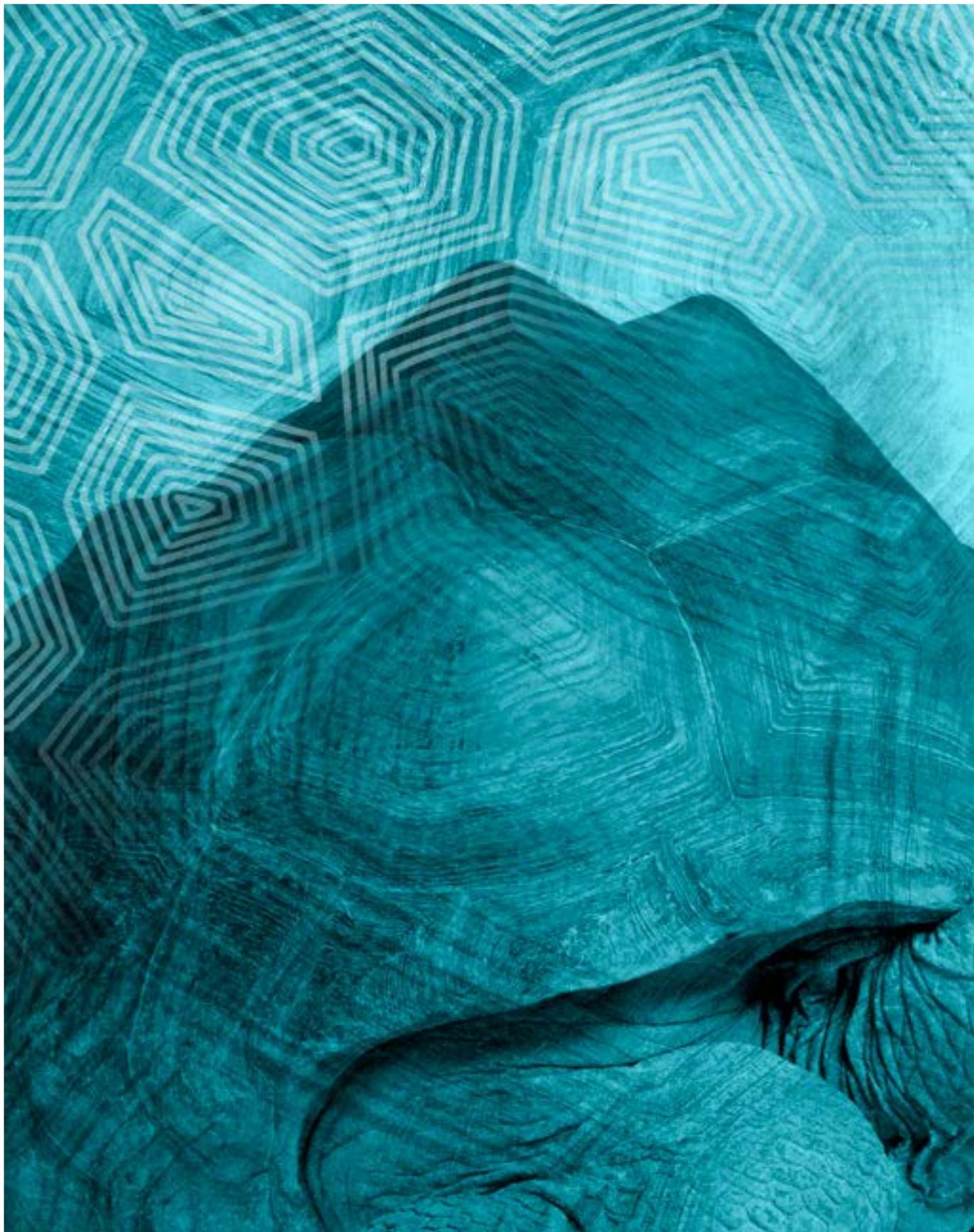
This is done by limiting the maximum exposure to more aggressive asset classes when investment fund selections are done. It plays a vital role in trying to ensure that members' retirement savings provide them with enough income in their retirement. For each investment fund the maximum possible exposure to a restricted asset class is provided according to its investment mandate. The percentage of the existing investment and future contributions allocated to the selected investment funds must be such that the total retirement fund plan stays within these limits.

Unfortunately, because of its high allocation to offshore equity, the Offshore Gold Portfolio does not comply with PFR2 requirements and in looking to correct this, the following were considered.

1. Reducing the Portfolio's offshore equity exposure. This however means that the Portfolio will be similar to the Fund's other portfolios.
2. Offering a choice to switch from the Offshore Gold Portfolio to one of three other available risk profiled portfolios. The available portfolios are High Equity, Medium Equity, and Low Equity Portfolios. The High Equity Portfolio is the closest to the Offshore Gold Portfolio in risk and potential return and will also be the default choice if we do not get a response from members after communicating this change.

Action Plan to correct the PFR2 gap

1. Close Offshore Gold Retirement Annuity products to new business.
2. Provide an alternative portfolio with similar risk profile to members who are invested in the Offshore Gold portfolio.
3. Provide an option to current members invested in the Offshore Gold Portfolio to remain invested within the Offshore Gold Portfolio.
4. Send member communication relating to Legislative changes and proposed changes to the members invested in the Offshore Gold Portfolio.





Botswana Life
Retirement
Annuity Fund

*Annexures
and Further Information*

Fund General Information & Principal Partners

Regulatory Information	Details
Registered name	Botswana Life Retirement Annuity Fund
Sponsor	Botswana Life Insurance Limited
Registration date	13 th September 2019
Registration number	10/1/2/6 (018)
Funding model	Defined Contribution Fund
The Fund's Reporting Period	1 st January to 31 st December
The Fund's Postal Address	Private Bag 00296 Gaborone
The Fund's Physical Address	1 st Floor, North Wing, Block A, Fairgrounds Office Park, Plot 66458, Gaborone, Botswana

Fund Officials

	Principal Officer	Risk Officer
Name	Duncan Hule	Thabang Oliphant
Company	Botswana Life Insurance Ltd	Botswana Life Insurance Ltd
Postal Address	Private Bag 00296 Gaborone, Botswana	Private Bag 00296 Gaborone, Botswana
Physical Address	1 st Floor, North Wing, Block A, Fairgrounds Office Park, Plot 66458, Gaborone, Botswana	1 st Floor, South Wing, Block A, Fairgrounds Office Park, Plot 66458, Gaborone, Botswana
Telephone Number	+267 364 5125	+267 364 5128
E-mail Address	dhule@blil.co.bw	toliphant@blil.co.bw

Professional Service Providers

External Auditor	
Name	Ernst & Young
Postal Address	P O Box 41015 Gaborone, Botswana
Physical Address	2 nd Floor, Plot 22, Khama Crescent, Gaborone
Telephone Number	+267 397 4078/ 365 4000

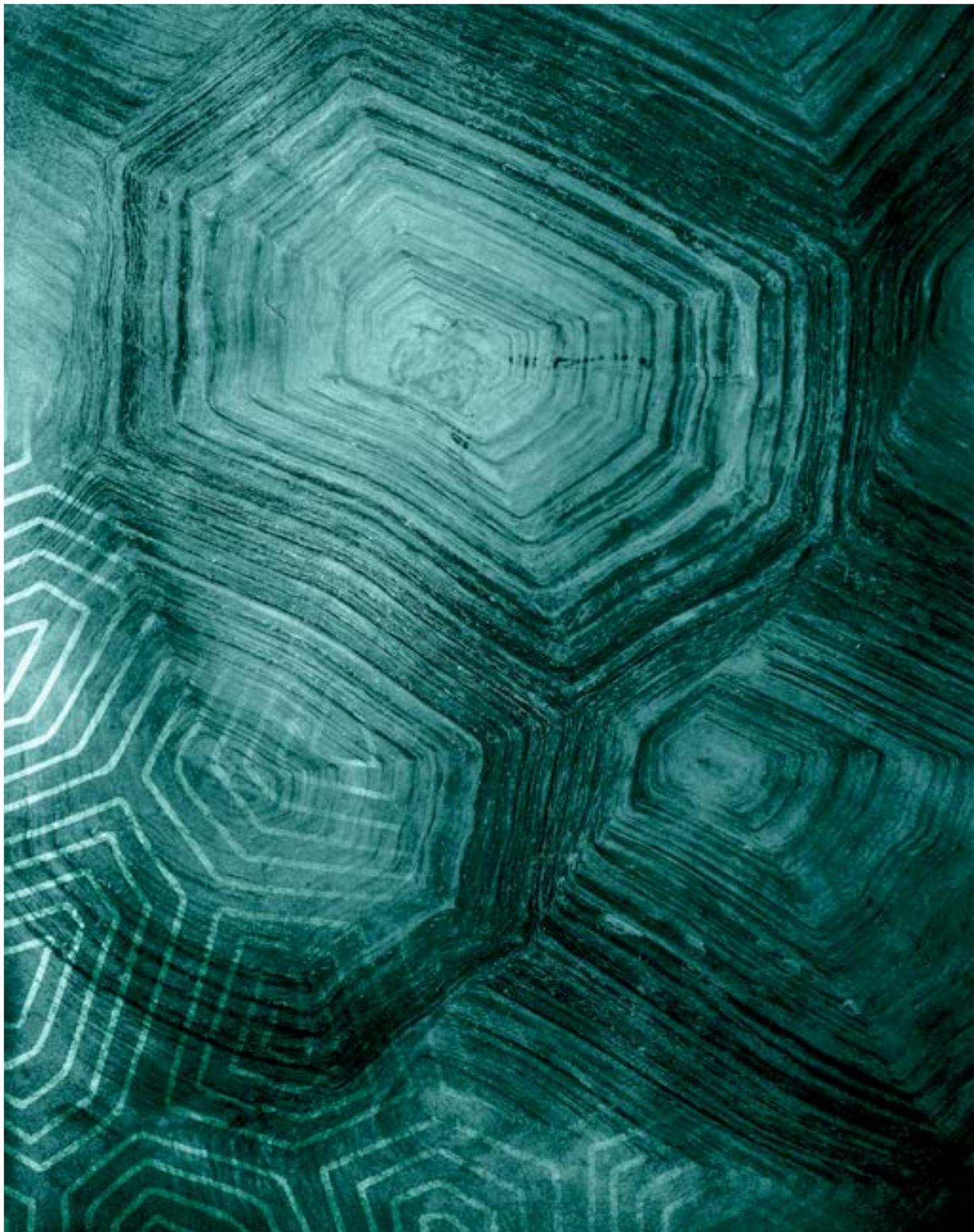
Regulatory Information

Administrator	
Name	Botswana Life Insurance Ltd (Interim Administrator)
Postal Address	Private Bag 00296 Gaborone, Botswana
Physical Address	2 nd Floor, Block A, Fairgrounds Office Park, Plot 66458, Gaborone
Telephone Number	+267 364 5100

Asset Consultant	
Name	Strategic Wealth Proprietary Ltd
Postal Address	P O Box AD 872 ADD Postnet, Kgaleview, Gaborone, Botswana
Physical Address	Plot 10221, Maporoporo Road, Broadhurst Industrial, Gaborone, Botswana
Telephone Number	+267 391 6675

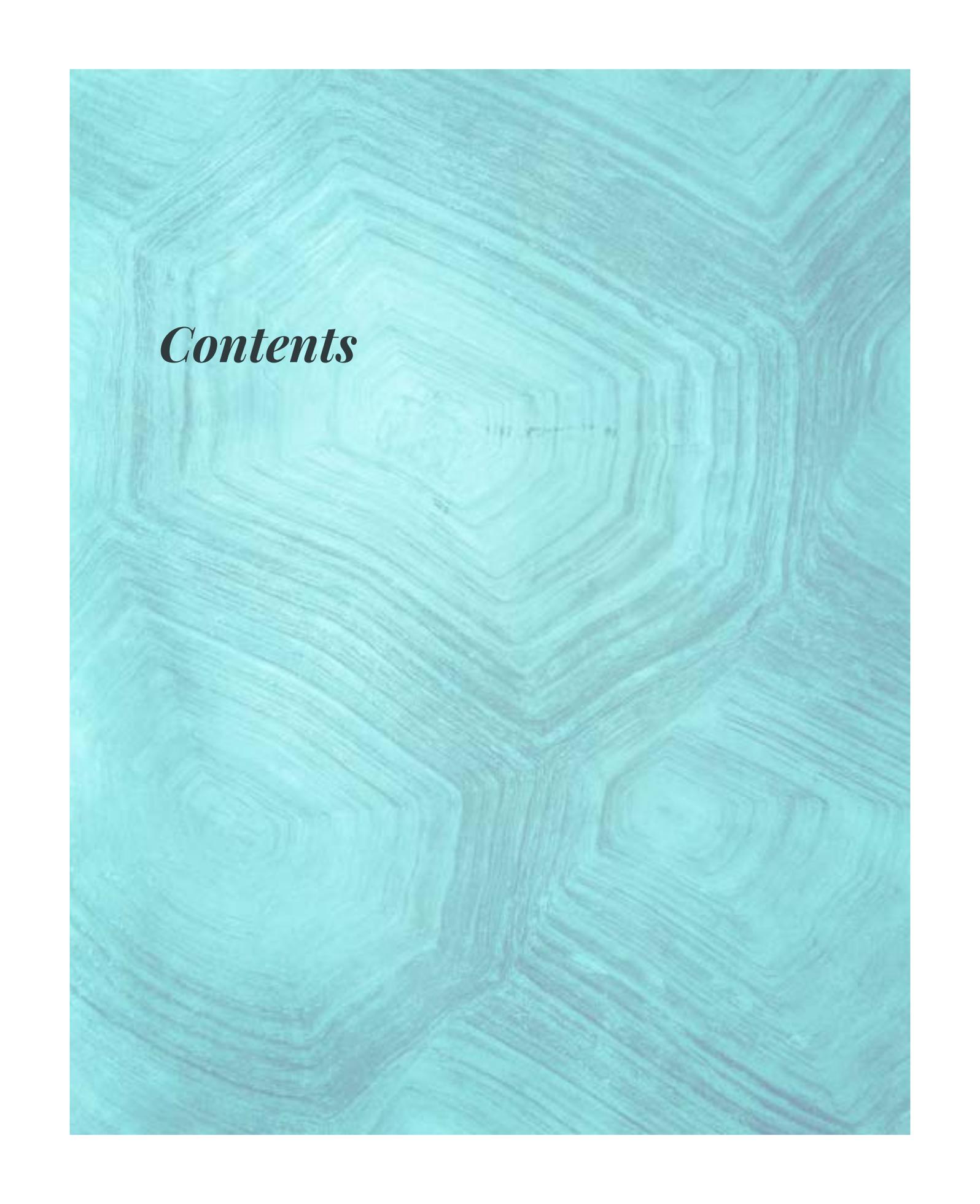
Asset Manager	
Name	Botswana Insurance Fund Management Ltd
Postal Address	Private Bag BR 185 Gaborone, Botswana
Physical Address	3 rd Floor, Block A, Fairgrounds Office Park, Plot 66458, Gaborone
Telephone Number	+267 395 1564

Actuary Manager	
Name	Edwin George Splinter
Postal Address	Group Actuarial and Risk P.O. Box 1 Sanlamhof Bellville 7532 Cape Town South Africa
Physical Address	Group Actuarial and Risk Sanlam Head Office 2 Strand Street Bellville 7532 Cape Town South Africa
Telephone Number	+27 21 947 6370





*Annual Financial Statements
For the Period 1st October 2019
to 31st December 2020*

The background of the page is a solid teal color with a complex, concentric, wood-grain-like pattern. The pattern consists of numerous overlapping, irregular, and somewhat hexagonal shapes, each filled with fine, parallel lines that create a sense of depth and texture, similar to the grain of wood or a topographical map. The overall effect is a rich, layered, and organic-looking design.

Contents

General Information

			Appointment Date
Board of Trustees:	Mpho Morale	Chairperson	25 th November 2019
	Lesego Ntebela	Trustee	25 th November 2019
	Ezweni Tshuma	Trustee	25 th November 2019
	Rorisang Modikana	Trustee	25 th November 2019
	Thabo Matthews	Independent Trustee	25 th November 2019
Principal Officer:	Duncan Hule		
Registered Office:	Botswana Life Insurance Limited Plot 66458 Fairgrounds Office Park Block A, Gaborone, Botswana		
Sponsor:	Botswana Life Insurance Limited		
Auditors:	Ernst & Young 2nd Floor, Plot 22, Khama Crescent P O Box 41015 Gaborone, Botswana		
Fund Managers:	Botswana Insurance Fund Management Limited Office Park Block A, Gaborone Fairgrounds		
Type of Fund:	Underwritten		
Interim Fund Administrators:	Botswana Life Insurance Limited Plot 66458, Fairgrounds Office Park Block A, Gaborone, Botswana		
Bankers	Rand Merchant Bank Botswana First Place, CBD P O Box 1552 Gaborone, Botswana		
Actuary:	Edwin George Splinter 2 Strand Rd, Labiance 7530 Bellville South Africa		
Asset Consultant:	Strategic Wealth Asset Consulting & Investment Advisory Plot 10221, Maporoporo Road, Broadhurst Gaborone, Botswana		
Date of Fund Registration:	September 2019		
Fund Number:	10/1/2/6 (018)		
Country of Registration:	Botswana		
Functional & Presentation Currency:	Botswana Pula		

BOARD OF TRUSTEES' RESPONSIBILITY STATEMENT

The Board of Trustees is responsible for the preparation and fair presentation of the annual financial statements of Botswana Life Retirement Annuity Fund ("the Fund"), comprising the statement of changes in net assets available for benefits, and statement of net assets available for benefits as at December 31, 2020, the statement of cash flows and the statement of changes in reserves for the period then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Retirement Funds Act, 2014.

The Board of Trustees' responsibility is to maintain adequate accounting records and is responsible for the content and integrity of and related financial information included in this report. It is its responsibility to ensure that the annual financial statements fairly present the state of affairs of the Retirement Fund as at the end of the financial period and the results of its operations and cash flows for the period then ended, in conformity with IFRS. The external auditor is engaged to express an independent opinion on the annual financial statements and their audit report is presented on pages 41 to 44.

The Board of Trustees' responsibility include: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Trustees' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as ensuring regulatory compliance.

The Board of Trustees acknowledge that they are ultimately responsible for the system of internal financial control established by the Fund and place considerable importance on maintaining a strong and effective control environment. To enable the Board of Trustees to meet these responsibilities, the Board of Trustees set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored by the Fund Administrators and all employees are required to maintain the highest ethical standards in ensuring the Fund's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Fund is on identifying, assessing, managing and monitoring all known forms of risk across the Fund. While operating risk cannot be fully eliminated, the Fund endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board of Trustees has made an assessment of the Fund's ability to continue as a going concern and there is no reason to believe the Fund will not be a going concern in the year ahead.

The Board of Trustees is of the opinion that, based on the information and explanations given by the Fund Administrators and investment managers, the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatements.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements of Botswana Life Retirement Annuity Fund for the 15 months period ended 31 December 2020 as set out on pages 45 to 70 were approved by the Board of Trustees on 03 June 2021 and are signed on its behalf by:



CHAIRPERSON - BOARD OF TRUSTEES



PRINCIPAL OFFICER



Firm of Chartered Accountants
2nd Floor
Plot 22, Khama Crescent
P O Box 41015
Gaborone, Botswana

Tel: +267 397 4078/ 365 4000
Fax: +267 397 4079
Email: eybotswana@za.ey.com Partnership
registered in Botswana Registration No:
10829
VAT No: PO3625401112
www.ey.com

Independent Auditor's Report

To the members of Botswana Life Retirement Annuity Fund

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Botswana Life Retirement Annuity Fund (the Fund), set out on pages 45 to 70 which comprise the statement of net assets available for benefits as at 31 December 2020 and the statement of changes in net assets available for benefits, statement of cash flows and the statement of changes in reserves for the fifteen month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Botswana Life Retirement Annuity Fund as at 31 December 2020, and of its financial performance and its cash flows for the fifteen month period then ended in accordance with International Financial Reporting Standards and in the manner required by the Retirement Funds Act, 2014.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with other ethical requirements that are relevant to our audit of Botswana Life Retirement Annuity Fund. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

The Key Audit Matters apply only to the audit of the financial statements.

Key Audit Matter	How the matter was addressed in the audit
<p>The existence and completeness of take-on and period end investment security balances.</p> <p>On 1 October 2019, Botswana Life Insurance Limited transferred investment security balances to the Botswana Life Retirement Annuity Fund amounting to P1,721 Billion.</p> <p>The transfer of the investment security balances, and the policyholder membership data was considered a key audit matter as it resulted in a risk of incomplete or inaccurate data being transferred in relation to the policyholder membership data and the investment security balances.</p> <p>As at 31 December 2020, the investment security balances amounted to P1,89 Billion.</p> <p>Disclosures with respect to investment securities are disclosed in</p> <ul style="list-style-type: none"> • The accounting policies • Note 4 “Investment securities – fair value through profit or loss” • Note 13 “Financial Instruments” • Note 14 “Risk Management” 	<p>The audit team performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> ▶ We obtained an understanding of the systems, processes and controls which underpin the accounting and financial data; and we agreed the policyholder membership data listing to the Fund’s accounting records as at 1 October 2019. ▶ We performed an evaluation of the key controls over management’s collection, extraction and data validation processes, which included testing of the reconciliations between the third-party policy administration system and the data extracts as at 1 October 2019; ▶ We inspected the service level agreement with the investment manager and related supporting documentation to evaluate the legal rights to the investment securities. ▶ We obtained investment security audit confirmation certificates from the investment manager and assessed that the investment security balances on the confirmation certificates agreed to the Fund’s accounting records. ▶ We assessed that the investment security valuations were performed at the appropriate dates of 1 October 2019 for the take-on balances and as at 31 December 2020 for the period end closing balances. ▶ We assessed the valuation methodologies applied for appropriateness against generally accepted market practice. ▶ We inspected the investment mandate and evaluated that the investment securities held by the investment manager were in accordance with the investment mandates given to the investment managers by assessing the investment mandates. ▶ We evaluated the adequacy and completeness of the disclosure of the investments in the financial statements to determine whether they were in accordance with IFRS 13-Fair Value Measurement, IAS 26-Accounting and Reporting by Retirement Benefit Plans, other applicable financial reporting standards and the basis of disclosure used by the Retirement Annuity Fund.

Other Information

The Board of Trustees is responsible for the other information. The other information comprises the information included in the 32-page document titled “Botswana Life Retirement Annuity Fund Annual Financial Statements for the period 1 October 2019 to 31 December 2020” which includes the General Information, the Board of Trustees’ Responsibility Statement and Approval Statement. Other information does not include the financial statements and our auditor’s report thereon.



Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Trustees for the Financial Statements

The Board of Trustees is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Retirement Funds Act, 2014 and for such internal control as the Board of Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Trustees is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Trustees either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

The Board of Trustees are responsible for overseeing the Fund's financial reporting processes.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Trustees.
- Conclude on the appropriateness of the Board of Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



**Building a better
working world**

We communicate with the Board of Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Trustees with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Trustees we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young
Practicing Member: Thomas Chitambo (20030022)
Partner
Certified Auditor
Gaborone

Statement Of Changes In Net Assets Available For Benefits

	Notes	2020 Pula ('000)
Income		
Members' contributions		364,160
Expenditure		
Benefit expenses	2	(131,387)
Transfer to an approved pension fund	2.1	(3,100)
Administrative expenses	3	(60,636)
Total expenditure		<u>(195,124)</u>
Net (withdrawals)/additions from dealing with members		<u>169,036</u>
Returns on Investments		
	1.1	
Investment Income		53,235
Change in the fair value of investment in property fund		11,888
Realised gains on disposal of investments		2,174
Change in the fair value relating to other planned assets		90,817
Management Fees		(12,010)
Net Returns on Investments		<u>146,104</u>
Transfer of value from Botswana Life	4	1,720,621
Net fund surplus for the period		<u>2,035,761</u>

Statement of Net Assets Available for Benefits

	Notes	2020 Pula ('000)
ASSETS		
Investment securities - fair value through profit or loss	4	1,889,849
Accounts receivable	5	202,484
Cash and cash equivalents	7	3
TOTAL ASSETS		<u>2,092,335</u>
RESERVES AND LIABILITIES		
Reserves		
Accumulated Funds reserves		2,035,761
Liabilities		
Accounts payable	6	56,574
TOTAL RESERVES AND LIABILITIES		<u>2,092,335</u>

Statement of Changes in Reserves

	2020 Pula ('000)
Accumulated funds	
Balance at the beginning of the period	
Net fund surplus for the period	2,035,761
Balance at the end of the period	2,035,761

Statement of Cash Flows

	Notes	2020 Pula ('000)
Cash flows from operating activities		
Net fund surplus for the period		2,035,761
<i>Adjustments:</i>		
Interest Income	1.1	(40,765)
Dividends Income		(12,471)
Change in the market value of investments	4	(104,879)
Non-cash Transfer from Insurance		(1,720,621)
		157,026
Working capital changes		
(Increase)/decrease in accounts receivable	5	(202,484)
Increase/(decrease) in accounts payable	6	56,575
Net cash generated from operations		11,117
Interest received		40,765
Dividends received		12,471
Net cashflow from operating activities		64,352
Cash flows from investing activities		
Purchase of investments	4	(324,469)
Disposal of investments	4	260,120
Net cash (utilised in)/from investing activities		(64,349)
Net increase in cash and cash equivalents		3
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of the period	7	3

Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at fair value of investment securities. The financial statements are presented in Botswana Pula, which is also the fund's functional currency. All values are rounded to the nearest Pula (P1) except where otherwise indicated. The financial statements were approved by the Trustees on 3rd June 2021.

Functional Currency

The Board of Trustees considers the Pula as the currency that most appropriately represents the economic effect of the underlying transactions, events and conditions. The Pula is the currency in which the fund measures its performance and reports its results, as well as the currency in which it receives subscriptions from its members.

Foreign Currencies

The financial statements are presented in the currency of the primary economic environment in which the Fund operates (its functional currency), the Botswana Pula.

Transactions in currencies other than Botswana Pula are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency differences arising from retranslation are recognised as a component of net gain/loss from financial instruments in the Fund's statement of changes in net assets available for benefits.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Statement of Compliance

The financial statements of the Botswana Life Retirement Annuity Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of the Retirement Funds Act, 2014.

Significant accounting judgements, estimates and assumptions

Judgements

In the process of applying the Fund's accounting policies, management has not made any judgments apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements. Overall the COVID-19 pandemic did not have any significant impact on the estimates and judgements of the fair value of the Financial instruments.

Fair Values Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

Significant Accounting Policies

Accounting Policies (continued)

- a) In the principal market for the asset or liability, or
- b) In the absence of a principal market, in the most advantageous market for the asset or liability.
- c) The principal or the most advantageous market must be accessible by the company.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 1) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- 2) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- 3) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

External valuers are involved in the valuation of significant assets, that the management entity (BIFM) invests in. BIFM has a property fund which invests in investment properties on behalf of the Fund.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. The asset classes that are affected by significant assumptions and estimates consists of the offshore private equity, offshore property, fixed interest fund, local property fund, fixed interest fund, local bond fund, offshore money market, offshore bond and offshore cash. The corresponding balances for these asset classes are disclosed on Note 14. The nature of the assumptions are also included in Note 14.

Changes in Accounting Policies

The accounting policies adopted are in accordance with International Financial Reporting Standards (IFRS). There were no new and amended IFRS and IFRIC interpretations effective during the period that were relevant, or had impact to the Fund.

Reporting Period

The reporting period is for the 15 months period (Oct 2019 to Dec 2020). This is the first report since the licencing of the Fund and all the numbers recorded represent the same activity period. Going forward the reporting will be for the normal 12 months period between January - December.

Fund Investment Policy

The Fund assets are managed through Investment policy that provide the Board of Trustees with the necessary guidelines to enable them to make informed decisions on behalf of the members. The Fund invests into retirement annuity policies through Botswana Life Insurance and the portfolios selected with the insurer are aligned to the IPD.

Significant Accounting Policies

Accounting Policies (continued)

The IPD set out the principles of the investment strategy which will form the basis of Fund governance by the board. This will allow the board to make decisions on investment risks, asset allocation, performance benchmarks, criteria for selecting asset managers and consultants, due diligence measures and general administration which will be based on the best interest of the members.

The policy allows the strategy to be reviewed every 3 years and submitted to the regulator or as and when there is a significant change to the investment mandate.

Valuation of Plan Assets

The retirement plan assets are carried at fair value. In the case of marketable securities, fair value is usually market value because this is considered the most useful measure of the securities at the report date and of the investment performance for the period. Those securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity.

Where plan investments are held for which an estimate of fair value is not possible, such as total ownership of an entity, disclosure is made of the reason why fair value is not used.

To the extent that investments are carried at amounts other than market value or fair value, fair value is generally also disclosed.

Investment Securities

Investment securities include retirement benefits plan assets and, these should be carried at fair value. For marketable securities, fair value means market value. If fair values cannot be estimated for certain retirement benefit plan investments, disclosure should be made of the reason why fair value is not used.

As at 31 December 2020, plan assets measured at fair value amounted to P1,889,848.75.

Interest Income

Interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest Income consist of the following:

- a) Interest from call accounts, fixed deposits and bank balances
- b) Interest from planned assets carried at its discounted ultimate redemption value.
- c) Interest from planned assets at fair value through profit or loss

Dividend Income

Dividend income is recognised when the fund's right to receive the payment is established.

Significant Accounting Policies

Accounting Policies (continued)

Net Gains & Losses

Net gains or losses on plan assets at FVPL are changes in the fair value of plan assets held for trading or designated upon initial recognition as at FVPL and exclude interest and dividend income and expenses. A gain or loss is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

Unrealised Gains & Losses

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at period end and the carrying value at the previous year end or purchase value during the period, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the period.

Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and Cash Equivalents

Cash and cash equivalents comprise of cash at banks and in hand, and short term deposits with an original maturity of three months or less.

Impairment of Financial Assets

The Fund recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For receivables, the Fund applies a general approach in calculating ECLs. Therefore, the Fund recognises a loss allowance based on lifetime ECLs at each reporting date. The Fund calculates an ECL that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Fund considers a financial asset in default when the contractual payments are above 90 days past due. However in certain cases, the Fund may also consider a financial asset to be in default when internal or external information indicates that the Fund is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by BIFM. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Significant Accounting Policies

Accounting Policies (continued)

Derecognition of Financial Assets

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Derecognition of Plan Assets

The Fund derecognises its plan assets when:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred the plan asset and substantially all the risks and rewards of ownership of the asset to another entity and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial Liabilities

Financial liabilities are recognised initially at fair value and, in the case of accounts payable, net of directly attributable transaction costs.

Accounts payable are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Benefits Payable

Benefits payable include all valid benefit claims notified to the Board of Trustees during the financial period. These are recognised in the profit and loss when decrease in future economic benefits related to a decrease in an asset or an increase in a liability has risen that can be measured reliably.

Income

The types of income that the Fund includes in the Statement of changes in net assets available for benefits include the below;

i) Contributions

Contributions constitute income earned from individual members which are accounted when due to the Fund. Contributions are recognised on accrual basis. These are recognised in the profit and loss provided they satisfy the following:

- a) the amount of income can be measured reliably;
- b) it is probable that the economic benefits associated with the transaction/transfers will flow to the entity.

Significant Accounting Policies

Accounting policies (continued)

ii) Transfers to and from the Botswana Life Retirement Annuity Fund

Transfers to the Fund (Transfer-In) are recognised on the earlier of receipt of the actual transfer value or the written notice of transfer (recognition of transfer). These are treated as income to the Fund.

Transfers from the Fund (Transfer-Out) are recognised on the earlier of payment of the actual transfer value or the written notice of transfer (recognition of transfer). These are treated as expense to the Fund.

Administration Expenses and Other Expenses

Administration expenses and other expenses incurred are recognised in profit or loss. Expenses are recognised in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

New and Amended Standards and Interpretations

New or Revised Standard	Effective for accounting period beginning on or after
Amendments to IFRS 3: Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of material	1 January 2020
The conceptual framework for financial reporting	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform	1 January 2020

Amendments to IFRS 3: Definition of a Business

The IASB issued amendments to the definition of a business in IFRS 3: Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. The amendments achieve the following:

- Clarification of the minimum requirements for a business
- Removal of the assessment of whether market participants are capable of replacing any missing elements
- Add guidance to help entities assess whether an acquired process is substantive
- Narrow the definitions of a business and of outputs
- Introduce an optional fair value concentration test

The amendments are applicable to transactions that are either business combinations or asset acquisitions occurring in accounting periods that commence on or after 01 January 2020. The Fund adopted the amendments during the period, however there were no transactions falling under the scope of the standard. The amendments had no impact on the Fund.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 - Financial Instruments: Recognition and Measurement as well as IFRS 7 Financial Instruments: Disclosures. The amendments were in response to the Interbank Offered Rates (IBOR) reform on financial reporting.

Significant Accounting Policies

Accounting policies (continued)

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform (continued)

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free rate.

Amendments to IFRS 9 provide for reliefs, three of which are mandatory. The first three mandatory reliefs provide for:

- a) The assessment of whether a forecast transaction (or component thereof) is highly probable
- b) Assessing when to reclassify the amount in the cash flow hedge reserve to profit or loss
- c) The assessment of the economic relationship between the hedged item and the hedging instrument

A fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need only be met at the inception of the hedging relationship.

Amendments to IAS 39 are consistent with those for IFRS 9, except:

- a) For the prospective assessment of hedge effectiveness, it is assumed that the benchmark on which the hedged cashflows are based (whether or not it is contractually specified) and/or the benchmark on which the cash flows of the hedging instruments are based, are not altered as a result of IBOR reform.
- b) For the retrospective assessment of hedge effectiveness, to allow the hedge to pass the assessment even if the actual results of the hedge are temporarily outside the 80%-125% range, during the period of uncertainty arising from IBOR reform.
- c) For a hedge of a benchmark portion of interest rate risk that is affected by IBOR reform, the requirement that the portion is separately identifiable need only be met at the inception of the hedge. The amendments are effective for reporting periods commencing on or after 1 January 2020 and are applicable retrospectively. The Fund adopted the amendments during the current financial period, however, the company does not have any hedging transactions and was not impacted by the amendments.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018 the IASB issued amendments to IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. The amendments align the definition of material across the two standards by clarifying materiality.

The new definition of materiality states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about the Company.

According to the definition, obscuring means communicating in a way that would have a similar effect as omitting or misstating the information. The amendments are effective for reporting periods commencing on or after 01 January 2020 and must be applied prospectively.

The Fund adopted the amendments during the year and used the guidance to effect improvements in the notes to the financial statements by including additional narratives and clarity where considered necessary. The amendments had no other impact on the financial statements.

The Conceptual Framework for Financial Reporting

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance in understanding and interpreting the standards.

Significant Accounting Policies

Accounting policies (continued)

The Conceptual Framework for Financial Reporting (continued)

The amendments to the Conceptual Framework include new concepts, updated definitions and recognition criteria for assets and liabilities and clarification of some important concepts.

The amendments to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

The amendments are effective for reporting periods commencing on or after 1 January 2020. The Fund adopted the amendments in the current financial period with no further impact or changes to the existing accounting policies.

New or revised standards Effective for the accounting period beginning on or after 1st January 2021

New or Revised Standard	Impact	Effective Date
Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Not likely to have impact	01 January 2021
AIP IFRS 1 First time adoption of International Financial Reporting Standards - Subsidiary as a first time adopter	Not likely to have impact	01 January 2021
AIP IFRS 9 Financial Instruments - Fees in the '10 percent' test for derecognition of financial liabilities	Not likely to have impact	01 January 2021
Classification of Liabilities as Current or Non-current Amendments to IAS 1	Not likely to have impact	01 January 2023
IFRS 17 Insurance Contracts	Not likely to have impact	01 January 2023
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	Not likely to have impact	01 January 2022
2. Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	Not likely to have impact	01 January 2022
3. AIP IAS 41 Agriculture – Taxation in fair value measurements	Not likely to have impact	01 January 2022
Amendment to IFRS 16: COVID 19 Related Rent Concessions	Not likely to have impact	01 June 2020
Reference to the Conceptual Framework – Amendments to IFRS 3	Not likely to have impact	01 January 2022

Notes to the Financial Statements

	2020
	Pula ('000)
1. INCOME	
1.1 Gain On Investment Securities	
Interest Income	
Dividends Income	40,765
Change in the fair value of investment in property fund	12,471
Realised gains on disposal of investments	2,174
Change in the fair value relating to other planned assets	90,817
Management Fees	(12,010)
Total	<u>146,104</u>
2. BENEFIT EXPENSES	
Lump sum award on death	2,592
Lump sum on retirement	128,796
Total	<u>131,387</u>
2.1. Transfer Out	
Transfer to an approved pension fund	3,100
3. ADMINISTRATIVE EXPENSES	
Fidelity cover premiums	22
Advertising	135
Provision for audit fees	150
Provision for supervisory levies	1,511
Staff remuneration	2,898
Cost of membership acquisition	29,106
Provision for Board Assessment Fees	128
Other Expenses	1,471
Investment consulting fees	1,912
Botswana Pension Society Subscriptions	5
Trustee, member training and other expenses	194
Trustee remuneration	108
Fund administration fees	22,997
	<u>60,637</u>

Fund administration fees refers to indirect cost incurred through outsourcing outlined in the SLA with Botswana Life Insurance Limited.

Cost of membership acquisition refers to the charge agreed with Botswana Life with regards to onboarding of new membership.

Notes to the Financial Statements

	2020
	Pula ('000)
4. INVESTMENTS SECURITIES	
Investments at fair value through profit or loss	
Investments additions to the Fund	1,720,622
Purchase of investments	324,469
Disposal of investments	(260,120)
Changes in fair values of investments	104,879
Closing fair value	<u>1,889,849</u>

The above funds are managed by Botswana Insurance Fund Management Limited. Refer to note 13 for the composition of investment securities.

Investments additions to the Fund refer to all investments that were held through the asset manager and, backing the member records at the inception of the Fund.

Included in Changes in fair value were income generated through Dividends and Interest, managements fees, Exchanges gains/losses and Revaluation gains and losses. These are for the period October 2019 (upon Fund licensing) to December 2020.

5. ACCOUNTS RECEIVABLE

Other receivables	202,484
	<u>202,484</u>

Other receivables include arrear contributions and management fees refundable. Accounts receivables are neither past-due nor impaired.

6. ACCOUNTS PAYABLE

Benefits payable	51,129
Other Payables	5,444
	<u>56,574</u>

Disbursement once the members have been identified. Other payables are:

7. CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash flows, cash and cash equivalents comprise the following:

Cash at Bank	<u>3</u>
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Notes to the Financial Statements

2020
Pula ('000)

8. RELATED PARTY TRANSACTIONS

Related parties comprise members of the Board of Trustees of the Fund and entities with common ownership and/or members. Transactions with related parties are in the normal course of business.

The Fund obtains key management personnel services from Botswana Life Insurance Limited (BLIL), the interim fund administrators. Consequently BLIL has been identified as a related party. Other related parties are Botswana Insurance Fund Management Limited (BIFM). The Fund had the following transactions and balances with related parties during the period/at period end;

Key Management Compensation - Fund administration fees - BLIL (Note 3)	22,997
Investment Management Fees - BIFM	12,010

Receivables from related parties

Botswana Life Insurance Limited (Sponsor/Service provider)	202,481
	<u>202,481</u>

Related party receivables are non-interest bearing and have an average term of 30 days.

Investment securities invested with (BIFM)

Closing fair value	<u>1,889,849</u>
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The above funds are managed by Botswana Insurance Fund Management Limited (BIFM). Refer to note 13 for the composition of investment securities.

9. ADMINISTRATIVE EXPENSES

In terms of clause 14.2 of the Rules of the Fund all administrative expenses are borne by the Fund itself.

10. PROFESSIONAL INDEMNITY INSURANCE

In terms of clause 13.7.2 of the Rules of the Fund, the Trustees shall also cause a policy of insurance to be maintained to indemnify the Fund against all losses resulting from negligence, dishonesty or fraud of any of the Fund's officers employer's officers having the receipt or charge of monies belonging to the Fund.

Notes to the Financial Statements

11. TAXATION

The Fund is an approved scheme under the Income Tax Act, CAP 52:01 and accordingly there is no liability for Botswana income tax.

12. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Fund's principal financial instruments comprise of investment securities fair valued through profit or loss, cash and cash equivalents and accounts receivables. The main purpose of these financial instruments is the investment of Fund's contributions.

The Fund does not enter into derivative transactions.

The main risks the Fund is exposed to are credit risk, liquidity risk and market risk, which comprises interest rate risk, foreign currency risk and price risk.

Even though the investment securities are accounted for in terms of IAS26, they meet the definition of a financial asset. As such, disclosures of investment securities in terms of IFRS 7 for liquidity and market risk has been provided.

Interest rate risk

All funds are invested with Botswana Insurance Fund Management Limited. The Retirement Fund's exposure to market risk for changes in interest rates, special bonus rates and fair values relates primarily to the Retirement Fund investment portfolio and cash and cash equivalents. The portfolio includes only securities with active secondary or resale markets to ensure portfolio liquidity.

Floating rate instruments expose the Fund to cash flow interest risk, whereas fixed interest rate instruments expose the Fund to fair value interest risk.

The Fund's interest risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until the maturity. The investment committee sets the limits in the investment mandates and meet quarterly to review compliance with the mandates and where necessary review the limits.

Notes to the Financial Statements

13. FINANCIAL INSTRUMENTS (Continued)

Equity Price Risk

The Funds listed and non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Fund manages the equity price risk through diversification and ensuring its within the benchmark set by the Fund rules.

The Fund's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market. The property risk sensitivities is included in the equity price risk as the portfolio comprise of listed assets. The price risk movement on bonds is included in the interest rate risk note.

Foreign Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund's principal transactions are carried out in Botswana Pula and its exposure to foreign exchange risk arise primarily with respect to US Dollar.

The main foreign exchange risk arises from recognised assets denominated in currencies other than those in which fund liabilities are expected to be settled.

The Fund being sponsored by Botswana Life Insurance Limited and in extension Sanlam Limited, manages its South African Rand foreign currency risk by hedging transactions in line with the expected duration of risk through the SWAP derivative financial instrument between Botswana Life Insurance Limited and African Life Assurance Company (Botswana) Limited. The derivative instruments at Botswana Life Insurance Limited reflect the change in fair value of foreign exchange swap transaction contracts that are intended to reduce the level of foreign currency risk. These derivatives are measured at fair value through profit and loss. The Fund and Botswana Life Insurance Limited do not apply hedge accounting.

Liquidity risk

Liquidity risk is the risk that the business will encounter difficulty in meeting its obligations associated with financial and administration liabilities.

The Fund manages and monitors daily funding requirements. Surplus funds are invested with authorised investment managers.

Notes to the Financial Statements

13. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (continued)

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively. All investment assets are recoverable on demand:

	0 - 3 months Pula ('000)	3 - 6 months Pula ('000)	6 months - 1 year Pula ('000)	More than 1 year Pula ('000)	Total Pula ('000)
2020					
Assets					
Local Money Market	22,167	-	-	-	22,167
Local Equity Fund	0	258,936	-	-	258,936
Local Bond Fund	366,394	-	-	-	366,394
Local Property Fund		284,814	-	-	284,814
Offshore Bond		133,700	-	-	133,700
Offshore Equity	744,935	-	-	-	744,935
Offshore Money Market	14,337	-	-	-	14,337
Offshore Property		-	26,429	-	26,429
Offshore Cash	6,383	-	-	-	6,383
Offshore Private Equity		-	31,755	-	31,755
Accounts receivable	202,484	-	-	-	202,484
Cash and Cash Equivalents	3	-	-	-	3
Total Assets	1,356,703	677,449	58,183	-	2,092,336
Liabilities					
Accounts Payable	56,574	-	-	-	56,574

Notes to the Financial Statements

13. FINANCIAL INSTRUMENTS (Continued)

Foreign Currency Risk

The Fund's investment portfolio include offshore equity, offshore bonds and offshore money market denominated in US Dollars and, as a result are exposed to movements in foreign currency exchange rates. There are no foreign currency liabilities.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As it is the Fund's policy to enter into financial instruments with creditworthy counterparties, primarily the Fund employer, the Fund does not expect to incur material credit losses on its risk management or other financial instruments.

Credit risk arises from the possibility that investments in bonds, offshore money markets, trade and other receivables, local money markets, related party receivables and cash and bank balances with banks will not be redeemed by the relevant counter parties when they become due. The following policies and procedures are in place to mitigate the company's exposure to credit risk:

The risk and investment committee came up with a policy that is used to assess and determine what constitutes credit risk for the company. Compliance with the policy is monitored and any exposures and breaches are reported to the Investment committee. The policy is quarterly reviewed for pertinence and the changes in the risk environment.

Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segments; i.e. limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held.

The Board of Trustees follow specific investment mandates that have been agreed with the asset manager. These mandates depict how much of a type of assets to hold in each portfolio based on their perceived risk and thereby reducing both on concentration of specific assets and of currency.

The Fund does not expect to incur material credit losses on its risk management or other financial instruments.

General Approach to Defaults

Using the general approach ECLs are recognised in three stages as follows:

Stage 1: Upon initial recognition and annually thereafter, for exposures where there has not been a significant increase in credit risk, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL).

Stage 2: For exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Stage 3: For exposures where the balances are credit impaired (non-performing) the ECLs are provided for over the remaining life of the exposure (a lifetime ECL).

For this period there were no expected credit losses expected from default events within the next 12 months on receivables. There has not been a significant increase in credit risk since initial recognition hence the Stage 1 category.

Notes to the Financial Statements

13. FINANCIAL INSTRUMENTS (Continued)

Credit Risk (continued)

	Impairment Method/Stage	Balance as at 31 Dec 2020 P'000	PiI (PD)	Exposure to default P'000	LGD	Expected Credit Losses
Outstanding contributions	GA/Stage 1	202 481	100%	202 481,00	0%	-
Total Expected Credit Losses		202 481				

Net contributions comprise of mainly cost recoveries from Botswana Life Insurance Limited. These recoveries are all below the 90 day aged band.

There were no material credit losses expected after reviewing the likelihood of default and expected collection timeline.

Fair Value of Financial Instruments

The fair value of all financial instruments is substantially identical to the carrying values reflected in the balance sheet. The table below summaries the information. Refer to Note 14 for the valuation techniques used by the entity to value its financial instruments. The carrying amounts approximate the fair values.

Classification of Financial Instruments

	Financial Assets at amortised Pula ('000)	Financial Assets at fair value Pula ('000)	Financial Liabilities at amortised Pula ('000)	Total Pula ('000)
2020				
<i>Financial Assets</i>				
Cash and Cash Equivalents	3	-	-	3
Receivables	202,484	-	-	202,484
<i>Financial Liabilities</i>				
Accounts payable	-	-	(56,574)	(56,574)
Total	202,487	-	(56,574)	145,913

Financial assets pledged as collateral

The Fund has not pledged any financial assets as collateral.

Financial assets received as collateral

The Fund has not received any financial assets as collateral.

Market Risk Sensitivity

The set of assumptions used for each of the risk factors hereunder are not forecasts, but merely "what if" scenarios and the likely impact on the current portfolio, based on selected changes in risk variables over a one year horizon.

The table below gives an indication of the risk sensitivities of the portfolio to various risk parameters. Assuming that the probability of the beneficial change in the risk variables are as likely to happen as an adverse change, both potential increase and decrease are shown for the indicated scenarios.

Notes to the Financial Statements

13. FINANCIAL INSTRUMENTS (Continued)

Market Risk Sensitivity (continued)

2020

Risk Variable	Adverse Market Change		Beneficial Market change	
	Scenario	Effect on Statement of changes in net assets available for benefits (Pula)	Scenario	Effect on Statement of changes in net assets available for benefits (Pula)
Currency risk	Strengthening of the Pula by 3%	(28,726)	Weakening of the Pula by 3%	28,726
Global equity risk	Decline in global equity prices by 5%	(5,492)	Increase in global equity prices by 5%	5,492
Local equity risk	Decline in local equity prices by 3%	(7,768)	Increase in local equity prices by 3%	7,768
Interest rate risk	Decline in interest yield by 1% basis	(5,430)	Increase in interest yield by 1% basis	5,430

INVESTMENTS BY ASSET CLASS

	2020
	<u>Pula ('000)</u>
Local Bond	366,394
Local Equity	258,936
Local Money Market	22,167
Local Property	284,814
Offshore Bond	133,700
Offshore Equity	744,935
Offshore Money Market	14,337
Offshore Property	26,429
Offshore Cash	6,383
Offshore Private Equity	31,755
Total Investments	<u>1,889,849</u>

14. RISK MANAGEMENT

Determination of fair values and fair value measurement hierarchy

The following table shows an analysis of items recorded or disclosed of fair value:

The Fund uses the following hierarchy for determining and disclosing the fair value of items measured or disclosed at fair value:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Notes to the Financial Statements

14. RISK MANAGEMENT (Continued)

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table represents the Fund's assets and liabilities that are measured at fair value as at 31 December 2020:

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2020:

	Date of valuation	Fair value measurement using			Total fair value
		Quoted prices in active markets (Level 1) Pula ('000)	Significant observable inputs (Level 2) Pula ('000)	Significant unobservable inputs (Level 3) Pula ('000)	
Fixed Interest/Local Money Market	31 December 2020	-	22,167	-	22,167
Local Equity Fund	31 December 2020	258,936	-	-	258,936
Local Bond Fund	31 December 2020	-	366,394	-	366,394
Local Property Fund	31 December 2020	-	-	284,814	284,814
Offshore Money Market	31 December 2020	-	14,337	-	14,337
Offshore Cash	31 December 2020	-	6,383	-	6,383
Offshore Property	31 December 2020	-	-	26,429	26,429
Offshore Private Equity	31 December 2020	-	-	31,755	31,755
Offshore Bond	31 December 2020	-	133,700	-	133,700
Offshore Equity	31 December 2020	744,935	-	-	744,935
		<u>1,003,871</u>	<u>542,981</u>	<u>342,997</u>	<u>1,889,849</u>

Sensitivity of Level 3 Financial instruments measured at fair value, to changes in key assumptions.

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions by:

Plan Asset	Carrying Amount Pula ('000)	Effect of 2% decrease in discount rate Pula ('000)	Effect of 2% increase in discount rate Pula ('000)
Local Property Fund	284,814	(5,696)	5,696
Offshore Property Fund	26,429	(529)	529
Offshore Private Equity	31,755	(635)	635
	<u>342,997</u>	<u>(6,860)</u>	<u>6,860</u>

Notes to the Financial Statements

14. RISK MANAGEMENT (Continued)

Plan Asset	Carrying Amount <i>Pula ('000)</i>	Effect of 2% decrease in capitalisation <i>Pula ('000)</i>	Effect of 2% increase in capitalisation <i>Pula ('000)</i>
Local Property Fund	284,814	(5,696)	5,696
Offshore Property Fund	26,429	(529)	529
	<u>311,243</u>	<u>(6,225)</u>	<u>6,225</u>

Plan Asset	Carrying Amount <i>Pula ('000)</i>	Effect of 2 months non-occupancy <i>Pula ('000)</i>
Local Property Fund	284,814	(47,469)
Offshore Property Fund	26,429	(4,405)
	<u>311,243</u>	<u>(51,874)</u>

Plan Asset	Carrying Amount <i>Pula ('000)</i>	Effect of 2% decrease in cashflows <i>Pula ('000)</i>	Effect of 2% increase in cashflows <i>Pula ('000)</i>
Local Property Fund	284,814	(5,696)	5,696
Offshore Property Fund	26,429	(529)	529
Offshore Private Equity	31,755	(635)	635
	<u>342,997</u>	<u>(6,860)</u>	<u>6,860</u>

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques to maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

	<i>Pula ('000)</i>	<i>Pula ('000)</i>	<i>Pula ('000)</i>	<i>Pula ('000)</i>
Level 3 Financial Assets				
Opening Bal	36,887	219,738	33,700	290,326
Additions	5,305	45,782		51,087
Disposals				
Income	2,129	12,783	0	14,911
Unrealised gains	-2,209		-760	-2,969
Realised Gains	-10,103	9,462	-6,305	-6,947
Management Fees	-254	-2,951	-205	-3,410
Closing Balance	31,755	284,814	26,429	342,997

Notes to the Financial Statements

14. RISK MANAGEMENT (Continued)

Valuation techniques used in determining the fair value of Plan Assets

Instrument	Applicable to Level	Valuation Basis	Main Assumptions	Significant Inputs
Offshore Private Equity	3	Net fair value of underlying assets through DCF models	Cash flows generated by underlying companies and the applicable discount rates	Cash flows, discount rates, and industry multiples
Local & Offshore Property	3	Discounted Cash Flow model (DCF)	Valuations carried out by Independent experts	Estimated cash flows, discount rates, capitalization rate & long-term vacancy rates
Offshore Equity	1	Listed price x quantity	n/a	Listed price x quantity
Local Equity	1	Listed price x quantity	n/a	Listed price x quantity
Local & Offshore Bonds	2	Net fair value of underlying bonds	Risk free rate curve plus credit spread	Discount rate and cash flows
Money Markets	2	Discounted cash flow model (DCF)	Fixed deposit rates, negotiated deposit rates	Fixed deposit rates, negotiated deposit rates

Notes to the Financial Statements

15. DESCRIPTION OF THE FUND

Defined Contribution Plan

The Fund was established in 13th September 2019 as a defined contribution fund.

Individual Contributing Members

Membership of the Fund is made up of individuals who choose to take-up a personal retirement pension plan. Any individual who is willing to have an extra saving towards retirement and is financially able is eligible to join the membership.

Contributions

Each member makes contributions towards their retirement benefit. There is no employer-employee relationship since its not an occupational pension plan.

A member may elect to make monthly contributions which can be collected through a preferable mode by the member. Financial underwriting is undertaken at member loading stage, to determine if the prospective member's financial standing allows them to contribute the minimum amount allowed. Such monthly contributions may be increased, reduced or stopped only at the beginning of the Fund year. A member may choose to make one bulk contribution until retirement.

Benefits

Retirement benefits are calculated at an amount as may be purchased by the member's equitable share at the date of retirement. Where a member retires normally:

- (a) they may choose to be paid 1/3 of the accumulated value and
- (b) they will buy an annuity at a service provider of their choice

Where a member retires due to ill health, as certified by the doctor, they will be entitled to all the available value of the membership.

Where a member becomes deceased, all the accumulated member value will be paid to his/her nominated dependants as may be deemed equitable by the trustees.

16. COMPARATIVE INFORMATION

The financial statements were prepared for a fifteen month period ended 31 December 2020. There are no comparatives as this is the first period of operation for the Fund.

17. EVENTS AFTER REPORTING PERIOD

Coronavirus (COVID-19) Outbreak

The COVID-19 pandemic continues to impact the Botswana economy beyond 31 December 2020. The infection rates and mortality rates have spiked globally since the beginning of January 2021. New COVID-19 strains have been reported in various countries, with the initial variants being reported in the UK, South Africa and Brazil. The vaccination programs initiated in December 2020 continue to focus on the frontline workers and the "at risk" population groups. Vaccination efforts across the globe are hampered by supply constraints as well as budget constraints. The 2021 budget presented recently by the Minister of Finance, proposed some tax hikes notably VAT increase from 12% to 14%, sugar tax, increase in withholding tax on dividends from 7.5% to 10%. Other changes include an increase in the fuel levy, operationalisation of plastic levy as well as the introduction of second-hand vehicle levy. The Minister also reported that a comprehensive Rationalisation Strategy covering all Stated Owned Enterprises (SOEs) has been developed. Implementation of the strategy will address issues such as duplication of activities and overlapping mandates.

Notes to the Financial Statements

17. EVENTS AFTER REPORTING PERIOD (continued)

Coronavirus (COVID-19) Outbreak

Some SOEs have also been identified for privatisation, while others could be closed. This will reduce Government spending on these entities. The review will also make proposals for improvements in SOE corporate governance.

The above highlights point to an increased pressure on household incomes in 2021 as tax hikes are likely to trigger price hikes across a wide spectrum of goods and services. The delayed access to vaccines means that the spread and impact of COVID-19 is likely to continue through to 2022.

The Trustees have reviewed the Fund's exposure to the effects of a possible global recession on the Fund's results, financial position and cash flows and concluded that whilst there is already a direct impact on certain sectors such as hospitality, discretionary retail and offline entertainment, the extent, timing and duration of the impact cannot yet be forecasted or quantified.

The increased pressure on household incomes as well as the continued spreading of COVID-19 will increase the risk of member contribution deferment and also result in higher death claims due to COVID-19 related deaths.

These post balance sheet events are non-adjusting but will potentially result in an impact on the results and cash flows of the 2020 financial period. Even though the impact cannot be quantified now, the Trustees have done a risk assessment and considered the likely impact of COVID-19 and have put in place appropriate measures to mitigate the risks.



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