



# ANNUAL REPORT 2010



# DPF

DEBSWANA • PENSION • FUND

*Your Fund, Your Security, Your Future*



PRINCIPAL TRUSTEES



**Tabake Kobedi**  
Board Chairman, Company  
Appointed-Debswana



**Emmanuel Kgaboetsile**  
Member Elected, Debswana Orapa  
Member - Benefits Review Committee



**Richard Moroka**  
Company Appointed, DTCCB  
Member - Investment Committee



**Nchidzi Mmolawa**  
Company Appointed-MMEWA,  
Member -Investment Committee,  
Member - Benefit Review Committee



**Kaywa Namoshe**  
Member Elected, Debswana Jwaneng  
Member - Benefits Review Committee



**Gakologelwang Gakenaope**  
Member Elected Trustee - Gaborone  
(DBS Head Office, DTCCB & De Beers)



**Calistas Chijoro**  
(retired 06/2011)Member Elected -  
Debswana Former Chairperson-  
Investment Committee & Member -  
Audit & Finance

ALTERNATE TRUSTEES



**Maipelo Motshwane**  
Debswana Head Office, Alternate to T Kobedi  
Debswana, Chairperson - Benefits Review  
Committee Member - Audit & Finance Committee



**Ezekiel Moumakwa**  
(retired 06/2011) Company Appointed  
MMEWA Chairman - Audit & Finance Committee



**Otsenye Tsietso**  
Debswana Jwaneng, Alternate to K Namoshe  
- Debswana, Member-Benefits Review  
Committee Member-Investment Committee



**Enoch Shabane** (retired 06/2011)  
Debswana Head Office, Alternate to C. Chijoro-  
Debswana Former Chairperson - Human  
Resources Committee&Member Benefits Review  
Committee



**Petrous Montshiwa**  
Morupule Colliery  
Alternate to E Kgaboetsile - Morupule  
Member - Audit & Finance Committee



**Vuyisile Garekwe**  
(DTCCB) Alternate to R Moroka, Chairperson -  
Audit & Finance Committee, Member-Benefit  
Review Committee

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ADDITIONAL SUB - COMMITTEE MEMBERS



**David Reetsang**  
DEBSWANA Member  
-Investment Committee



**Tom Mongale**  
DEBSWANA, Chairperson-Human  
Resources Committee



**Naseem Lahri**  
DEBSWANA, Member-Audit  
& Finance Committee

INDEPENDENT TRUSTEE



**Lesego Makubate**  
DTCB, Member - Audit and Finance  
Committee



**Stephen Seitshiro**  
DEBSWANA, Member - Pension  
Benefits Review Committee



**Wanjiru Kirima**  
Group Principal Officer  
First Rand - RSA  
Chairperson - Investment Committee



**DPF MANAGEMENT**



**Gosego January**  
Principal Executive Officer since February 2011- Current



**Wangu Thipe**  
Operations Manager & Acting Principal Executive Officer 1st August 2010 to 31 January 2011



**Francis Seelo**  
Fund Accountant



**Agatha Sejoe**  
Communications Manager



**Neo Ebineng**  
Compliance Manager



**Tiny Kgatlwane**  
Principal Executive Officer, Resigned 31 July 2010

**FUND PHILOSOPHY**

**A brief history of the Debswana Pension Fund**

The Debswana Pension Fund (DPF) is a defined contribution established in 1984 as a trust through a joint initiative between, De Beers Botswana Mining Company (now Debswana), Anglo American Corporation Botswana (Pty) Ltd and De Beers Prospecting Botswana (Pty) Ltd. The primary purpose of the Debswana Pension Fund is to meet future benefit obligations to members as defined by the rules of the Fund, earn positive investment returns on member funds and remain financially sound at all times. The DPF invest member funds across four asset classes namely Property, Equities, Bonds, and Cash.

**The DPF vision statement**

To be the preferred provider of retirement fund services in Botswana.

**The DPF mission statement**

We will provide members with competitive and sustainable retirement benefits through;

- Prudent management of member funds
- Efficient administration of member records
- Provision of focused communication

**The DPF Values**

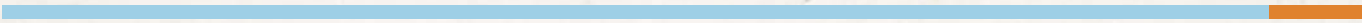
Innovation \* Trust and Integrity \* Value Oriented \* Quality focused \* Member Focused

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## ABOUT THIS REPORT

This annual report sets out key information about how the Debswana Pension Fund is managed for the benefit of all employing bodies, contributors and beneficiaries. This report summarizes financial and management performance.

This annual report and its appendices are published on the DPF website [www.dpf.co.bw](http://www.dpf.co.bw). In the interest of cost management, the report is published in two versions; an abridged version that has been distributed to the Fund membership whilst the full report is available in soft copy through the Fund website.

## 2010 FINANCIAL HIGHLIGHTS

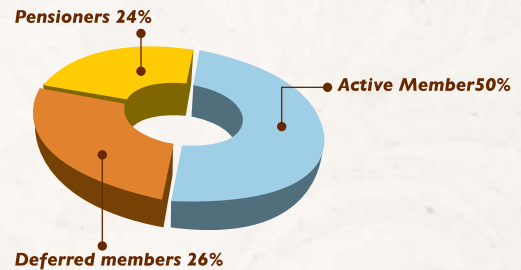
### FUND REVENUE ACCOUNT

	P		P
Fund as at 31 December 2009	3,005,590,934		
Contributions received	145,581,231	Administration expenses	13,235,700
Transfers received	2,339,925	Investment management fees	9,240,990
Income from investments	100,085,831	Depreciation	288,534
Gains/(Losses) on Investments	113,267,158	Withdrawal benefits	25,707,207
		Retirement benefits	79,977,583
		Death benefits	14,721,010
		Interest on exit benefits	759,003
		Pensioner death benefits	522,034
		Pensions paid	46,656,196
		Transfers paid	432,122
		Fund as at 31 December 2010	3,175,324,699
	3,366,865,079		3,366,865,079

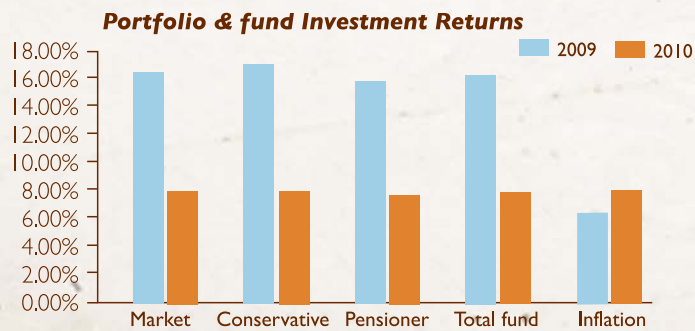
### Membership

	2009	2010	change	%
Active members	5138	4727	-411	-8%
Deferred members	2354	2496	142	6%
Pensioners	2190	2336	146	7%
Totals	9682	9559	-123	-1%

#### Overall Membership as at 31/12/2010



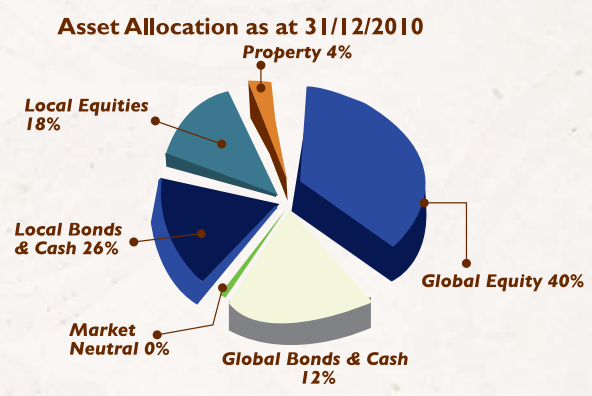
### Investment Returns



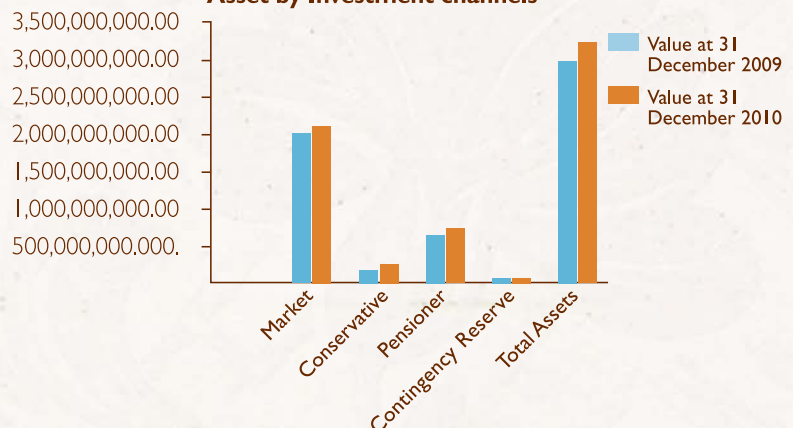


**Asset Allocation** P

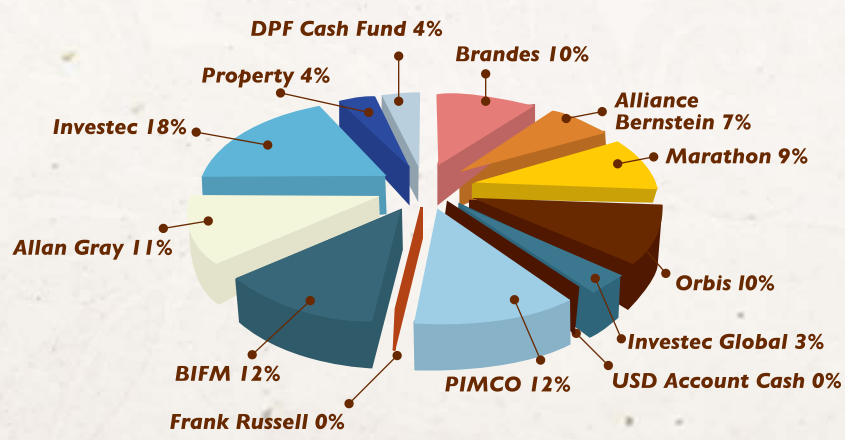
Global Equity	1,298,208,524
Global bonds & Cash	383,776,847
Market Neutral	1,712,667
Local Bonds & Cash	854,736,372
Local Equities	610,112,765
Property	103,598,855
Total	3,252,146,030



**Asset by Investment channels**



**Manager Share of Funds as at 31/12/2010**



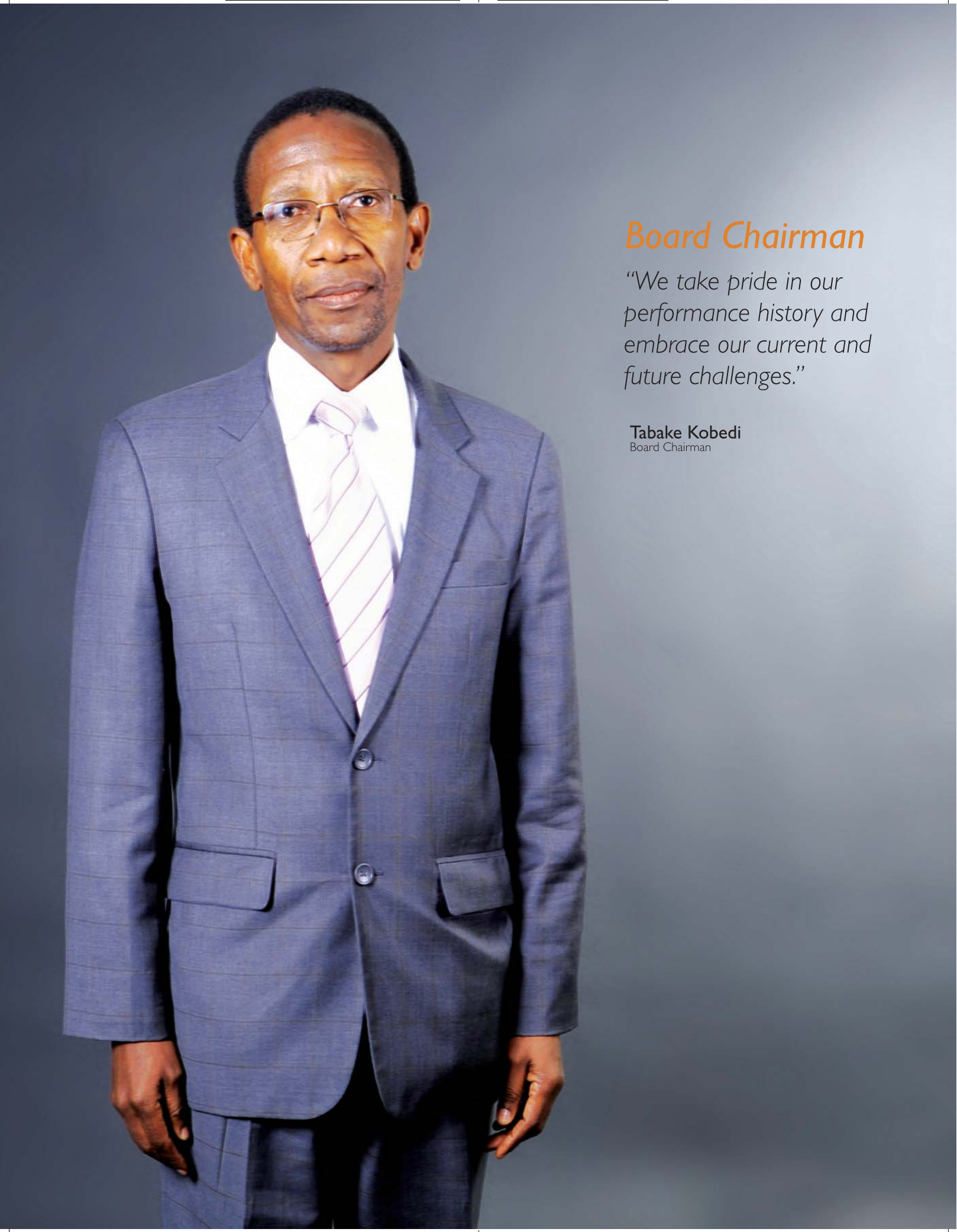


# Reports To Stakeholders



*Your Fund, Your Security, Your Future*





## Board Chairman

*“We take pride in our performance history and embrace our current and future challenges.”*

**Tabake Kobedi**  
Board Chairman

## CHAIRMAN'S REPORT

I am proud to present the 2010 Annual Report of the Debswana Pension Fund.

Accordingly, this report presents a detailed review of our mandate as a Fund, our goals for the year and further reflection on the performance outcome on the Fund investment for the 2010 financial year.

In the ongoing application of our duties as a board, and applying the lessons learnt from 2008's global financial crisis whilst positioning the fund for long term recovery, fund sustainability will continue to be a part of our core focus, and as a result I would like to share with the membership and stakeholders the key issues that as a board, we have identified and prioritized for attention in the immediate future, including capitalizing on our achievements:

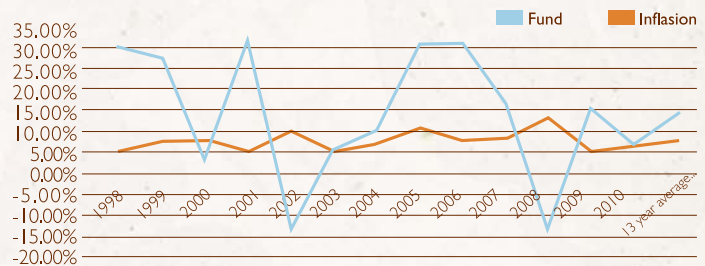
### I. Ensuring Sustained Financial Soundness Of The Fund Amidst An Unstable Global Economy

#### a. We take pride in our Performance History and embrace the current and future challenges

As members will recall, immediately after the global meltdown in 2008, the Fund's 2009 performance was significantly ahead of target, beating inflation by some 9.9%, and this was largely due to a record low inflation rate of 5.8% experienced that year, having last occurred at that rate in 2001. Regrettably for the DPF, although the 2010 outcome has been positive, it has not been as profitable as the prior year, largely due to the sharp rebound of the inflation rate to 7.4% by year end, exceeding the Bank of Botswana's 3 - 6 percent medium-term inflation objectives. The increase in inflation, according to the BOB 2010 report, is mostly attributable to the increase in Value Added Tax (VAT) in April 2010, from 10 percent to 12 percent, together with upward adjustments to some administered prices. Pitted against this unfavorable rise in inflation was a global market slowdown that led to marginal performance of the Fund assets. In this regard, the Fund only managed to grow at par with the annual inflation at return of 7.4%.

Whilst we are disappointed by the marginal performance, we derive comfort in the continued long-term profitability of the Fund as recorded in our 13 year historical performance, and we are currently standing at 14.59% average return rate against 8.44% inflation average, giving us a healthy net real return of 6.15%

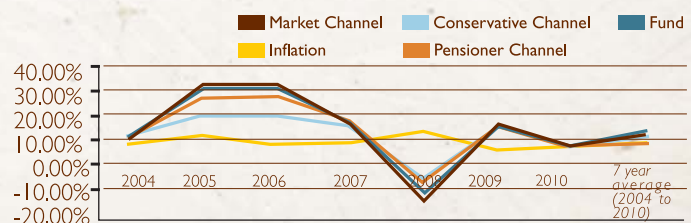
#### FUND PERFORMANCE HISTORY 1998-2010



#### b. Our Investment Strategy is achieving its objectives

In addition to our long term performance, our current investment strategy, including the life stage investment model, continues to satisfactorily meet its objectives as illustrated below by portfolio performance results since its inception. For the six year period, we have recorded an average annual return of 13.4% against an average inflation rate of 9.1%, which is in line with the targeted returns. Even more significant is that the primary objective of limiting the impact of market downturns on the assets of the near retirees is being realized, as illustrated below on the 2008 results for the Conservative and Pensioner Portfolios.

#### LIFE STAGE PORTFOLIO PERFORMANCE SINCE INCEPTION (2004-2010)



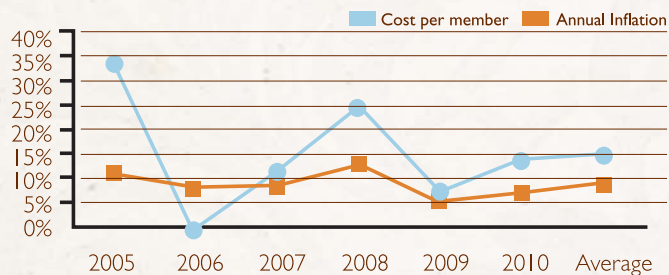
**CHAIRMAN'S REPORT • CONTINUED**

The portfolios have widely remained within target since inception of the Life stage investment model.

*c. Stringent controls and downscaling on our cost structure*

Due to rising administration and investment costs, we have seen our cost per member increase at an average 15.38% per annum since 2004. Given that this has exceeded the inflation average of 9% for the same period by some 6%, it is of major concern to us as a board and we will be undertaking all necessary interventions to ensure that our costs going forward are aligned to an acceptable minimum comparatively with industry benchmarks and further endeavor to beat those benchmarks. The Fund will be implementing initiatives for the next financial year that will not only determine the appropriate benchmarks but also review our internal processes to ensure cost effectiveness.

**TOTAL FUNDS % COST INCREASE PER MEMBER VS. INFLATION SINCE 2004**



Fund costs increase has remained widely above inflation over the last seven years.

**2. Addressing The Challenges Brought About By Changing Fund Demographics**

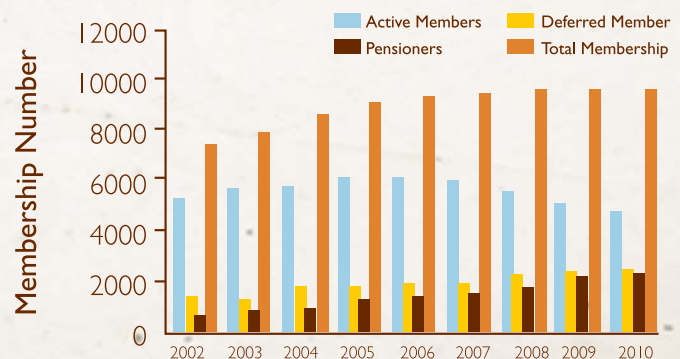
*a. Adapting to the Changing Membership structure*

The Fund is currently faced with the challenge of a rapidly mutating membership base, largely influenced by employer dynamics over the last five years and these to a certain degree, have been beyond the control of the Fund.

Specifically, since 2008, the Fund's two largest employer companies; Debswana Diamond Company and Diamond Trading Company Botswana, have undertaken long-term reorganization projects that resulted in major staff rationalizations, thus shedding a large number of employees and directly impacting on the DPF membership base to a significant degree. Three projects in particular: Debswana's North Star Strategy of 2008, the current Debswana Organisational Re-alignment project, and the transformation of the Botswana Diamond Valuing Company (BDVC) to become the Diamond Trading Company Botswana (DTCB). These projects and other intermediary factors have manifested in the following outcomes:

- A significantly high number of early retirements that led to our pensioner portfolio catapulting by 207% from its modest 762 members in 2002 to 2336 in 2010. More than double the size in the space of seven years.
- A high number of exits from employment by active members also gave rise to an 80% increase in the deferred member portfolio for the same period.
- Least supported by its membership exclusivity to the Debswana Group of companies, and owing to the above two factors, the Fund has experienced a constant erosion of its active membership base over the years, recording a cumulative loss of 11% since 2002 to date.

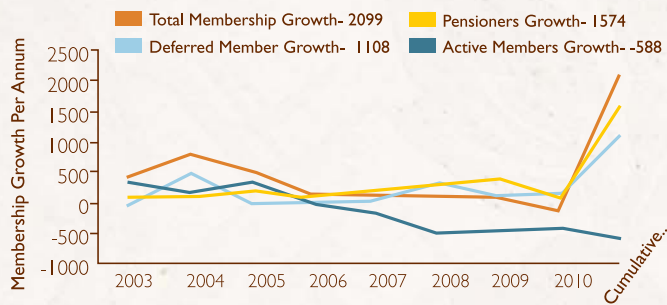
**MEMBERSHIP NUMBERS 2002-2010**



## CHAIRMAN'S REPORT • CONTINUED

Total membership has plateaued over the last five years

### ANNUAL MEMBERSHIP GROWTH/DECLINE BY VALUE 2002-2010



Whilst pensioners and deferred members are on the rise, active member numbers are on the decline.

#### b. Recognizing the realities of a maturing Fund

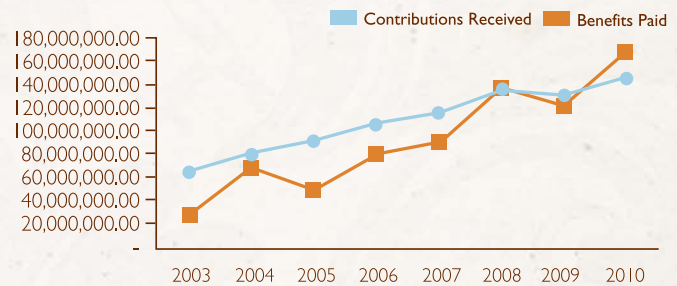
Another trend to note is the declining contributions receivables-to-benefits payments ratio of the Fund. As can be deduced from the above-mentioned membership trends, it is expected that consequently the contribution inflows would start to decline whilst the benefits payout increase. This pattern cannot be ignored as a passing flaw, as all indications from the wider employment market reflects that employers, including governments, are taking deliberate initiatives to rationalize labor costs through retrenchments and forced retirements. Due to the overreliance of the DPF on Debswana (at 60% membership share of the Fund) for contribution inflow, minimal or no recruitments by participating employers, coupled with the impact of employment exits means that the Fund is fast maturing.

One of the highlights of 2010 is that we paid out more benefits than the contributions received. Whilst this was expected due to the current Organisational Re-organisation exits in Debswana, the gap between contributions and benefits payments has been narrowing over the long term.

In terms of the Active-to-Retired member ratio, there are currently 2 working members to every pensioner as opposed to what was in just under 10 years ago, i.e. at 7 members to 1 pensioner. The implications of this are that our investment risk tolerance has reduced significantly. Accordingly, we must ensure that our investment strategy reflects that reality. The Board is satisfied that our age-risk based life stage investment model appropriately addresses that need and will continue to cushion our near retirees against harsh market conditions whilst on the eve of their retirement. Also cushioning us in the long term is healthy investment returns over the years that have rendered us financially sound.

With the above considered, the Trustees recognize the immediate need for the Fund to enhance its revenue streams as a necessary intervention that will ensure that it continues to remain sustainable as it matures.

### CONTRIBUTIONS VS. BENEFITS PAID 2003-2010





*c. Ensuring Stronger risk management and a robust governance environment*

Also in 2010, the Board members oversaw the strengthening of the Fund governance environment. Various policies, including the terms of references for Trustee committees, the Board charter, Risk Management policy, regulatory and operational policies, statement of Investment Principles and other working documents were reviewed to ensure that they are sufficiently robust. The opportunities for improvement that were identified will be carried forward to 2011 for implementation.

*d. Looking after our People for a productive workforce*

Attracting and retaining talent in the Fund is a priority for the Board. With new operating strategies emerging, particularly through the new administrations system and the long term strategic direction we are taking, management and board members needed to review the operational model to ensure alignment to the new strategies.

We also on an ongoing basis have ensured a continuing conversation with our personnel by keeping them informed in all aspects of the Fund operations and strategic developments. Training programs are in place as well as internal communication initiatives.

*iii. The Board needed to improve its effectiveness regarding meeting attendances and the general decision-making process when executing its various functions*

As a resolution and one of the numerous planned initiatives to re-dress the gaps identified, the Fund, for the first time in its history, engaged an independent Trustee with the requisite skills to sit on the Investment Committee and enhance the already existing skills set. Other initiatives are ongoing.

*b. Optimizing the current operational environment*

In 2008, the Fund engaged expert consultants to conduct a gap analysis on the Fund operations as a means of paving the way forward for the Fund's 2008-2012 Strategy. From this project, the majority of the consolidated business challenges that were identified pointed to poor data integrity and disparate operational functions that called for immediate review of our technological landscape, hence the recommendation for an integrated IT platform. Consequently, the board and management spent much of 2010 overseeing management's implementation of the newly acquired benefits administration system 'Benchmark'. This initiative represented a major transition for the DPF into becoming the first self-administered pension Fund in Botswana.

We are proud of this achievement and are fully committed to ensuring the success of our new operational model, especially since we have deliberately positioned ourselves as a key industry benchmark in our local market. Like most system implementation projects, the project roll-out has not been without teething problems, however we are confident that these challenges are manageable, and I am pleased to report that Fund administration is now live on the system, albeit with a few more issues to resolve before the system is fully functional.

**3. Our Strategic Direction For The Future**

*a. Developing & Reinforcing our skills base as the Board of Trustees*

The Board continuously assesses itself in terms of performance and where gaps are identified, deliberate initiatives are put in place to further empower itself to carry out duties diligently. In the 2010 review, the following key gaps were identified;

- i. The Board needed to realign its skills amongst the various sub-committees according to the individual competencies of the Trustees*
- ii. There was a skills vacuum in certain sub-committees that needed to be filled, especially within the Investment Committee.*

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## CHAIRMAN'S REPORT • CONTINUED

### c. *Enhancing our investment strategy for higher returns,*

Promoting increased future contribution inflows and creating new revenue streams.

Judging from the unstable economic climate noted over the past few years, all indications are that a return to sustained global economic growth will be slow, with only modest investment returns in the immediate future. This reality therefore presents an immediate challenge to us as Trustees to ensure that our investment strategy is robust enough to firstly weather the effects of unstable investment markets, and secondly to deliver optimally despite prevailing conditions at any given point.

The financial crisis has raised concerns about the viability of retirement systems around the world. As your Trustees, our key response to this challenging environment is to work for the benefit of our members and pensioners, and in this regard, we will be actively monitoring and reviewing our investment strategy to address all emerging issues, of which the following two key concerns are current;

- How to help our members to save better for their retirement years and to ensure a decent retirement annuity.
- Ensuring sufficient, sustainable funding levels, so that the fund is able to meet its future liabilities.

Aggressive member education and promotion of Additional Voluntary Contributions (AVC), stringent cost containment and improving efficiency of our internal processes will amongst others be on the top of our agenda going forward.

## Outlook 2011

Finally, on behalf of all board members, I would like to express our appreciation for the unwavering support and understanding of our members, particular in 2010 during our transition from our former administrator to bringing our records in-house.

Business was disrupted as we migrated data from the old into the new system and subsequently conducted data verification audits, and throughout the implementation process some members may have experienced delays with their claims and queries. We thank you for your patience and will ensure that we continue to deliver on all our standing promises for service excellence in this regard.

My further gratitude is to the Management and staff of DPF for their endurance, patience and hard-work during what was a major transformation year during their tenure with the Fund.

I look forward to 2011 with the faith and optimism for the continued prosperity of our Fund. Even more so considering the current socio-economic climate, whereby ordinary members of society continue to grapple with a dramatic rise in cost of living, thus making it increasingly difficult for them to grow their savings. The Fund is more obligated than ever to ensure that whilst members face their financial limitations, those assets that they have secured in the Fund already will continue to receive optimal care in the form of robust management strategies that will ultimately make them worthwhile investments.

The board members are confident that the organization is focused on the right priorities and that our strategy is well-positioned for the continued success of the DPF even beyond our tenure.

Sincerely



Tabake Kobedi  
Board Chairman



## PRINCIPAL EXECUTIVE OFFICER'S REPORT



I am pleased to present to you the 2010 operational review of the Fund.

Firstly I wish to acknowledge the efforts of my predecessor and former Principal Executive Officer Mrs. Tiny Kgatlwane for her leadership of the Fund during the first half of the 2010 financial year before her departure at the end of July 2010, and the efforts of our Operations Manager Wangu Thihe for holding the baton as Acting Principal Executive Officer for the latter part of the year until my appointment to the Fund leadership. Also necessary to acknowledge is the rest of the Fund management and staff for their collective work in ensuring that the Fund continues to operate undisrupted during the interim period to my arrival.

The Debswana Pension Fund is a vibrant organization with two important characteristics; first, we are a member-driven organization, serving the needs of thousands of people. Second, and our core mandate, we are an investor; a major stakeholder playing an essential role in the local financial markets for the benefit of our members. In this regard the two forefront activities in 2010 i.e. optimization of the service delivery environment and reviewing and enhancing our investment portfolios, contributed to this cause.

### Asset Manager Performances & Disinvestments

As noted in the Chairman's message, sustainability of the Fund is the key driver of executive management decisions, and the Secretariat spent most of the year reviewing and improving policies and processes across the Fund structure. 2010 was a solid and productive year that yielded positive investment returns, with most of our asset managers exceeding their benchmarks. An important highlight is that following a successful 2009 investment year where our assets regained their pre-2008 levels, the 2010 returns have now pushed us one step more in our journey towards sustained growth of the Fund. The fund assets now sit at a total valuation of P3.2 billion, marking a complete recovery beyond the 12.9% erosion that was brought about by the global meltdown in 2008.

We have successfully positioned ourselves, through an experienced set of asset managers, to take full advantage of all emerging investment opportunities in the local and global markets. During our ongoing review of manager performance however, we did identify a number of areas in our offshore investment portfolio that required review in terms of manager non-performance, and as a result the Board made resolutions on some disinvestments and re-alignments that will ensure continued optimal performance of our offshore portfolio.



## PRINCIPAL EXECUTIVE OFFICER'S REPORT for the year ended 31 December 2010

### PRINCIPAL EXECUTIVE OFFICER'S REPORT • CONTINUED

We shall report further in the next reporting period the various outcomes of these initiatives.

#### Operational Excellence

From an operational perspective, in 2010 the Secretariat employed most of its effort seeing in the transformational end-to-end system implementation project. With the small team that we have, this project required a collective effort to see it to completion and with the commitment and many sacrifices from our staff members, a lot of progress was made during the year although the project went beyond the expected duration due to scope changes and other unforeseeable factors. We have now started seeing some of the gains of an integrated operational platform and we are looking forward to a much more efficient service environment once the project has been completed.

#### Customer Service

Pension management is a specialized field, therefore managing the day to the functions of the DPF is considerable undertaking for those tasked with this responsibility. We want to provide excellent service to our members. For this reason, we are doing as much as possible to establish service levels that not only meet the expectations of the Fund membership but also exceed industry benchmarks. We have, to date, received positive feedback from our active and retired members regarding our service delivery and we will use it to plan and implement future improvements to our service.

#### Member Education

A key objective of the DPF is to improve members' overall knowledge and appreciation of the pension fund products and services. We believe it is important that members understand their benefits so that they are able to make well-informed decisions about their retirement plans well in time before they reach retirement. Our communication report, detailed further in this document will outline the initiatives made in 2010.

Our successful member communication programs over the last decade have earned us valuable recognition regionally as demonstrated by the numerous communication excellence awards received from the Institute of Retirement Fund Southern Africa (IRF). During 2010 in particular, we received an award from the IRF for 'Recognizing the importance of Pensioners in Society' through our communication program for Pensioners.

We are also working to improve our communication on an ongoing basis in order to become more effective. Going forward, our aim is to use technology to provide timely, cost-efficient communication to our members. Like others in our business, the DPF understands the need for members to receive accurate information on a timely basis.

#### Industry leadership

Being one of the inaugural pension funds in Botswana since 1983, DPF' is continuing its heritage of pension industry leadership. We have played an active role in policy formulation both at industry and national level and will continue to do so as a way of promoting national interests and positioning Botswana as a world class investment option for the rest of the world.

We support the fledgling NBIFIRA as it moves forward with regulatory transformations that will promote a functional environment for the retirement industry. We aim to continue to maintain open dialogue with them and continue to participate in industry initiatives.

#### Conclusion

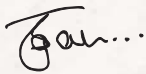
For many Batswana, a pension is among the largest of personal assets owned. We recognize this fact and acknowledge the value that our members place on quality service and the continued security of their pension assets.

**PRINCIPAL EXECUTIVE OFFICER'S REPORT • CONTINUED**  
**CONCLUSION • CONTINUED**

In addition, we must remain alert to changes in regulation and position ourselves to deal with proposed changes quickly. From a self-administrator's point of view, our success depends on our ability to initiate effective contingency plans in response to any number of environmental changes; such changes may include, for example, the dynamics within the employer companies that may lead to decrease staffing levels, market volatility, and socio-economic affairs that have direct impact on our Fund status.

Management is encouraged by the spirit of cooperation and the willingness of the Board of Trustees to work together to deliver on the Fund mandate. As a team we have done well in those areas we control: i.e. adapting our investment strategy so that it has the best chance of maintaining a healthy ratio between pension assets and liabilities; managing our costs; attracting and retaining the best talent; and bettering our service delivery to the DPF members from time to time.

As we enter a new financial year, we will continue to streamline our establishment, develop our systems, and expand our communication efforts. We are confident that the DPF is ready to meet the challenges that lie ahead. A great deal of work was accomplished in 2010 thanks to the cooperative efforts of our Board of Trustees and our staff. We are looking forward to the future.



G. January, Principal Executive Officer

**CORPORATE GOVERNANCE REPORT**

The year 2010 was a busy one for the DPF Trustees as highlighted by the following ten key governance initiatives (amongst others) undertaken during the year;

1. The Board reviewed the NBFIRA Requirements for Fund compliance and has continued to do so in view of ongoing developments by the regulatory body. NBFIRA is currently revising the Pensions and Provident Funds Act and has put forward a draft proposal to the Ministry whilst in consultation with stakeholders, including pension funds. Also under review are the prudential rules that once implemented will see a gradual shift in the investment climate. The Board remains committed to ensure that the Fund policies remain relevant at all times.
2. The Board undertook to review the placement of communication within its structure as a way of ensuring that member communication needs are appropriately accounted for. This exercise was expected to go on into 2011.
3. During the 2010 investment performance review, the Board identified the need to make some dis-investments from some of the Off Shore Asset Managers due to non-performance of those portfolios, and at the end of 2010, The Fund was in the processes of putting together a disinvestment strategy for the managers identified as well as establish the necessary actions Items, timeframe, Risk management etc. The Board will report accordingly once the process is complete.
4. The board's mandate is clearly documented in the approved Board Charter. The terms of reference for all the 4 Board sub-committees were reviewed to ensure alignment to the Fund mandate.
5. Following the procurement of new Benefits Administration system in January 2010, The Fund identified the need to review the benefits administration structure in terms of aligning the system processes with the organizational structure. As a result the Board approved a Job Evaluation exercise that was to be conducted at the beginning of 2011.
6. Also as part of the 2010 achievements, the Fund undertook the review of its Risk Management Policy. The review was in progress at the end of 2010 and was expected to be completed by the first quarter of 2011

**CORPORATE GOVERNANCE REPORT • CONTINUED**

7. The Fund's Corporate Governance Manual was developed. Good Corporate Governance is globally accepted as being fundamental to an organisation's competitiveness, growth and sustainability. There is great attention and onus on boards of Trustees to discharge their duties with high ethical values and accountability in their commitment to good governance practices. As such, the production of the Corporate Governance Guide is intended for the DPF's Board to gain clear and constructive direction on corporate governance best practices. The manual focuses on bringing clarity to the roles and the requirements needed to enhance corporate governance practices among the Board and its sub-committees, which will go far in contributing towards the achievement of the Fund's strategic goals and objectives.
8. The Board reviewed the Fund's Rules to ensure alignment with the evolving Regulatory requirements.
9. The Trustees approved the appointment of an Independent Trustee to the Investment Committee as a way of increasing its skills base for the committee. As a result, Ms. Wanjiru M Kirima was confirmed as an independent member of the Investment Committee in 2010.
10. Following the resignation of Tiny Kgatlwane from the position of Principal Executive Officer, the DPF Board spent the latter part of 2010 going through a comprehensive recruitment process for a new incumbent, which took longer than expected. During this time the Board appointed incumbent Operations Manager Wangu Thihe on acting capacity whilst the process was completed.



*Staff Training workshop in May 2010 at Gaborone Sun*

## COMMUNICATIONS REPORT

The 2010 DPF Communication Plan was predominantly focused on member education initiatives as has become customary with our strategy. We successfully conducted in-house presentations to members at each of our 6 paypoints; i.e. Orapa-Letlhakane & Damtshaa Mines, Morupule Colliery, Jwaneng Mine, DTCSB, De Beers and Debswana Head Office (DSS & TSC). The DPF has committed to conducting two trips per annum to each paypoint, both for education purposes and interaction with members.

Also in 2010 we ensured further solidification of the Badiri Ba Meepo Pensioner Associations (BBMPA), an association that the Fund initiated and launched in 2009 on behalf of the DPF Pensioners. So far, 15 branches countrywide have been established, namely; Khakhea, Jwaneng, Kanye, Lobatse, Gaborone, Mahalapye, Palapye, Serowe, Letlhakane, Mopipi, Rakops, Maun, Francistown, Tonota and Bobonong.

Similar to the active members, the Fund visits the branch members in the various villages to address pensioners and deferred members twice a year, and 2010 was no different. Part of this initiative also includes paying courtesy visits to tribal leaders who are an important stakeholders in the Fund. The DPF relies on the Tribal Administrations for guidance during benefits investigations, i.e. tracing beneficiaries and arbitration of pension benefits related family disputes. Fortunately for DPF, our tribal leaders always extend their participation even beyond Fund expectations as shown lately by their support for the pensioner associations in their villages, where some of them regularly attend association meetings to give encouragement.

In our member education program we also ensure the inclusion of Worker's Unions to keep them informed of Fund developments and also respond to their enquiries, one of our numerous interactions was on 14 December 2010 when we addressed the Jwaneng Mine BMWU branch about DPF benefits.

Another highlight of the 2010 communication program was the re-branding of the DPF which culminated in a completely new look that is more symbolic of Fund aspirations for its members. The key symbols that make up the Fund logo, i.e. the diamond, water lily, woven basket and Botswana flag are important elements of the Fund's identity and the stakeholders it represents.

We published 3 newsletters in 2010, A Funeral Advance Cover benefit brochure, as well as the annual report amongst other initiatives.



*Institute of Retirement Funds (IRF) award for Pensioner Communication in 2010*



*Serowe Pensioners*



*Mopipi Pensioners*



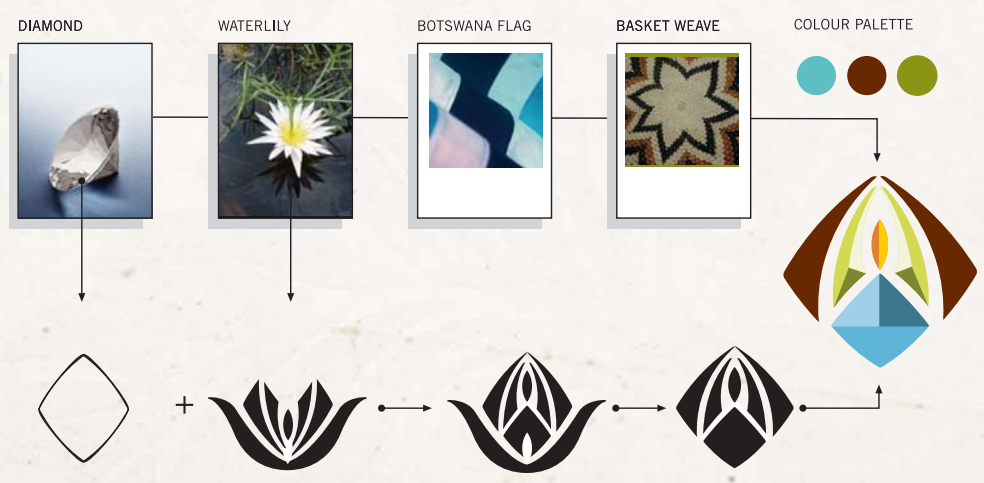
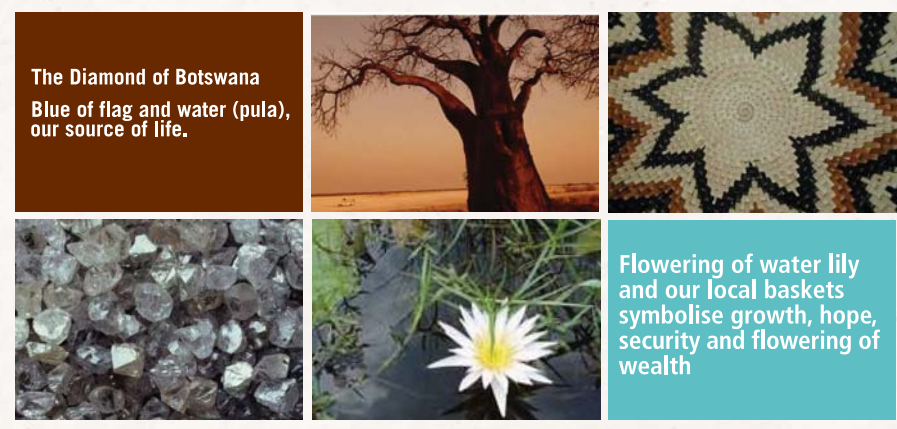
*Francistown Pensioners*

*Your Fund, Your Security, Your Future*



## OUR NEW LOGO

The Board approved a new brand signature in 2010 for the DPF. The following is the creative rationale for the logo.



## BENEFITS ADMINISTRATION REPORT

The DPF Operations department is the team that currently deals with the administration of member benefits. Their daily work involves receiving, processing and reconciling contributions, member enrolments, updating member records, employment exits, retirement annuities and benefit claims.

September 2010 marked the end of our 10 year relationship with Alexander Forbes Financial Services as the DPF administrators. The Fund is now fully self-administered as Debswana Pension Fund Administrators ("DPFA"). Following from this development, an exercise was conducted at the time of the change in administrators to verify this information in terms of the accumulation of members' Individual Investment Accounts by the Fund Actuaries before being uploaded into the new system.

Part of the project was the migration of physical member files from the old administrators' archives to the DPF. The Fund further outsourced the archiving of these files and forwarded them to an external document bank and conducted verification of the files, backup scanning and disc on site. From the audit conducted on the files, it was established that a significant number of members have not made regular updates on their beneficiary nominations and personal details, and for this reason the Fund has embarked on a data gathering exercise to update member details, and it will remain ongoing into 2011.

For the 2010 valuation report, membership data in respect of the six months ending 30 June 2010 was sourced from Alexander Forbes and membership data in respect of the six months ending 31 December 2010 from DPFA.

In view of the envisaged changes in fund administration and the requirements of the new system, the Fund conducted HR Workshops at every pay point in order to familiarize HR Practitioners with their role in the new administration process and this was well received by the teams despite their ongoing challenges with the re-structuring of their operations since 2008. The challenge going forward for the DPF is to maintain ongoing training to ensure minimal interruption to Fund business due to staff turnover at the operations.

Implementation of the new system has resulted in changes in procedures and forms for members and the DPF Communications department has been tasked with educating members about these changes with the support of the Operations department.

As a result of the change of administrators, members can now expect to receive their 2010 benefit statements directly from the DPF as opposed to previously used channels.



*HR Training Workshop Falcon Crest 2010*



# Actuarial Valuation Report





## 1 Purposes of the Valuation

*The main purposes of the valuation are to:*

- To assess the financial position of the Fund;
- To advise the Trustees on the need for and level of contingency reserves;
- To examine the financial history of the Fund since the previous valuation; and
- To comment on the suitability of the Fund's investments with reference to the Fund's liabilities.

## 2 Financial Status

The financial status of the various sections of the Fund is set out in the table below. Figures from the previous valuation have been included for comparative purposes:

<b>Active &amp; deferred Investment Accounts</b>	<b>31 December 2010 P'000</b>	<b>31 December 2009 P'000</b>
Fair value of assets	2 287 188	2 237 983
Active and deferred member liabilities	2 277 510	2 215 518
Surplus/ (deficit)	9 678	22 465
Funding level	100.4%	101.0%

<b>Pensioner Account</b>	<b>31 December 2010 P'000</b>	<b>31 December 2009 P'000</b>
Fair value of assets	793 744	678 589
Pensioner member liabilities	794 732	632 957
Surplus/ (deficit)	(988)	45 632
Funding level	99.9%	107.2%

<b>Contingency Reserve Account</b>	<b>31 December 2010 P'000</b>	<b>31 December 2009 P'000</b>
Fair value of assets	94 392	89 018
Actuarial liabilities	Nil	Nil
Surplus/ (deficit)	94 392	89 018



### 3 Reassurance of Risk Benefits

The only benefits payable on death are the active members' and deferred members' Individual Investment Accounts and as such, there is no need to reassure any risk benefits.

### 4 Rule Amendments

No rule amendments were effected during the inter-valuation period impacting on the financial position of the Fund.

### 5 Pension Increases

The Trustees awarded an 8.45% pension increase to pensions in payment during the 2010 year. The guideline formula adopted by the Fund for granting increases suggested a 6.1% pension increase should be awarded, but given that the Trustees awarded a 0.0% increase in the 2009 year, they agreed to a higher 8.45% increase effective from 1 July 2010. The higher increase was affordable on the back of the strong investment performance during 2010.

### 6 Fund expenses

Fund expenses (for example administration, audit, actuarial, legal) are met by way of a monthly expense provision as decided by the Trustees, expressed as a Pula amount in respect of each member.

This expense provision, together with unitisation fees and investment manager fees, are deducted monthly from the fund investment returns and held by the Fund in a separate operations account from which the Fund pays the actual expenses as they arise. Over the valuation period, the Fund expense charge (excluding investment manager fees) was set at P118.32 per month in respect of each member. This is based on an estimated budget supplied by the Fund's administrators.

### 7 Allocation of investment returns

The Trustees established the investment strategy of the Fund with effect from 1 January 2004. The strategy, which is set out in the document "Statement of Investment Principles - Debswana Pension Fund", allows for a specific strategic asset allocation for the pensioners and a separate and specific asset allocation for the active and deferred members and the contingency reserves. This approach is designed to take account of the different liability profiles applicable to the different categories of the Fund.

Active and deferred members are credited monthly with the actual net investment returns (positive or negative) achieved on the relevant assets. Similarly, the Pensioner Account is credited monthly with the actual net investment returns (positive or negative) achieved on the relevant assets backing the account. A history of the Fund returns over the period since the Statement of Investment Principles was adopted is set out on the next page;

Year ending 31 December	Market Channel	Conservative Channel	Pensioner Channel	Fund	Inflation
2004	10.8%	12.1%	10.6%	10.9%	7.8%
2005	32.7%	19.8%	26.7%	31.0%	11.4%
2006	32.7%	20.1%	27.6%	31.4%	8.5%
2007	16.6%	15.3%	17.5%	16.8%	9.0%
2008	-15.2%	-6.2%	-7.3%	-12.9%	13.7%
2009	15.9%	16.5%	15.2%	15.7%	5.8%
2010	7.5%	7.4%	7.1%	7.4%	7.4%
7 year average (2004-2010)	13.4%	11.8%	13.3%	13.4%	9.1%

*Investment Return History: A history of the returns achieved on the Investment Channels within the Fund, namely the Market Channel, the Conservative Channel and the Pensioner Channel are set out below. (We have not reflected the returns of the transition channels as these represent a weighted average of the Market and Conservative Channels)*

## 8 Split of assets between accounts

The Fund operates various accounts in which the liabilities are housed. A breakdown of these accounts is reflected below;

31 December 2010 P'000	Active & Deferred Investment Accounts P'000	Pensioner account P'000	Contingency Reserve Account P'000	Total P'000
Balance per financial statement	2 287 189	793 392	94 392	3 175 325

## 9 Fund Liabilities and Reserves

### *Active and Deferred Members*

The benefits of active and deferred members are defined contribution in nature, given that the benefits paid on exit represent the retirement funding contributions paid by or on behalf of members accumulated with the net investment returns earned by the Fund.

**For noting:** Based on the life stage model, the assets of members up to age 53 are invested in the Market Channel and the assets of members age 57 and older are invested in the Conservative Channel. Between ages 53 and 57, the assets are invested in 4 transition portfolios which are different combinations of the Market Channel and the Conservative Channel



## 10 Pensioners

### *Calculation methodology of pensioner liability*

The benefits of pensioners who are paid from the Fund are defined benefit in nature, given that pensions are expressed in Pula terms at retirement, receive discretionary pension increases each year and are payable for the lifetime of the pensioner (and possibly thereafter to a contingent spouse or children). At retirement, members can elect to purchase a pension from an approved provider outside the Fund or to 'purchase' a pension from the Fund. For members who elect the second option the relevant portion of the member's Individual Investment Account is transferred to the Pensioner Account and converted to a pension using pre-defined factors.

The Fund's pensioner liability is the amount (based on future assumptions) that the Fund should hold at the valuation date in order to continue to pay the current pensions in payment. The amount must also make provision for the payment, on the future death of the pensioner, of any elected contingent pensions to a nominated spouse, children and other dependants. The pensioner liability must make allowance for Fund expenses and for future pension increases on 1 July each year.

### *Contractual pensioner liability*

The contractual liability is the liability for the current pensions in payment (including Fund expenses) without any allowance for future pension increases. The Fund can continue to meet the contractual liability as long as the pensioner assets earn investment returns equal to the valuation rate (4% p.a. net) and no further pension increases are granted. The balance of the liability represents a reserve for future pension increases. If the Fund were to achieve a net investment return on the pensioner assets of inflation plus 4% p.a. (and pensioner mortality and expenses were exactly in line with the assumptions), then this reserve would be sufficient to finance pension increases in line with inflation in future.

The pension increase policy of the Fund is to grant increases each year targeted at 100% of inflation, but the increase is subject to Fund affordability and this is regularly communicated to pensioners. Thus the pension liability, allowing for future increases, could be restricted to the amount of the assets available. (The Fund's rules provide that the liability is restricted to the value of the assets available.) Only where the reserve for future increases is completely eliminated, would the Fund be in deficit and then the Trustees would need to approach the employer for deficit funding.

### *Pensioner liability*

The pensioner liability is reflected below. We have reflected the previous year's results for comparison and also reflect the percentage split (for the current year) between the contractual liability and the reserve for future pension increases.

	31 December 2009 P'000	31 December 2010 P'000	31 December 2010 Percentage
Contractual Liability	423 176	533 373	67.1%
Reserve for future pension increases	209 781	261 359	32.9%
<b>Total pensioner liability</b>	<b>632 957</b>	<b>794 732</b>	<b>100.0%</b>

## 11 Contingency Reserve Account

The Trustees have set aside a contingency reserve with a targeted level of some 3% of the Fund assets. A contingency reserve at this level was deemed by the Trustees to be adequate under most non-catastrophic conditions to protect the Fund in future against various contingencies including expense overruns, data errors that may arise in future as a result of the operation of the Fund and to meet pensioner obligations.

The Trustees review the level of the contingency reserve from time to time. If at any stage the Trustees regard the level of the contingency reserve as excessive, then they can allocate any excess, as the Trustees deem equitable, to active and deferred members and pensioners. If at any stage the Fund cannot meet its obligations and the contingency reserve is depleted, then the Trustees would need to seek support from the employer.

Failing such support, the Trustees would need to amend the Rules to enable the Fund to meet the benefits or in extreme conditions they could take the decision to terminate the Fund.

As at 31 December 2010, the balance in the Contingency Reserve Account amounted to P94 392 000, representing some 3.0% of the Fund assets. Over the year, the reserve account accrued the investment return achieved by the assets backing the account. The Trustees agreed that part of the contingency reserve account could be used to meet the costs of special projects relating to the implementation of an in-house administration system.

The costs amortised in the account for the year ending 31 December 2010 amounted to P584 000. A reconciliation of the contingency reserve account over the 2010 (and for comparative purposes, 2009) year is reflected below:

	Y/E 31 December 2010 P'000	Y/E 31 December 2009 P'000
<b>Opening balance</b>	<b>89 019</b>	<b>77 485</b>
Plus: Investment return	5 957	11 579
Less: Expenses Allocated	(584)	(45)
<b>Closing balance</b>	<b>94 392</b>	<b>89 019</b>

## 12 MEMBERSHIP analysis

### *Employer Contribution Rate*

The fixed future service contributions in respect of the Employer and active members is summarised as follows:

Contribution rates	Percentage of Pensionable Salary	
	All other employers	Morupule Colliery
Member Contributions	0.00%	5.00%
Company Contributions	20.00%	15.00%
Retirement Funding	20.00%	20.00%

### 13 Summary of Membership Data

The data used for the purposes of the valuation is summarised as follows:

Active and deferred members	Number of members (current)	Accumulated Value (current)	Number of members (Previous)	Accumulated Value (Previous)
Market Channel	6 635	1 907 364	6 949	1 872 611
T1Channel	137	86 960	117	75 745
T2Channel	103	66 240	103	72 193
T3 Channel	86	62461	90	62 250
T4 Channel	77	52 985	69	52 064
Conservation channel	180	101 500	164	80 655
<b>Total</b>	<b>7 218</b>	<b>2 277 510</b>	<b>7 492</b>	<b>2 215 518</b>
<b>Active members</b>	<b>4 727</b>	<b>1 737 037</b>	<b>5 138</b>	<b>1 730 047</b>
<b>Deferred members</b>	<b>2 491</b>	<b>540 473</b>	<b>2 354</b>	<b>485 471</b>

Pensioner Members	Number of members (current)	Annual Pension (current) P'000	Number of members (Previous) P'000	Annual Pension (Previous) P'000
Males	1 699	37 240	1 621	32 712
Females	637	12 385	569	9 695
<b>Total</b>	<b>2 336</b>	<b>49 625</b>	<b>2 190</b>	<b>42 407</b>

### 14 Certification of the Financial Soundness

The actuaries confirm that the Fund remains in a sound financial condition at 31 December 2010 because the small deficit that exists in the Pensioner Account can be managed through the pension increases awarded to pensioners, either at the next increase date or over a reasonable period of time. This position should be reviewed at the next valuation date.

### 15 Certification of the Investment Strategy

The actuaries are satisfied that the strategic asset allocation represents a reasonable long-term allocation given the nature of the Fund's liabilities. In particular, the asset allocations of the various investment channels are reasonable.



# Investment Performance



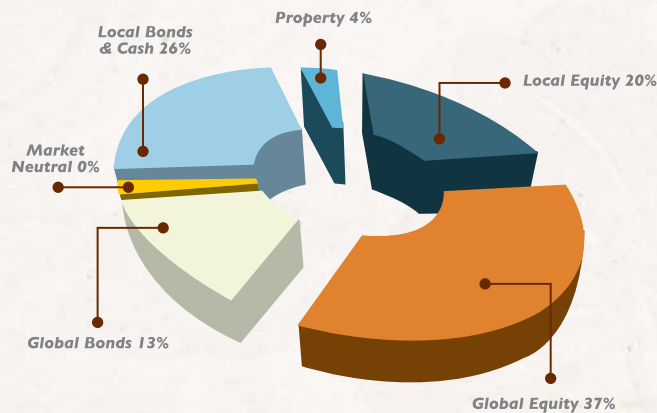
*Your Fund, Your Security, Your Future*

**INVESTMENT PERFORMANCE**

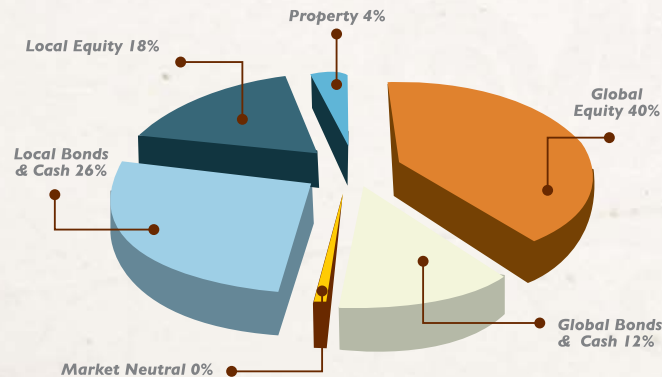
**Asset Allocation**

The Fund is currently invested 58% equities, 38% Bonds and Cash, and 4% property. The Fund portfolio investments were in line and within the pre-determined ranges of its strategic asset allocation and rebalancing limits as at the end of 31 December 2010.

**Asset Allocation as at 31/12/2009**



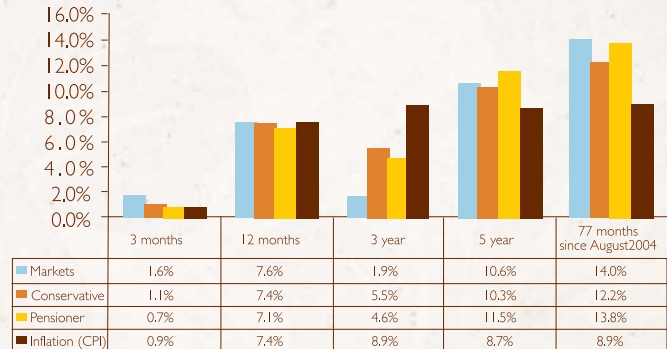
**Asset Allocation as at 31/12/2010**



**Portfolio Performance**

The chart below shows the performance of the Fund's investment channels relative to consumer price inflation (CPI), over various measurement periods to 31 December 2010. The Fund has been operating a life-stage model since August 2004. Prior to this the Fund declared bonuses which applied to all members in the Fund. The numbers are shown before any deduction for administration fees.

Over the period since inception, the Market Channel has achieved its objective (CPI + 5%) and the Conservative and the Pensioner Channels are ahead of their objectives (CPI + 3% and CPI + 4% respectively).



**Local Managers**

The chart below shows the performance of the Fund's local managers relative to the composite benchmark over various measurement periods to 31 December 2010. For the year ended 31 Dec 2010 specifically, all the managers have performed above set benchmarks for the period.

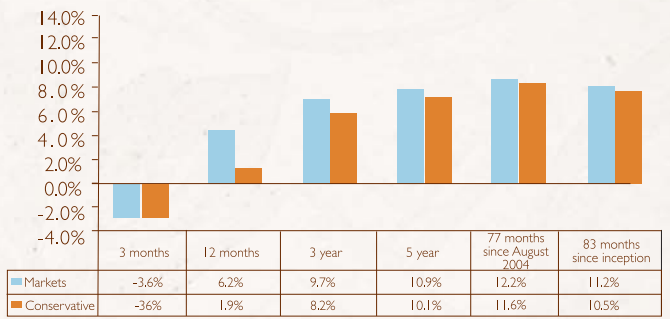
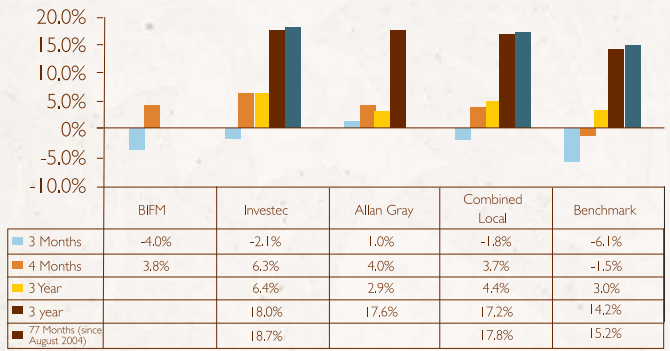
**Asset Manager Performance**

The Fund assets are currently under management by 9 asset managers, 3 local and 6 international, namely; BIFM, Allan Gray Botswana and Investec Botswana for the local portfolio, and Orbis, Brandes, PIMCO, Investec Global, Alliance Beinstein and Marathon.



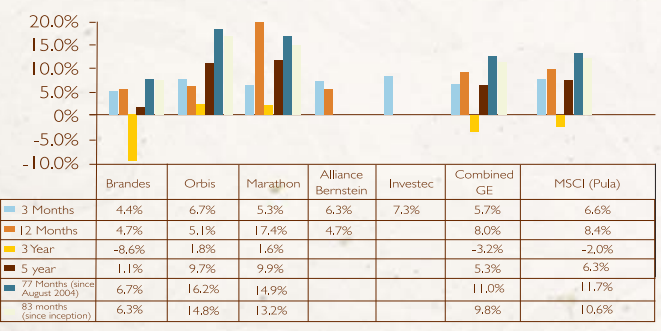
# INVESTMENT PERFORMANCE

for the year ended 31 December 2010



## Global Equity Managers

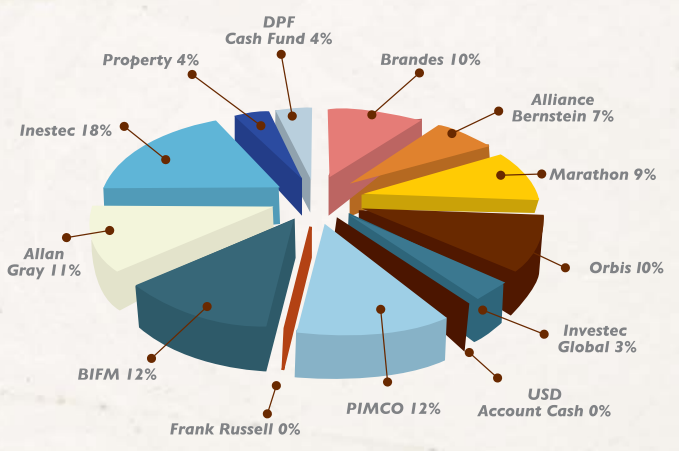
The chart below shows the performance of the Fund's global equity managers relative to MSCI index in PULA over various measurement periods to 31 December 2010. For the 2010, and with the exception of Marathon, the global managers have performed slightly below benchmark however the long term performance remains positive. The Trustees are currently reviewing service levels for some of the under-performing managers with the view to identifying and making those tactical decisions that will be necessary to ensure the continued profitability of Fund's global portfolio.



## Manager Share of Fund

The Manager Share of Fund remains the same from the previous year. There been no additional investments made by the Fund to the Managers during the year and all the changes in asset allocation are a result of market performance.

## Manager Share of Funds as at 31/12/2010



## Global Bond Manager (PIMCO)

The chart below shows the performance of the Fund's global bond manager over various measurement periods to 31 December 2010 which has performed above benchmark over the 2010 period and the long term.

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# Annual Financial Statements

## GENERAL INFORMATION

### CHAIRMAN

- T Kobedi

### PRINCIPAL TRUSTEES

- C Chijoro (Resigned 21 April 2011)
- N Mmolawa
- A Malapela (Resigned 15 July 2010)
- R Moroka
- K Namoshe
- E Kgaboetsile (Appointed 17 July 2010)
- G Gakenaope (Appointed 30 June 2011)

### ALTERNATE TRUSTEES

- M Motshwane
- E Moumakwa
- V Garekwe
- E Shabane (Resigned 21 April 2011)
- O Tsietso
- P Montshioa

### PRINCIPAL OFFICER

- G January (Appointed 1 February 2011)
- T Kgatlwane (Resigned 15 July 2010)

### AUDITORS

- Deloitte & Touche

### REGISTERED OFFICE

Block D  
Plot 50361  
Carlton Centre  
Fairgrounds

### BANKERS

- Barclays Bank of Botswana Limited
- Standard Chartered Botswana Limited

### ACTUARIES

- Fifth Quadrant Actuaries and Consultants (Proprietary) Limited

### CUSTODIANS

- Standard Chartered Bank Botswana Limited

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## TRUSTEES RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The members of the Board of Trustees are responsible for the preparation and fair presentation of the annual financial statements of Debswana Pension Fund ("the Fund"), comprising the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in members' funds and statement of cash flows for the year then ended, including the notes to the financial statements, which include a summary of significant accounting policies, in accordance with International Financial Reporting Standards ("IFRS") and in compliance with the Pension and Provident Funds Act (Cap 27:03).

The members of the Board of Trustees are required by the Pension and Provident Funds Act (Cap 27:03) to maintain adequate accounting records and are responsible for the content and integrity of financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Fund as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with IFRS. The independent auditors are engaged to express an independent opinion on the annual financial statements and their unmodified report is presented on page 37.

The Board of Trustees' responsibilities include: designing, implementing and maintaining internal control 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 annual financial statements are prepared in accordance with IFRS and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates. The members of the Board of Trustees' responsibilities also include maintaining adequate accounting records and an effective system of risk management.

The members of 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 control environment.

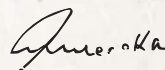
To enable the Board of Trustees to meet these responsibilities, the Board of Trustees sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Fund 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 members of the Board of Trustees have 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 members of the Board of Trustees are of the opinion, based on the information and explanations given by management, that 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 misstatement or loss.

### Trustees' approval of the annual financial statements

The annual financial statements set out on pages 38 to 57 which have been prepared on the going concern basis, were approved by the members of the Board of Trustees on 30 June 2011.



Trustee



Trustee

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEBSWANA PENSION FUND

### Report on Financial Statements

We have audited the accompanying financial statements of Debswana Pension Fund, set out on pages 38 to 57, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in member's funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Trustees' Responsibility for the Financial Statements

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and in compliance with the provisions of the pension and Provident Fund Act (Cap 27:03), and for such internal control as the Trustees determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Debswana Pension Fund as of 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with the International Reporting Standards and in the manner required by Pension and Provident Act in Botswana (Cap 27:03).

*Deloitte & Touche*

Deloitte & Touche  
Certified Public Accountants  
Practising Member:  
CV Ramatlapeng (20020075:24)

Gaborone  
30 June 2011

**STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2010

	Notes	2010 P	2009 P
<b>REVENUE</b>		147,489,034	129,506,215
Contributions receivable	1	145,581,231	130,259,155
Net transfers from/(to) other funds	2	1,907,803	(752,940)
<b>Net investment revenue</b>		100,085,831	116,082,199
Dividends receivable		21,570,345	23,098,004
Interest receivable		70,307,026	79,887,413
Net rental income		8,152,900	12,845,126
Other income		55,560	251,656
<b>Total revenue</b>		247,574,865	245,588,414
<b>GAINS/(LOSSES) ON INVESTMENTS</b>		113,267,158	292,974,492
Gains/(Losses) on disposal of financial assets at fair value through profit or loss		22,814,319	(2,773,553)
Unrealised foreign exchange losses on financial assets		(51,025,981)	(150,451,156)
Unrealised fair value gains on financial assets		129,950,108	438,768,527
Net unrealised gains on fair valuation of investment properties		11,791,948	10,299,837
Impairment loss on financial assets		(263,236)	(2,869,163)
<b>EXPENDITURE</b>		(168,343,034)	(122,272,381)
<b>Benefits payable</b>		(40,428,218)	(24,612,433)
Benefits on withdrawal and death		(759,003)	(268,034)
Interest on benefits payable		(46,656,196)	(41,320,905)
Pensions to retired members		(522,034)	(504,675)
Pensioners' deaths benefits		(79,977,583)	(55,566,334)
Lump sums on retirement		(22,765,224)	(18,582,752)
<b>Fund expenses</b>		(13,235,700)	(11,217,519)
Administration expenses	3	(9,240,990)	(7,245,645)
Investment management fees		(288,534)	(119,588)
Depreciation of plant and equipment	8		
<b>Surplus for the year</b>		169,733,765	397,707,773
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		169,733,765	397,707,773

**STATEMENT OF FINANCIAL POSITION**  
*as at 31 December 2010*

	Notes	2010 P	2009 P
<b>ASSETS</b>			
<b>Investments</b>			
Investment in properties	5	103,598,855	103,739,417
Other financial assets	6	2,703,115,460	2,470,956,414
Cash and cash equivalents	7	445,431,715	433,021,857
<b>Total investments</b>		<b>3,252,146,030</b>	<b>3,007,717,688</b>
<b>Other assets</b>			
Plant and equipment	8	1,375,330	436,606
Intangible asset	9	4,842,448	-
Contributions and other receivables	10	13,024,064	21,470,403
<b>Total other assets</b>		<b>19,241,842</b>	<b>21,907,009</b>
<b>Total assets</b>		<b>3,271,387,872</b>	<b>3,029,624,697</b>
<b>FUNDS, RESERVES AND LIABILITIES</b>			
<b>Funds and reserves</b>			
Fund account		2,287,188,445	2,237,982,850
Pensioners' account		793,744,068	678,589,238
Contingency reserve		94,392,186	89,018,846
<b>Total funds and reserves</b>		<b>3,175,324,699</b>	<b>3,005,590,934</b>
<b>Other liabilities</b>			
Benefits payable	11	91,496,915	21,996,183
Other payables	12	4,566,258	2,319,421
<b>Total other liabilities</b>		<b>96,063,173</b>	<b>24,315,604</b>
<b>Total funds, reserves and liabilities</b>		<b>3,271,387,872</b>	<b>3,029,906,538</b>

**STATEMENT OF CASH FLOWS**  
*as at 31 December 2010*

	<b>2010</b>	<b>2009</b>
	<b>P</b>	<b>P</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Surplus for the year	169,733,765	397,707,773
Adjusted for:		
Depreciation of plant and equipment	288,534	119,588
Net investment revenue	(100,085,831)	(116,082,199)
Net gains on investments	(113,267,158)	(292,974,492)
Cash used in operations	(43,330,690)	(11,229,330)
Decrease/(increase) in contributions and other receivables	8,446,339	(14,845,871)
Increase/(decrease) in other payables	2,246,837	(826,863)
Increase/(decrease) in benefits payable	69,500,733	(5,063,717)
Net cash generated by/ (used in) used in operating activities	<u>36,863,219</u>	<u>(31,965,781)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net investment revenue	100,085,831	116,082,199
Proceeds from sale of investments	137,187,817	106,477,475
Payments for plant and equipment	(1,068,002)	(88,070)
Payments for investment securities	(186,932,569)	(193,659,842)
Net cash generated by investing activities	<u>49,273,077</u>	<u>28,811,762</u>
<b>Net increase/(decrease) in cash and cash equivalents for the year</b>	<b>12,409,858</b>	<b>(3,154,019)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>433,021,857</b>	<b>436,175,876</b>
<b>Cash and cash equivalent at the end of the year</b>	<b>445,431,715</b>	<b>433,021,857</b>



**STATEMENT OF CHANGES IN MEMBERS' FUNDS**  
*as at 31 December 2010*

	<b>Note</b>	<b>Fund account P</b>	<b>Pensioners' account P</b>	<b>Contingency reserve P</b>	<b>Total P</b>
Balance at 1 January 2009		1,993,579,625	536,536,492	77,485,203	2,607,601,320
Total Comprehensive Income for the year		397,989,614	-	-	397,989,614
Transfers during the year		(153,632,087)	142,052,746	11,579,341	-
Transfer of expenses		45,698	-	(45,698)	-
Balance at 31 December 2009		2,237,982,850	678,589,238	89,018,846	3,005,590,934
Total comprehensive Income for the year		169,733,765	-	-	169,733,765
Transfers during the year		(121,111,950)	115,154,830	5,957,120	-
Transfer of expenses	17	583,780	-	(583,780)	-
Balance at 31 December 2010		<u>2,287,188,445</u>	<u>793,744,068</u>	<u>94,392,186</u>	<u>3,175,324,699</u>

## SIGNIFICANT ACCOUNTING POLICIES

as at 31 December 2010

### BASIS OF PREPARATION

The financial statements incorporate the following significant accounting policies, which have been consistently applied in all material respect and comply with International Financial Reporting Standards. The financial statements have been prepared on the historical cost basis except for the revaluation of certain investments and investment property. The principal accounting policies are set out below.

#### *Adoption of new and revised standards*

In the current year, the Fund has adopted all the new and revised Standards and Interpretations of the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that

are relevant to its operations and effective for annual reporting period beginning on 1 January 2010. The adoption of these standards has not resulted in changes to the Fund's accounting policies.

#### *Standards and interpretation affecting amounts reported in the current period*

The new and revised Standards and Interpretations adopted in the current period have not affected the amounts reported in these financial statements.

#### *Standards and interpretations in issue not yet adopted*

At the date of authorisation of these financial statements, the following Standards and Interpretations were issued but not yet effective:

#### Standard/Interpretation

#### Annual period beginning on or after

IFRS 1 - First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
IFRS 1 - First-time Adoption of International Financial Reporting Standards- Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
IFRS 1-First-time Adoption of International Financial Reporting Standards- Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs	1 July 2011
IFRS 1-First-time Adoption of International Financial Reporting Standards- Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 3 - Business Combinations- Amendments resulting from May 2010 Annual Improvements to IFRSs	1 July 2010
IFRS 7- Financial Instruments: Disclosures- Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
IFRS 7-Financial Instruments: Disclosures-Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 9- Financial Instruments- Classification and Measurement	1 January 2013
IAS 1- Presentation of Financial Statements- Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
IAS 12-Income Taxes-Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 24 - Related Party Disclosures- Revised definition of related parties	1 January 2011
IAS 27 - Consolidated and Separate Financial Statements - Amendments resulting from May 2010 Annual Improvements to IFRSs	1 July 2010
IAS 32 - Financial Instruments: Presentation- Amendments relating to classification of rights issues	1 February 2010
IAS34 - Interim Financial Reporting - Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
IFRIC 14 - Customer Loyalty Programmes- Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asste, Minimum Funding Requirements and their Interaction - November 2009 Amendments with respect to voluntary prepaid contributions	1 January 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The Fund will evaluate the effect of the new standards, amendments and interpretations that are in issue for adoption in the applicable periods.

*SIGNIFICANT ACCOUNTING POLICIES • CONTINUED*  
31 December 2010

**BENEFITS PAYABLE**

Benefits payable include all valid notified benefit claims and are recognised on an accruals basis.

**PENSIONERS' ACCOUNT**

This account comprises the equivalent of net assets of the Fund attributable to the Fund's pensioners. This reserve will be used to fund the Fund's liability, which is the actuarial value of the current pensions in payment and allows for future increases in pensions. Regular actuarial valuations are carried out to determine the Fund's liability to the pensioners. The last actuarial valuation was conducted at 31 December 2010.

**CONTINGENCY RESERVE**

This reserve represents funds set aside in consultation with the Fund's actuaries to protect the Fund in future against contingencies such as expense overruns, data error as a result of operating a life stage model and unanticipated pensioner expenses. The reserve was initially set at 3% of the total net assets and is reviewed from time to time.

**PLANT AND EQUIPMENT**

Plant equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The following useful lives are used in the calculation of depreciation:

Office equipment	4-5 years
Motor Vehicles	4 years
Fixtures and Fittings	10 years

**INTANGIBLE ASSETS**

*Internally-generated intangible assets-research and development expenditure*

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated;

- the technical feasibility of completing of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to the initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses on the same basis as intangible assets that are acquired separately.

Intangible assets in respect of software development costs are amortised over a period of 10 years.

*SIGNIFICANT ACCOUNTING POLICIES • CONTINUED*  
31 December 2010

**INVESTMENT PROPERTIES**

Investment properties, which are held to earn rentals and/or for capital appreciation, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

**FINANCIAL INSTRUMENTS**

*Financial assets*

Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Financial assets are classified into the following categories: financial assets as 'at fair value through profit or loss' (FVTPL), and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

it is part of an identified portfolio of financial instruments that the Fund manages together and has a recent actual pattern of short-term profit taking;

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

The Fund's investment securities are designated as at fair value through profit or loss as they are managed on a fair value basis in line with the Fund's documented investment principles.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described below:

- i) Listed securities are valued at the last market value ruling at the statement of financial position date.
- ii) Managed fund investments are stated at the unit prices quoted by the investment managers as at year end.
- iii) Unlisted securities are valued having regard to the latest dealings, professional valuation, asset values and other appropriate financial information.

**SIGNIFICANT ACCOUNTING POLICIES • CONTINUED**  
31 December 2010

*Loans and receivables*

Contributions receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised costs using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Cash and cash equivalents*

Cash and cash equivalents comprise bank balances and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of the amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to

the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amount amortised cost would have been had the impairment not been recognised.

*Financial liabilities*

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Significant financial liabilities comprise benefits payable and other payables.

Benefits payable and other accounts payables are stated at their amortised cost.

**REVENUE RECOGNITION**

*Contributions*

Contribution revenue is recognised on an accruals basis.

*Dividend and interest revenue*

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established. Withholding tax payable at 15% on dividends received from Botswana equities is netted off against dividend income.

Interest revenue from Government bonds, promissory notes, term deposits, call accounts and other fixed income securities is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Rental income**

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

*SIGNIFICANT ACCOUNTING POLICIES • CONTINUED*  
*31 December 2010*

**LEASING**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Fund as a lessor*

Amounts due from lessees under finance leases are recorded as a receivable at the amount of the Fund's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Fund's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

*The Fund as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefit from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that the lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefit from the leased asset are consumed.

**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. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency; and
- exchange differences on transactions entered into in order to hedge certain foreign currency risks.

**RELATED PARTY TRANSACTIONS**

Related parties are defined as those parties:

- (a) directly, or indirectly through one or more intermediaries, the party:
  - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  - (ii) has an interest in the entity that gives it significant influence over the entity; or
- (b) that are members of the key management personnel of the entity or its parent including close members of the family.

All dealings with related parties are transacted on an arms length basis and accordingly included in profit or loss for the year.

**KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

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*SIGNIFICANT ACCOUNTING POLICIES • CONTINUED*  
31 December 2010

*Impairment of financial assets*

Determining whether a financial asset is impaired requires an estimation of the future cash flows that the Fund is expected to receive from either disposing or holding onto the financial asset in the form of dividends or interest.

*Useful lives of plant and equipment and intangible assets*

As described in the accounting policy for plant and equipment, the Fund reviews the estimated useful lives of plant and equipment at the end of each annual reporting period. During the year, the Trustees' determined that the useful lives of the plant and equipment did not change since the prior year.

*Valuation of investment properties*

Determining the fair value of property requires an estimation of the value in use of the property. The value in use is calculated by professional valuers who estimate the future cash flows in form of rental income expected to arise from renting out the property and a suitable discount rate in order to calculate present value. The Trustees utilise independent valuers to minimise the level of estimation uncertainty.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED**  
31 December 2010

**1. CONTRIBUTIONS RECEIVABLE**

Contributions receivable are 20% of members' pensionable earnings for all participating employers except for Morupule Colliery Limited. Morupule Colliery Limited contributes 15% of members' pensionable earnings whilst members contribute 5% of pensionable earnings.

**2. NET TRANSFERS FROM OTHER FUNDS**

	<b>2010</b>	<b>2009</b>
	<b>P</b>	<b>P</b>
Transfers in	2,339,925	527,004
Transfers out	(432,122)	(1,279,944)
Net transfers	<u>1,907,803</u>	<u>(752,940)</u>

**3. ADMINISTRATION EXPENSES**

Actuarial fees	301,668	252,133
Auditors' remuneration:		
External audit fees	407,616	377,421
- current year		
- prior year	(638)	(18,229)
Internal audit fees	248,052	151,608
Administration fees	1,952,238	2,370,979
Staff costs	5,913,197	5,014,773
Bank charges	177,745	19,297
Legal and professional fees	856,423	655,574
Stationery	141,380	76,374
Fidelity and other insurance	90,743	55,474
Travel and entertainment	287,318	262,230
Communications expenses	657,728	795,953
Unitisation fees	486,275	413,113
Other expenses	1,132,174	745,121
Strategic plan expenses	583,781	45,698
	<u>13,235,700</u>	<u>11,217,519</u>

**4. TAXATION**

The Fund is an approved scheme under the Income Tax Act, (Chapter 52:01) and therefore is not subject to Botswana normal income tax.

**5. INVESTMENT IN PROPERTIES**

Investment properties at fair value:		
Freehold and leasehold land and buildings	58,600,000	49,800,000
Leasehold land and buildings held in partnerships	40,930,809	37,938,861
	<u>99,530,809</u>	<u>87,738,861</u>
Balance at beginning of the year	87,738,861	74,777,183
Net gain from fair value adjustments	11,791,948	10,581,678
Additions	-	2,380,000
Balance at end of the year	<u>99,530,809</u>	<u>87,738,861</u>



**NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED**  
31 December 2010

**5. INVESTMENT IN PROPERTIES • CONTINUED**

	<b>2010</b>	<b>2009</b>
	<b>P</b>	<b>P</b>
Loans and shares in property investment companies:		
Loans advanced to property investment companies	12,063,170	11,815,506
Investment in shares in property investment company	4,185,050	4,185,050
Disposal of Investments	(12,445,125)	-
	<u>3,803,095</u>	<u>16,000,556</u>
Total investment in properties	<u>103,333,904</u>	<u>103,739,417</u>
Deffered Lease Rental	264,951	-
<b>Total</b>	<u><u>103,598,855</u></u>	<u><u>103,739,417</u></u>

Investment properties were revalued at 31 December 2010 by MG Properties International Botswana, Kwena Property Services and Wragg (Proprietary) Limited, firms of independent chartered valuers on an open market value basis.

The Fund has disposed off its shareholding 20% (2009:20%) of ordinary share capital of Riverwalk (Proprietary) Limited, a company owning an investment property.

**6. OTHER FINANCIAL ASSETS**

	<b>2010</b>	<b>2009</b>
	<b>P</b>	<b>P</b>
<b>Designated as at fair value through profit and loss (FVTPL)</b>		
Equity investments		
- Onshore	603,716,496	604,114,546
- Offshore	6,396,269	5,331,967
	<u>610,112,765</u>	<u>609,446,513</u>
Fixed income securities		
Bonds		
- Onshore	413,083,016	390,050,049
- Offshore unitised	383,776,847	361,217,999
	<u>796,859,863</u>	<u>751,268,048</u>
Promissory notes	1,211,309	1,865,369
	<u>798,071,172</u>	<u>753,133,417</u>
Offshore equity unitised funds	<u>1,299,921,191</u>	<u>1,111,245,647</u>
	<u>2,708,105,128</u>	<u>2,473,825,577</u>
<b>Provision for impairment (Diamonex Limited)</b>		
Dual listed equities	(3,866,724)	(1,746,219)
Bonds onshore	(1,122,944)	(1,122,944)
	<u>(4,989,668)</u>	<u>(2,869,163)</u>
<b>Net carrying amount</b>	<u><u>2,703,115,460</u></u>	<u><u>2,470,956,414</u></u>

**7. CASH AND CASH EQUIVALENTS**

Term deposits	210,460,943	187,222,666
Bank balances	234,970,772	245,799,191
	<u>445,431,715</u>	<u>433,021,857</u>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED**  
31 December 2010

**8. PLANT AND EQUIPMENT**

	<b>Motor Vehicles</b>	<b>Office Equipment</b>	<b>Furniture and Fittings</b>	<b>Total</b>
	<b>P</b>	<b>P</b>	<b>P</b>	<b>P</b>
<b>2010</b>				
<b>COST</b>				
Balance at 1 January 2010	197,140	440,172	491,504	1,128,816
Additions	-	1,068,002	-	1,068,002
Balance at 31 December 2010	<u>197,140</u>	<u>1,508,174</u>	<u>491,504</u>	<u>2,196,818</u>
<b>ACCUMULATED DEPRECIATION</b>				
Balance at 1 January 2009	197,140	287,002	208,068	692,210
Charge for the year	4,107	200,170	84,257	288,534
Adjustments	(49,286)	(78,844)	(31,126)	(159,256)
Balance at 31 December 2010	<u>151,961</u>	<u>408,328</u>	<u>261,199</u>	<u>821,488</u>
<b>CARRYING AMOUNT</b>	<u>45,179</u>	<u>1,099,846</u>	<u>230,305</u>	<u>1,375,330</u>
<b>2009</b>				
<b>COST</b>				
Balance at 1 January 2009	197,140	391,054	466,504	1,054,698
Additions	-	63,070	25,000	88,070
Write off	-	(13,952)	-	(13,952)
Balance at 31 December 2009	<u>197,140</u>	<u>440,172</u>	<u>491,504</u>	<u>1,128,816</u>
<b>ACCUMULATED DEPRECIATION</b>				
Balance at 1 January 2009	197,140	243,608	133,345	574,093
Charge for the year	-	44,865	74,723	119,588
Write off	-	(1,471)	-	(1,471)
Balance at 31 December 2009	<u>197,140</u>	<u>287,002</u>	<u>208,068</u>	<u>692,210</u>
<b>CARRYING AMOUNT</b>	<u>-</u>	<u>153,170</u>	<u>283,436</u>	<u>436,606</u>

**9. INTANGIBLE ASSET**

	<b>2010</b>	<b>2009</b>
	<b>P</b>	<b>P</b>
Balance at beginning of the year	-	-
Additions	5,009,429	-
Amortisation during the year	(166,981)	-
Balance at end of year	<u>4,842,448</u>	<u>-</u>

**10. CONTRIBUTIONS AND OTHER RECEIVABLES**

Contributions receivable	65,966	6,583
Interest receivable	824,872	447,097
Withholding tax	-	5,330
Dividends receivable	1,051,474	355,838
Property rentals receivable	508,161	481,852
Property partnership current accounts	9,324,125	18,828,189
Other receivables	1,249,466	1,345,514
	<u>13,024,064</u>	<u>21,470,403</u>

Contributions receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. Contributions are received in accordance with the rules of the fund. No interest is charged on outstanding receivables

# ANNUAL FINANCIAL STATEMENTS

31 December 2010

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED 31 December 2010

### 11. BENEFITS PAYABLE

	<b>2010</b>	<b>2009</b>
	<b>P</b>	<b>P</b>
Retirement	54,868,926	6,453,789
Death	9,815,587	2,894,743
Pensioner deaths	189,723	200,077
Withdrawal	24,110,941	11,552,078
Uncleared contributions	1,179,593	-
Monthly pensions	132,468	33,074
Tax payable on benefits	381,066	75,374
Contributions for ineligible members	818,611	787,048
	<u>91,496,915</u>	<u>21,996,183</u>

### 12. OTHER PAYABLES

Rental deposits	348,229	311,879
Rental received in advance	152,598	29,994
Withholding tax	7,101	-
Administration fees payable	3,365,306	1,704,175
Provisions and accruals	693,024	273,373
	<u>4,566,258</u>	<u>2,319,421</u>

### 13. FIDELITY INSURANCE COVER

The Trustees are of the opinion that the Fund has adequate fidelity insurance cover.

### 14. ACTUARIAL VALUATION

The financial statements summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

In accordance with the Rules of the Fund, the actuarial position of the Fund, which does take account of such liabilities, is examined and reported upon by the actuaries of the Fund.

An actuarial valuation was carried out as at 31 December 2010. The valuation shows that the reserves of the Fund, as reflected in the statement of changes in funds on page 6 amounting to P793 744 068 (2009:P678 589 239) adequately cover the pensioners' liabilities at that date, without taking into account future pension increases.

### 15. FINANCIAL RISK MANAGEMENT

Risk is inherent in the Fund's management of investments which are held in various financial instruments. This is managed through a process of ongoing identification, measurement and monitoring that is subject to an extensive framework of risk limits and other controls. The process of risk management is critical to the Fund's ongoing operations with the day to day management of financial instruments being conducted by investment managers. The Fund's objectives, policies and procedures for managing the risk exposure and the methods used to measure the risks have remained consistent with the prior year.

The Fund has established investment guidelines. These guidelines set out its investment objectives, a benchmark portfolio and approved investments. The investment guidelines also set out minimum performance measurements of returns on its investments, which are managed by a number of investment managers. Strict measures are observed for appointing investment managers. The active and deferred members are placed into the age-banded life stage model, which provides a range of investment portfolios with specified investment strategies.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED**  
31 December 2010

**15. FINANCIAL RISK MANAGEMENT • CONTINUED**

**Risk Management Governance Structure**

*Board of Trustees*

The Board of Trustees is responsible for the Fund's overall risk management approach and for approving investment guidelines, the risk strategies and principles. The Fund's Investment Committee reviews the risk profile from time to time, and the overall risk profile and investment strategies are reviewed and approved by the Trustees.

*Investment Committee*

The Investment Committee comprising members of the Board of Trustees and management meets regularly to review developments in the international financial and capital markets. Where necessary the Investment Committee makes decisions on the Fund's investments in terms of composition and other relevant factors. The Investment Committee has outsourced the investment managers' performance assessment and review to the Fund's actuaries, who report regularly to the Trustees.

*Audit and Finance Committee*

The Audit and Finance Committee comprising members of the Board of Trustees and management meets regularly and reviews the risk management process, the risk assurance plan, and approve the annual audit coverage for both internal and external audit.

**Benefit Review Committee**

The Benefit Review Committee comprising of the Board of Trustees and management meets regularly and reviews the distribution and disposal of death benefits. The committee is also responsible for the Fund's communication strategy and its implementation.

**Types of Risk Exposure**

The Fund is exposed to various types of risk exposures, namely market risk, comprising currency risk, interest rate risk and equity price risk, credit risk and liquidity risk.

**Currency risk:**

The Fund is exposed to currency risk mainly through its investments and term deposits denominated in foreign currencies. The Fund's total exposure to currency risk through its investments and term deposits denominated in United States Dollars as at 31 December 2010 amounted to P1,685,607,696 (2009: P1,515,872,788).

**Interest rate risk:**

Interest rate risk is the possible loss in the value of a fixed income asset resulting from an unexpected and adverse movement in interest rates and consequent change in price. Interest rate risk is measured by modified duration, which measures the sensitivity of the price of a bond to changes in interest rates expressed in years.

Financial instruments that are sensitive to interest rate risk are bank balances and cash, interest bearing securities and term deposits. Interest rates earned on financial instruments compare favourably with those currently available in the market. The net exposure to interest rate risk as at 31 December 2010 amounted to P414,294,561 (2009: P390,792,474) being investments in onshore bonds and promissory notes and P383,776,847 (2009: P361,217,999) being investments in offshore bonds, and P445,431,715 (2009: P433,021,857) being term deposits and cash and cash equivalents as disclosed in notes 6 and 7.

**Equity price risk:**

Equity price risk is the risk that the value of equities decreases as a result of changes in the equity prices and diminution of value of individual stocks. The investment guidelines stipulates the allowable holding levels. The net exposure to equity price risk as at 31 December 2010 amounted to P603,716,496 (2009: P604,114,546) for local equities and P1,306,317,460 (2009: P1,114,831,395) for offshore equities and offshore unithised funds as disclosed in note 6.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED**  
31 December 2010

**Fair values of financial instruments carried at amortised cost**

The Board of Trustees considers that the carrying amounts of assets and liabilities recognised in the financial statements at amortised cost approximates their fair values.

**Valuation techniques and assumptions applied for the purpose of measuring fair value**

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed equities and bonds).

The fair values of other financial assets and financial liabilities are determinable in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes or similar instruments.

**Fair value measurements recognised in the Statement of Financial Position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Fair value measurements are those derived from valuation techniques that includes inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<b>31 December 2010 Total P</b>	<b>Level 1 P</b>	<b>Level 2 P</b>	<b>Level 3 P</b>
<b>Financial assets at fair value through profit or loss</b>				
Onshore listed equity investments	603,716,496	603,716,496	-	-
Offshore listed equity investments	2,529,545	2,529,545	-	-
Onshore listed bonds	411,960,072	411,960,072	-	-
Promissory notes	1,211,309	-	1,211,309	-
Offshore bonds unitised funds	383,776,847	-	383,776,847	-
Offshore equity unitised funds	1,299,921,191	-	1,299,921,191	-
<b>Total</b>	<b><u>2,703,115,460</u></b>	<b><u>1,018,206,113</u></b>	<b><u>1,684,909,347</u></b>	<b><u>-</u></b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED  
31 December 2010

15. FINANCIAL RISK MANAGEMENT • CONTINUED

There were no transfers between Level 1 and 2 during this period.

There are no financial assets categorised as Level 3. Consequently, the reconciliation of movements in the Level 3 fair value measurements has not been provided.

**Market risk sensitivity analysis**

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.

31 December 2010

Risk Variable	Adverse market change		Beneficial market change	
	Scenario	Effect on statement of comprehensive income P	Scenario	Effect on statement of comprehensive income P
Currency Risk	Strengthening of the Pula by 1%	(16,856,077)	Weakening of the Pula by 1%	16,856,077
Global Equity Risk	Decline in global equity prices by 1%	(12,999,212)	Increase in global equity prices by 1%	12,999,212
Local Equity Risk	Decline in local equity prices by 1%	(6,101,128)	Increase in local equity prices by 1%	6,101,128
Interest Rate Risk	Decline in interest yield by 1%	12,435,031	Increase in interest yield by 1%	(12,435,031)

31 December 2009

Risk Variable	Adverse market change		Beneficial market change	
	Scenario	Effect on statement of comprehensive income P	Scenario	Effect on statement of comprehensive income P
Currency Risk	Strengthening of the Pula by 1%	(15,158,728)	Weakening of the Pula by 1%	15,158,728
Global Equity Risk	Decline in global equity prices by 1%	(11,112,456)	Increase in global equity prices by 1%	11,112,456
Local Equity Risk	Decline in local equity prices by 1%	(6,141,145)	Increase in local equity prices by 1%	6,141,145
Interest Rate Risk	Decline in interest yield by 1%	23,700,647	Increase in interest yield by 1%	(23,700,647)

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED**  
31 December 2010

**Credit risk:**

This is the risk that would arise if an entity that the Fund conducts business with, is unable to meet its financial obligation or in an event of an adverse credit event or default.

Management has a strict policy with regards to the Fund's exposure to credit risk, and where there is exposure, this is monitored on an ongoing basis. Reputable financial institutions are used for cash handling purposes.

The Fund allocates funds to a number of investment managers, which have diversified mandates and the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

There are no investments with any counterparty exceeding 5% of the total investment portfolio.

**Concentration of credit risk**

Counterparty (investment manager)	Investment type	2010 P	2009 P
Investec Asset Management Limited	Government bonds	71,442,404	67,123,811
Investec Asset Management Limited	Corporate bonds	69,551,007	62,389,469
Investec Asset Management Limited	Parastatals bonds	63,102,332	78,986,223
Investec Asset Management Limited	Corporate promissory notes	1,211,309	9,754,808
BIFM Asset Management (Proprietary) Limited	Government bonds	96,794,259	49,094,171
BIFM Asset Management (Proprietary) Limited	Corporate bonds	31,453,050	33,590,891
BIFM Asset Management (Proprietary) Limited	Parastatals bonds	19,229,939	13,754,981
Allan Gray Botswana	Government bonds	10,990,315	11,679,334
Allan Gray Botswana	Corporate bonds	18,506,203	35,936,213
Allan Gray Botswana	Parastatals bonds	32,013,507	29,605,517
Pimco Funds: Global Investors Series plc.	Unitised offshore bonds	383,776,847	361,217,999
<b>Total (per note 6)</b>		<b>798,071,172</b>	<b>753,133,417</b>

**Bank balances and fixed deposits**

Counterparty (investment manager)	Investment type	2010 P	2009 P
First National of Bank Botswana Limited	Fixed deposits	120,806,725	78,473,148
Barclays Bank of Botswana Limited	Fixed deposits	1,909,658	28,527,574
Barclays Bank of Botswana Limited	Bank balances	221,455,971	234,627,621
Standard Chartered Bank Botswana Limited	Bank balances	11,685,400	11,171,569
Stanbic Bank Botswana	Fixed deposits	43,607,404	44,072,716
Botswana Development Corporation	Fixed deposits		1,230,370
Bank of Botswana	Treasury bills	45,966,557	34,918,859
<b>Total</b>		<b>445,431,715</b>	<b>433,021,857</b>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED**  
31 December 2010

**15. FINANCIAL RISK MANAGEMENT • CONTINUED**

**Liquidity risk:**

Ultimate responsibility for the liquidity risk management rests with the Board of Trustees, which has built an appropriate liquidity risk management framework for the management of the Fund's short, medium and long term funding and liquidity management requirements. The Fund manages liquidity by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Based on the nature of the Fund's payables, an analysis of undiscounted cash flows of financial liabilities is not relevant. Substantially, the Fund's benefits and other accounts payable are due for settlement within three months after the year end.

**Significant accounting policies**

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement, and the basis of recognition of income and expenses), for each class of financial asset and financial liability are disclosed under significant accounting policies on pages 44 and 45 of the financial statements.

**Categories of financial instruments**

	<b>2010</b> <b>P</b>	<b>2009</b> <b>P</b>
<b>Financial assets</b>		
Cash and cash equivalents	<u>445,431,715</u>	<u>433,021,857</u>
Designated as at fair value through profit and loss (FVTPL)	<u>2,703,115,460</u>	<u>2,470,956,414</u>
Loans and receivables	<u>13,024,064</u>	<u>21,470,403</u>
<b>Financial liabilities</b>		
Other financial liabilities at amortised cost	<u>96,063,173</u>	<u>24,315,604</u>

**16. RELATED PARTY TRANSACTIONS**

Remuneration of key management personnel:

Key management personnel comprises the Principal Executive Officer

Gross emoluments of the key management personnel are:

Short term benefits

	<u>936,024</u>	<u>1,135,436</u>
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Internal audit fees charged by Debswana Head Office

	<u>247,860</u>	<u>151,608</u>
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**17. CONTINGENCY RESERVE**

A decision was made by the Board of Trustees to allocate expenses amounting to P583 780(2009:P45 698) relating to the development of the benefit payment system to the Contingency Reserve. The reason for allocating the expenses to Contingency Reserve was to avoid overburdening members who retired in 2010 with the once off cost which would have negatively impacted on their fund credits. The Contingency Reserve is utilised for such purposes.



**NOTES TO THE ANNUAL FINANCIAL STATEMENTS • CONTINUED**  
31 December 2010

**18. DESCRIPTION OF THE FUND**

The Fund was established on 1 October 1984 as a defined contribution pension fund.

The main purpose of the Fund is to provide for the payment of pensions to qualifying members on retirement. A secondary objective of the Fund is to provide benefits to nominated beneficiaries or widows and dependants of the qualifying members as the case may be.

The participating employers are; Debswana Head Office, Jwaneng mine, Orapa Mine, Morupule Colliery Limited, Debeers Prospecting, Diamond Trading Company Botswana (Proprietary ) Limited, Anglo Coal and Debswana Pension Fund.

**19. MEMBERSHIP STATISTICS**

	<b>2010</b>	<b>2009</b>
	<b>P</b>	<b>P</b>
Number of members: Active	4,727	5,140
Deferred	2,491	2,344
Pensioners	2,336	2,147
	<u>2,336</u>	<u>2,147</u>

**20. COMMITMENTS**

Amounts committed in terms of operating leases over the Fund's office premises in Gaborone:

Due within one year	452,532	403,668
Due within five years	2,262,660	2,018,340
	<u>2,715,192</u>	<u>2,422,008</u>

The Fund has entered into a contract for the development of an in-house Benefits Administration System in the 2009 financial year giving rise to the following expenditure. The project was completed during the current financial year

Total operating costs	-	4,583,682
Commitments for the acquisition of plant and equipment	-	1,665,805
	<u>-</u>	<u>6,249,487</u>

**21. EVENTS AFTER THE REPORTING PERIOD**

No events have occurred between the balance sheet date and the date of approval of the financial statements, which would materially affect the financial statements.



## HOW TO CONTACT US

### VISITING THE FUND

The DPF office is currently located at **Plot 5036 I, Block D, Carlton House, Fairgrounds**. The office is open for consultations Mondays through to Fridays (except holidays) from 8.00am to 1645pm. The DPF will update members should there be a change of address in the future.

### CALLING THE FUND

We provide a toll-free telephone number for use by DPF members and beneficiaries. You may reach us at **0800 600 681** during working hours to speak to one of our administration officers.

Other direct member contact telephone numbers are **3614253, 3614267** and **3614236**.

Our fax number is **3936239**

### WRITING TO THE FUND

When writing to the Fund, please always remember include your full name, telephone number and return address. The Fund address is as follows;

The Secretariat  
Debswana Pension Fund  
Private Bag 00512  
Gaborone  
Botswana  
Website and email

Our website is an excellent resource for any member or member of the public wishing to know more about the Fund and its activities. Register on line to receive our regular e-newsletter; Visit us at; [www.dpf.co.bw](http://www.dpf.co.bw) or email your enquiries to [bokamoso@dpf.co.bw](mailto:bokamoso@dpf.co.bw)

## BUSINESS PARTNERS

**ACTUARIES**  
**ADVERTISING, BRANDING & PR**  
**ASSET MANAGERS - LOCAL**

**ASSET MANAGERS - GLOBAL**

**EXTERNAL AUDITORS**  
**FUND ADMINISTRATION**  
**IT SUPPORT**  
**INTERNAL AUDITORS**  
**PROPERTY CONSULTING**

Fifth Quadrant Consulting

Native Impressions

Botswana Insurance Fund Management (BIFM)

Allan Gray Botswana

Investec Asset Management Botswana

Alliance Beinstein

Marathon

Investec Global

Orbis

PIMCO

Brandes

Frank Russell

Deloitte & Touche

Debswana Pension Fund Administrators

Debswana Diamond Company -IM

Debswana Diamond Company - Internal Auditors

Khumo Property Consultants

# APPENDIX I

## COMPLIANCE STATEMENT

The purpose of this Compliance Statement is primarily to disclose some additional information required by law which is considered to be of significance to members.

### Taxation

The Fund is approved under the Income Tax Act 1971. Although exempt from Botswana income and capital gains tax, the Fund is unable to recover the tax credit on Botswana dividends.

### Statement of Investment Principles

The Trustees have produced a Statement of Investment Principles, which is reviewed at intervals of not more than three years; copies are available on request from the Pension Fund Secretariat. A formal investment policy governs the Pension Plan Investment Process. The Investment Policy details:

- Total return and risk objectives
- Spending policy
- Permitted and excluded investments
- Asset allocation guidelines with defined targets and permissible ranges
- Evaluation benchmarks by asset class and for the portfolio as a whole
- Risk and diversification requirements by asset class
- Use of derivatives
- Performance standards and evaluation
- Responsibilities of all parties concerned

### Pension Increase Policy

Subject to affordability, as assessed by the Trustees in consultation with the Actuary, the Trustees may grant an increase to pensions in payment from the Fund on 1 July each year. Any pension increase granted may be uniform for all pensioners or varied according to the year of retirement, or have any other form that the Trustees consider equitable.

The annual increase on 1 July is targeted but not guaranteed to be equal to the year-on-year increase in the Consumer Price Index (as published by Statistics Botswana) up to the preceding 31 December.

Any increase for Pensioners whose pensions commenced during the 12-month period immediately preceding a 1 July increase will be pro-rata to the number of pension payments payable to the Pensioner during this 12-month period divided by 12. The investment returns available for pension increases is the investment return on the pensioner account less taxes, manager fees and other relevant Fund costs, less the budgeted return (currently 4% per annum) assumed from time to time by the actuary to value pensioner liabilities.

### Transfer Values

Transfer Values for members leaving pensionable service during the year were calculated in accordance with the Pension and Provident Fund Act 1987.

The Rules of the Fund have always provided that deferred pensioners may transfer the value of their benefits to another approved/ registered scheme at any time before any benefits have been paid from the Fund. The Fund accepts transfers from other approved schemes.

## APPENDIX 2

### RISK MANAGEMENT POLICY

#### Policy

The Members and the Board recognise that engaging risk is at the core of our business, and that risk taking is a choice. Debswana Pension Fund Management are fully committed to the importance of effective risk management in ensuring that business objectives are met and that continued, sustained growth and profitability is achieved. The Board is responsible for defining unacceptable risk and communicating this.

Our Fund is governed by a risk framework through which risks are engaged in an informed manner and pro-actively managed in accordance with our risk appetite. This includes identifying and taking advantage of opportunities as well as protecting our intellectual capital, income and assets by mitigating adverse impacts of risk.

Awareness and understanding of Funds risk management framework is established at all of the appropriate levels of the organisation. The intent is to ensure a culture in the Fund of risk ownership and of risk management being practised as everyone's responsibility.

#### Risk Management Strategy

In executing our policy, we undertake and establish the following:

- *Business Objectives* - A clear and unambiguous understanding of our business objectives and purpose.
- *Risk Framework* - A centrally co-ordinated risk framework and management process to ensure consistency throughout the Fund.
- *Risk Identification, Management and Monitoring* - Each division will ensure that a risk framework exists, outlining identification, management and monitoring of risks.

- *Risk Responsibility Structure* - A clearly defined responsibility structure for risk management throughout the Fund.
- *Business Environment Factors* - Continual evaluation and review of the internal and external business environment factors that may affect the achievement of our business objectives.
- *Risk Appetite* - Ongoing review of our risk appetite as our business environment changes.
- *Risk Review* on a quarterly basis of the most significant risks facing the business.
- *Risk Evaluation* - Evaluation of the impact of the risks on the business.
- *Risk Response (The 4 Ts)* - Decide on our response to the risk :-
  - Terminate (Avoid) ,
  - Tolerate (Accept),
  - Treat (Manage and Mitigate),
  - Transfer (Outsource or Insure).

Cost benefit considerations will be a factor in deciding on the most suitable response.

- *Risk Management* - Where the response is to tolerate, treat or transfer the risk, we will:
  - Examine existing procedures and controls in place to manage the risk to an acceptable level.
  - Re-evaluate the residual risk taking the effect of controls into account.
  - Consider any enhancements to control that may be required to reduce exposure to an acceptable level.

## RISK MANAGEMENT POLICY • CONTINUED

### Risk Management Strategy • CONTINUED

- *Ongoing Monitoring* of the status of risks, and if that status changes, a process for appropriate action.
  - *Ongoing Reporting* to management and the audit committee on the results and status of risk management throughout the Fund.
  - *Risk Management Awareness* - Maintaining an awareness of risk and risk management processes throughout the Fund.
  - *Board Assessment of Effectiveness* - An annual Board assessment of the effectiveness of the risk management process.
7. The Executive Committee priorities in respect of risk are fully communicated down the Fund.
  8. The Executive Committee's view is informed by upward reporting of risks through the Fund.
  9. Systems of control support the preparation of the Statement on Internal Control.
  10. The risk management system is functioning efficiently and effectively integrates with the Corporate and Business Planning processes.

*Our Risk management aims to ensure that the following ten objectives are met:*

1. Financial, operational and management systems directly support the management of risks that threaten the achievement of the Fund's objectives.
2. The Management Committee has an active, structured, and commonly shared knowledge of the whole range, and the relative priority, of risks that they have to manage.
3. Managers at every level share that understanding of risks and priorities.
4. Staff objectives are set in terms that reflect the Fund's strategic and operational risk priorities.
5. Responsibility for the management of risks is assigned to staff that have the authority to ensure that they are managed.
6. Resources are assigned to the management of risks in such a way as to optimize value for money.

## APPENDIX 3

### STATEMENT OF INVESTMENT PRINCIPLES

#### Investment Philosophy

1. The Trustees have adopted a *long-term horizon* in formulating the Fund's investment strategy. This means that the overall success of the strategy will only be measured over a period of at least 5 years, with the planned measurement period being 10 years.
2. The *primary risk* of the Fund is inflation risk. This is the risk that the Fund does not earn a sufficient return to be able to provide reasonable retirement benefits and pension increases in line with inflation.
3. A *secondary risk* for in-service members close to retirement is that the markets fall sharply just before they retire. Generally members that retire will secure a with profit life annuity from the Fund. The terms of this pension are set at retirement and so the retiring member should not be placed in the position that he/she would need to "lock-in" large negative returns at the time he/she retires.
4. Consistent with the Fund's purpose and risk, the *primary investment philosophy* of the Fund is to provide a return that is:
  - Well in excess of that provided by the capital markets in the event that general market conditions are weak (and deliver a low return relative to inflation);
  - Slightly ahead of capital markets in the event that market conditions are in the normal range (and where the investment returns relative to inflation are likely to be reasonable)
  - Behind the returns delivered by the capital markets in mature bull markets (i.e. very high returns relative to inflation). In this environment the Fund would be prepared to sacrifice some return to protect capital to a greater extent should the markets subsequently correct. The achievement of such a return signature should allow the Fund to meet its objective of providing reasonable and competitive benefits over as wide a range of investment scenarios as possible.

5. This philosophy is varied for in-service members as they approach retirement, where the primary investment philosophy is the protection of capital and to reduce the chance of negative investment returns over an investment horizon of 12 months.
6. The philosophy gives primacy to retirement benefits.
7. The Fund's investments must be conducted in a manner that is honest, transparent and ethical.

#### Investment Objectives

##### *Investment objective: In-service members*

1. The primary investment objective of the Market Portfolio is to provide a net real return of 5.0% p.a. over any rolling 8-year period, with a less than 10% chance of a net real return less than 0% over the same 8-year measurement period. Net real return means the difference between the actual investment return achieved and inflation after deducting investment manager fee, tax and related costs such as custody services.
2. The investment objective of the Conservative Portfolio is to earn a net real return of 3.0% p.a. (after deducting tax and manager fees) over any rolling 5-year period with a less than 5% chance of a net nominal return of less than 0% over any 12-month period. These performance objectives are consistent with the stated purpose of the Fund.

##### *Risk constraint: In-service members*

1. The Market Portfolio targets a standard deviation of absolute returns of 13% p.a.
2. The Conservative portfolio targets a standard deviation of absolute return of 8.0% p.a.

##### *Trustees default life stage model: In-service members*

1. The Trustees have implemented a default life stage model for in-service members with effect from 1 August 2004.

## STATEMENT OF INVESTMENT PRINCIPLES • CONTINUED

2. Based on an assumed retirement age of 60, the member's retirement savings will be invested in the Market Portfolio up to age 53. (This portfolio concentrates on managing the member's inflation risk.) The member's future retirement savings contributions will be invested in the Conservative Portfolio from the end of the month in which the member turns 53. From the end of the month in which the member turns 57 the member will be fully invested in the Conservative Portfolio. (This portfolio concentrates on managing the member's final payment risk.) Starting at the end of the month in which the member turns 53, the member's accumulated retirement savings will be transitioned in five more or less equal annual tranches from the Market Portfolio to the Conservative Portfolio.

### *Modification for administrative reasons*

At this stage, instead of members having holdings in both the Market and Conservative Portfolios during the transition phase between age 53 and 57, 4 transitional portfolios (composed of varying proportions of the Market and Conservative Portfolios as set out above) are used. Members will be transitioned based on their age last birthday in February, June and October each year.

### **Investment Objective: Pensioners**

A separate pool of assets will be maintained in respect of the pensioners with effect from 1 August 2004.

1. The pensioner liabilities have been valued at an interest rate of 4% p.a. This means that the pensioner assets need to earn a net real return of 4% p.a. (after management fees, tax and other costs) in order to grant pension increases that match inflation.
2. At the same time the Fund needs to earn a nominal return of at least 4% p.a. in order to meet the current pension

payments with no future increases (the so-called contractual liability).

3. The investment objective for the pensioners is to earn a net real return of 4% p.a. over any rolling 10-year period

### *Risk constraint: Pensioners*

1. The pensioner portfolio aims for a standard deviation of absolute returns of 9.5% p.a.
2. Less than 1% chance of a net nominal return of less than 4% p.a. over the same 10-year measurement period.
3. Less than 7.5% chance of net real return of less than 0% p.a. over a 10-year measurement period.

### **Investment Objective: Contingency Reserve Account**

The Trustees have decided to maintain a Contingency Reserve Account in the Fund to meet unexpected contingencies.

1. The Trustees have set the required level of the Contingency Reserve Account at 3% of the Fund's assets.
2. The main contingencies relate to the Pensioner Portfolio since the In-service assets and liabilities are matched. The Contingency Reserve will follow the same strategic asset allocation as the Pensioner Portfolio.

## APPENDIX 4

### STATEMENT BY CONSULTING ACTUARY

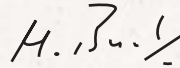
#### Certification

*We certify that:*

1. The Fund remains in a sound financial condition at 31 December 2010 because the small deficit that exists in the Pensioner Account can be managed through the pension increases awarded to pensioners, either at the next increase date or over a reasonable period of time. This position should be reviewed at the next valuation date.
2. In our view the current provision for future pension increases is sufficient under reasonable investment market conditions to support future pension increases in line with inflation.
3. As a defined contribution arrangement, the contributions required in terms of the Fund Rules meet the future service obligations in respect of the active members.
4. The strategic asset allocation represents a reasonable long-term investment strategy given the nature of the Fund's liabilities. In particular, the asset allocations of the various investment channels are reasonable given the time horizon of each channel.
5. The matching of the Fund's assets against the liabilities is, in our opinion, adequate.

*We recommend that:*

1. The various items of profit or loss reflected in the valuation report relating to the Active & Deferred Investment Accounts be investigated by the Fund's administrator, where so indicated.
2. The Trustees consider whether they believe it is still appropriate for the Fund to continue to hold a contingency reserve and whether the level of 3% of Fund assets remains appropriate.



**HJ Buck, B.Sc., F.I.A.**

Fellow of the Institute of Actuaries

In my capacity as the valuator of the Fund and as a director of Fifth Quadrant Actuaries & Consultants

**KM Lynch, B.Sc., F.F.A**

Fellow of the Faculty of Actuaries

In my capacity as an employee of Fifth Quadrant Actuaries & Consultants

Date: 22 June 2011



## APPENDIX 5

### COMMUNICATION POLICY

#### Communication Objective

The primary communication objective of the DPF is to educate members and maintain a positive professional image of the fund. The fund uses a variety of communication vehicles as outlined in the existing communication plan.

To ensure maintained relevance in the market, the Fund communicates its messages through all forms of media where possible to ensure maximum achievement of the above objective.

#### Guiding Principles on Design, Language choice & clarity of messages

The Fund has five key principles that support all of its communications.

1. *Communication is factual and presented in simple language.*

The Fund ensures that all of its publications, correspondences, presentations and all other messages are written and presented in a simple language. As a standing policy, every educational publication released by the Fund must have a translated version in Setswana without fail. The Fund engages where necessary, the services experts to simplify complex language, particularly on investment topics'

2. *Communication is looked upon as involving a dialogue with others.*

During its presentations and through writing communicate, the Fund constantly encourages dialogue and feedback with members and stakeholder. The comments, messages received are used in the formulation of communication material as well as contribute to the annual revisions and improvements on the communication strategy

3. *Communication is designed in a manner appropriate to its audience.*

In the design and execution of our communication, the key messages that the Fund endeavors to deliver to its audiences at all times are:

- a. That the Debswana Pension Fund adds value to employer organization through active partnership and ongoing counsel in the provision of long-term benefits for their staff.
  - b. That the DPF guarantees prudent management of member funds and will constant exploit growth opportunities for optimal returns on their investments.
  - c. That the DPF aims to achieve member satisfaction through unparalleled service excellence.
  - d. That the DPF is a caring and socially responsible organization and is committed to good corporate governance.
4. *Communication exploits the developments and improvements of new technology.*

In the ongoing evaluation of the effectiveness of its communication strategy, the Fund ensures a healthy balance in the choice of communication mediums, with emphasis on cost efficiency and accessibility. Deliberate effort is placed on identifying technological mediums that may be effective in relaying Fund messages to its stakeholders.

5. *Communication is planned, coordinated and evaluated.*

Our annual communication plans are structured to address the basic communications pillars i.e. identifying and addressing the needs both the internal and external stakeholders.

Furthermore, the Fund prioritises its communication budget expenditure on the core mandate of the Fund, which is to ensure continuous member education over and above other communication requirements. The Fund ensures on an on-going basis that its communication plans are informed by the overall organisational objectives, and with every occurring strategic development, the Communication strategy is reviewed and re-aligned to remain in synch with the status quo.

Through annual climate surveys and maintaining a departmental scorecard, the Fund is able to monitor and measure quality, delivery the overall effectiveness of its communication strategy and at the same time be able to contribute positively to overall organisational performance. Most of the measures are carried out annually at the end of each year.

## COMMUNICATION POLICY • CONTINUED

### OUR STAKEHOLDERS AND THEIR COMMUNICATION NEEDS

STAKEHOLDER	COMMUNICATION NEEDS
<b>EXTERNAL</b>	
Members & beneficiaries	Education, fund and industry information, feedback and general customer care
Employers	Operational information, general liaisons, Training, strategic fund and industry information, feedback and general customer care
Regulators	Fund compliance to statutory obligations towards member communication.
Service providers	Monitoring of service level agreements for communication initiatives to ensure continued member satisfaction. General liaison, and exchange of fund performance reports to support member education
Media	Maintain good relations to ensure positive reporting on Fund activities and on-going liaisons, media placements, brand management, and communication research
Community	Public relations and social responsibility
<b>INTERNAL</b>	
Fund employees	Product knowledge, and on-the-job training for communication skills, Brand awareness and customer service awareness
Trustees	Education (fund operation, governance, investment management, product knowledge) industry information and networking

### Communication Mediums Currently In Use

- **Printed Literature**

The Fund produces all paper based communications in a corporate style, be that brochure, guides or individual letters. A consistent approach is taken with colour coding to help differentiate literature for specific audiences. All key communications are produced in a both printed and electronic format and distributed to members as appropriate.

- **Office consultations**

For those members who prefer face to face communication the Fund's offices are centrally situated in Gaborone and are easily accessible by public transport from all areas of Gaborone. Two Administration Officers are on duty to field enquiries between 8am and 1645pm Mondays to Fridays excluding holidays. Private interview rooms are available for members who wish to discuss confidential matters. Appointments can be made to discuss specific pension options or problems and if necessary appropriate staff can visit the workplace or members at home in cases of special need.

- **Internet**

The Fund's website [www.dpf.co.bw](http://www.dpf.co.bw) provides Fund information and updates for all stakeholders. Electronic copies of the Fund literature, policies and reports will be available for download.

- **Intranet**

The Fund sends out notices and other communiqué through links to its content area on the Debswana intranet platform regularly. It is one of the most effective means of reaching the larger proportion of the membership and with guaranteed direct contact with over 3500 active members on email.

- **Telephone**

All Fund communications have a published telephone number. The Fund also provides a toll-free line.

- **Mobile communication - short message service**

The Fund has acquired mobile communication software for mass messaging to members on fund events, notices etc. The use of mobile short message services aims to enhance feedback and communication between members and the Fund.

- **Fax, Mail and E-Mail**

For general communications, the Fund has a central FAX number, email account and postal address.

- **Print, electronic & outdoor media**

The Fund regularly places advertisements on both print and broadcast media as an alternative means for reaching members who may not be accessible. The most common communiqué includes tracing members for unclaimed benefits.

## COMMUNICATION POLICY • CONTINUED

- Additionally, the Fund has strategically positioned billboards across the countries with reinforcement messages to members.
- **In-house Presentations**  
The Fund delivers standard or tailored presentations on a wide range of subjects for both Employers and their staff. These presentations are provided at the request of Employers at geographically convenient locations by Fund staff. The Fund pro-actively arranges presentations on wider topic areas and can invite appropriate third parties to assist Fund staff in presenting relevant information, workshop activities and also to provide relevant support materials to take home.
  - **Newsletter**  
BOKAMOSO is the Fund's newsletter published four times a year with an audience of members, eligible non-members, deferred members and pensioners. The newsletter aims to provide topical news, engaging articles, competitions and the latest information about the Fund and pensions in general.
  - **Annual Review**  
The aim of the report is to highlight the important issues affecting the Fund over the previous twelve months, along with detail on both investment and administration performance. The Annual Review is distributed to all members and employers. Additional copies are available on request and an electronic version is available for download from the website.
  - **Claims Investigations**  
The Fund travels through the length and breadth of the country to visits families of deceased members, and local authorities as and when necessary to investigate and confirm benefit claims.
  - **Tribal Administrations**  
The Fund makes courtesy visits to Tribal administrators and other service providers to strengthen relations and identify gaps for service improvement. At the minimum, visits are made annually.

- **Pensioner Associations**  
The Fund communicates with pensioners through a pensioner association. On a bi-annual basis the fund visits the various villages where pensioners are based to exchange information and receive feedback.
- **Branded merchandise**  
Through distribution of branded merchandise, the Fund ensures visibility and general rapport with members and other stakeholders. The types of Fund merchandise varies from year to year.
- **Business Fairs**  
The Fund initiates and also accepts invitations from employers for business fairs aimed at financial education, particularly retirement planning, for members on an on-going basis.

## Communication Timeframes

Generally, the Fund follows a predetermined communication calendar on an annual basis that is linked to the organisational scorecard deliverables. Within this, the following apply;

Office consultations	Daily walk-ins and call consultations
Intranet	Monthly & as and when events arise
In-house Presentations	Bi-annually for every pay point
Mobile communication - short message service	Daily and as per events
Website	On-going basis
Newsletter	Three publications per annum
Annual report	Annual
Tribal Administrations	Annual
Business Fairs	Annual initiative & as per invitations
Pensioner Associations Tours	Bi-annual tours to branches +Regional & National meetings with leadership annually

## Confidentiality Of Information

The Fund has put in place systems and controls that ensure member rights to confidentiality of their records are protected. Additionally, all employees of the Fund are bound to a signed confidentiality contract requiring due diligence in the handling of records and further prohibiting any unauthorised release of Fund information to third parties.

## APPENDIX 6

### FUND GOVERNANCE, STRUCTURE & MANAGEMENT

#### Constitution Of The Fund

The Debswana Pension Fund (DPF) is a defined contribution established in 1984 as a trust through a joint initiative between, De Beers Botswana Mining Company (now Debswana), Anglo American Corporation Botswana (Pty) Ltd and De Beers Prospecting Botswana (Pty) Ltd. The primary purpose of the Debswana Pension Fund is to meet future benefit obligations to members as defined by the rules of the Fund, earn positive investment returns on member funds and remain financially sound at all times. The DPF invest member funds across four asset classes namely Property, Equities, bonds, and Cash.

In addition the related statute, i.e. the 1987 Pensions & Provident Funds Act of Botswana, the Fund is also governed by a set of rules revised and approved from time to time by the government regulatory body, currently being the Non-Banking Financial Services Regulatory Authority (NBFIRA), enacted in 2006. A Board of Trustees is responsible for effective risk management and protection of member interests. There.

#### The Trustees

The Board of Trustees oversee the Fund operation. Each of the six substantive Trustees has an alternate. There are three employer Trustees and three employee elected Trustees. The Trustees appoint the Chairperson of the DPF. Each of the Trustees has an alternate. As a qualification criterion, only persons who can read and write are eligible for consideration as Trustees. The tenure of office for Trustees is 3 years. The Board meets four times a year and is ultimately accountable and responsible to its members for the performance and affairs of the Fund. The Board has appointed four sub committees who act on behalf of the Board but the ultimate responsibility of the Fund rests with the Board.

The Fund committees are made up as follows;

**Benefits Review Committee** - seven (7) members and mainly responsible for members from the date of joining the Fund up to when members withdraw from the Fund due to resignations, retirements resulting from old age or ill health and retrenchments.

It is also responsible for the proper distribution and disposal of death benefits. The Committee is responsible for the Fund's communication strategy and its implementation and to ensure effective member communication.

**Investment Committee** - seven (7) members responsible for keeping under review the appropriateness and recommending changes to the overall investment strategy of the Fund; investigating and reporting the use of new financial instruments; overseeing the investment consultants and investment managers as well as custodians. The Committee has developed a tool called a Statement of Investment Principles which guides the committee in carrying out its mandate.

**Audit and Finance Committee** - six (6) members the Committee is responsible to assist the Board in the evaluation of the adequacy and efficiency of the internal control systems, accounting policies and practices, information systems and auditing. In addition the committee is responsible for ensuring that the Fund has an effective risk management process.

**Human Resources Committee** - five (5) members the role of the Committee is to exercise an oversight on the Fund's human resources, policies and practices and to ensure that these are contributing as effectively as possible towards the achievement of the Fund's Strategic Objectives, Vision, Mission and Values.

#### Fund Management and Structure

The primary functions of the DPF include Benefit Administration, Secretarial, Communications, and Asset Management.

The Fund has in-sourced, outsourced or co-sourced functions depending on the availability of core competences. Benefits administration is done in-house since July 2010. The Fund has outsourced Investment Management and audit services. The DPF uses a unitized approach where investment returns are credited into member accounts on a monthly basis. The strategic asset allocation tool, together with the Fund Manager's mandates is utilized to manage the outsourced processes.



## FUND GOVERNANCE, STRUCTURE & MANAGEMENT • CONTINUED

There is overall four divisions in the current operation, namely; Finance, Operations, Communication and Compliance/Secretarial. A senior leadership team comprising of a Principal Executive Officer, Operations Manager, Communications Manager, Compliance Manager and Fund Accountant handle the day to day business of the Fund, reporting directly to the Board of Trustees which is ultimately accountable to the membership. The current DPF staff complement is 19.

## APPENDIX 7

### PENSIONER INCREASE POLICY

Subject to affordability, as assessed by the Trustees in consultation with the Actuary, and subject to agreement with the Employer, the Trustees may grant an increase to pensions in payment from the Fund on 1 July each year. Any pension increase granted may be uniform for all pensioners or varied according to the year of retirement, or have any other form that the Trustees consider equitable.

The annual increase on 1 July is targeted but not guaranteed to be equal to the year-on-year increase in the Consumer Price Index (as published by Statistics Botswana) up to the preceding 31 December. Any increase for Pensioners whose pensions commenced during the 12-month period immediately preceding a 1 July increase will be pro-rata to the number of pension payments payable to the Pensioner during this 12-month period divided by 12.

In deciding on the level of increase from 1 July (if any) the Trustees will consider but are not necessarily bound by the following:

1. The investment returns available for pension increases over any period up to the preceding 31 December.
2. The investment returns available for pension increases is the investment return on the pensioner account less taxes, manager fees and other relevant Fund costs, less the budgeted return (currently 4% per annum) assumed from time to time by the actuary to value pensioner liabilities.
3. Any mortality or expense profits or losses over the 12-months
4. Pension increases granted in the past.
5. The year-on-year increase in the Consumer Price Index over any period up to the preceding 31 December.
6. Any additional reserves that the Trustees decide to set aside for future poor investment outlook, Future anticipated pensioner mortality improvements, or future expenses that have not already been provided for in the pensioner liabilities.
7. The Trustees may consider pensioners as a single pool and decide to grant a uniform increase to.

8. All pensioners. Alternatively, the Trustees may vary the increase according to the year of retirement or use any other form of increase that they regard as fair and equitable.
9. A pension increase on 1 July will be determined according to the following guideline formula. The formula may need to be revised if future inflation is much higher or lower than current levels:

#### **Pension Increase = A + B**

Subject to a minimum increase of zero and a maximum increase of actual inflation plus 4% Where:

- (i) A = {Mid-point of the BoB Inflation target Range}
- (ii) B = {Funding Level % - 102.5%} Spread Factor
- (iii) BOB inflation target range currently 3.0% to 6.0%. The midpoint of the range is 4.5%.
- (iv) Actual Inflation rate = year on year CPI increase to preceding 31 December
- (v) Funding Level % (values as at the preceding 31 December): = Market value of the pensioner assets. Pensioner liabilities (include next increase of mid-point of inflation target range) The Funding Level is subject to a maximum of 125.0%. NOTE: The 102.5% in (ii) is chosen as a long term funding level target percentage for the pensioner portfolio.
- (vi) Spread Factor
  - = 1, if the Funding Level % is less than or equal to 97.5%
  - = 2, if the Funding Level % is greater than 97.5% but less than 102.5%
  - = 3, if the Funding Level % is greater than or equal to 102.5%





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