



# DPF

DEBSWANA • PENSION • FUND



**DEBSWANA** PENSION FUND  
2016 ANNUAL REPORT & FINANCIALS





## *Growth Rings*

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Annual growth rings on trees are an indication of increasing strength and maturity of the tree. This year the DPF marks its 33<sup>rd</sup> year in existence. We have come afar to become what we are; an industry leader with sound governance structures and an overall high performance organisation. This we achieved through great thought leadership by those that have held the baton over the years coupled with a fiercely loyal membership. With every wrapping ring around our steadily growing tree, we become more and more confident of the future and the realisation of our goals.

**Re tswelala ka go gola le wena.**

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*“Growing together towards a secure future”*



# DEBSWANA PENSION FUND

## Domicile, Trustees & Principal Business Partners

For the year ended 31 December 2016

### PRINCIPAL ADDRESSES OF THE FUND

Debswana Pension Fund Secretariat  
Private bag 00512, Gaborone  
Plot 50361 Block D, Carlton House  
Fairgrounds Office Park  
Gaborone, Botswana

### PARTICIPATING EMPLOYERS

Debswana Diamond Company (Pty) Ltd  
Diamond Trading Company Botswana (Pty) Ltd (DTCB)  
Morupule Coal Mine (Pty) Ltd (MCM)  
De Beers Global Sightholder Sales (Pty) Ltd (DBGSS)  
De Beers Holding Botswana (Pty) Ltd (DBHB)  
Debswana Pension Fund (DPF)

### TRUSTEES

#### Principals

Richard Vaka  
Reobonye China Abel (Deputy Chairman)  
Lynnette Armstrong  
Chris Mokgware (Apptd. Chairman Nov 2016)  
Esther Palai  
Gakenaope Gakologelwang (Retired June 2017)  
Ishmael Mokobi (Retired Jan 2017)  
Lebogang Sebopelo  
Garekwe Mojaphoko  
Prof. Mtedeweka Mhango (Apptd. Feb 2017)  
Wanjiru Kirima (Retired 30<sup>th</sup> June 2016)  
Lapologang Letshwenyo (Awaiting vetting process results)

#### Alternates

Eunice Mpoloka  
Emmanuel Kgaboetsile (Retired 30<sup>th</sup> June 2016)  
Tefo Setlhare  
Letsibogo Ndwapi  
Victor Mbang  
George Rantshilwane (Retired June 2017)  
Mooketsi Menyatso (Retired Jan 2017)  
Kitlanang Phuthago  
Potoko Bogopa  
Mooketsi Oaitse (Apptd. May 2017)  
Boitumelo Senyane – (Apptd. Oct 2016)

### ACTUARIES

Towers Willis Watson

### ADMINISTRATION OFFICES

#### Gaborone Office

Plot 50361 Block D, Carlton House,  
Fairgrounds Office Park  
Tel: +267 361 4267,  
Fax: +267 393 6239

#### Orapa Office

Administration Block, Office No.17  
Tel: +267 290 2323

#### Jwaneng Office

Township Housing Office Block,  
Office No.9. Tel: +267 588 4849

### INVESTMENT CONSULTANTS

RisCura Solutions (Pty) Ltd

### INVESTMENT MANAGERS

#### Local Managers

Investec Asset Management (Pty) Ltd  
Allan Gray Asset Management (Pty) Ltd  
Botswana Insurance Fund Management (Pty) Ltd  
Knight Frank - Property portfolio

#### Offshore Managers

Walter Scott International (Equity)  
Aberdeen International (Equity)  
Marathon International (Equity)  
Orbis International (Equity)  
PIMCO International (Bond)

### CUSTODY MANDATE

Stanbic Bank Botswana Ltd

### BANKERS

Barclays Bank Botswana (Pty) Ltd  
First National Bank Botswana (Pty) Ltd

### EXTERNAL AUDITORS

Deloitte & Touche

### INTERNAL AUDITORS

Debswana Diamond Company Internal Auditors

### ADMINISTRATORS

Self-administered Pension Fund  
(Debswana Pension Fund is a self-administered Fund that also provides optional annuities in-house for its retiring active and deferred members.)

### ENQUIRIES

Enquiries about the Fund and its services may be made by visit, telephone or email to [bokamoso@debswana.bw](mailto:bokamoso@debswana.bw). More information is available on the website: [www.dpf.co.bw](http://www.dpf.co.bw).



<b>TABLE OF CONTENTS</b>	<b>PAGE</b>
<b>A.</b> Fund Overview _____	<b>6</b>
<b>B.</b> Market Review _____	<b>10</b>
<b>C.</b> Fund Performance Highlights _____	<b>14</b>
<b>D.</b> Chairmans Message _____	<b>22</b>
<b>E.</b> CEO's Review _____	<b>26</b>
<b>F.</b> Trustees' Report _____	<b>30</b>
1. Constitution of the Fund _____	<b>30</b>
2. Compliance Statement _____	<b>30</b>
3. 2016 Risk Management Report & Risk Policy Statement _____	<b>35</b>
4. 2016 Finance And Administration Report _____	<b>37</b>
5. Communication Report & Policy Statement _____	<b>46</b>
6. Investment Report _____	<b>61</b>
<b>G.</b> Financial Statements _____	<b>68</b>







# DEBSWANA PENSION FUND

A. Fund Overview



# DEBSWANA PENSION FUND

## Fund Overview

For the year ended 31 December 2016

### FUND BACKGROUND

The Debswana Pension Fund (DPF) is the largest private pension fund in Botswana and a major player in the retirement services industry with assets valued at BWP6.5 billion and a total membership of 11957 inclusive of active, deferred and pensioner members. The DPF is a pension fund secretariat to the Debswana & De Beers family of companies namely; Debswana Diamond Company (Debswana), Diamond Trading Company Botswana (DTCB), De Beers Holding Botswana (DBHB), Morupule Coal Mine (MCM), De Beers Global SightHolder Sales (DBGSS), Anglo Coal Botswana and the DPF itself.

The Fund currently has a staff complement of 23 and five main business functions which include Finance and Administration, Risk and Compliance, Investments, Communication, and IT. The Internal Audit and Information Management support are co-sourced with Debswana Diamond Company, whilst the Assets Management function, Actuarial Services and Investment Consultancy are outsourced to various asset managers and consultants locally and globally.

The DPF provides members with an end to

end administration service in-house, including the provision and management of retirement annuities for its retiring members. Besides the main head office in Gaborone, there are two (2) satellite offices which are resourced with Member Relations officers to provide support to members and employers based in and around the two membership constituencies, i.e. Jwaneng and Orapa. The offices are also within the vicinity of the various participating employers' locations where active members are. Deferred and pensioner members living around these areas can also access the offices for services.

### OUR VISION STATEMENT

To be the preferred provider of retirement fund services in Botswana

### OUR 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
- Maximise investments in a socially responsible manner

### OUR VALUES

Innovation • Trust & Integrity • Agility • Member Focused • Quality Focused





## Christopher Mokgware

Board Chairman  
Company Appointed  
Other Participating Employers

### Principal Trustees



**Lebogang Sebopelo**  
Company Appointed  
DTCB



**Lynette Armstrong**  
Company Appointed  
Debswana Diamond Company



**Richard Vaka**  
Retired  
Debswana Diamond Company



**Esther Palai**  
Member Elected  
Debswana Jwaneng



**Reobonye China Abel (DEP)**  
Member Elected  
OLDM



**Garekwe Mojaphoko**  
Member Elected  
Pensioners



**Lapologang Letshwenyo**  
Member Elected  
MCM



**Gakenaope Gakologelwang**  
Retired  
DTCB

### Alternate Trustees



**Tefo Setlhare**  
Company Appointed  
Debswana Diamond Company



**Letsibogo Ndwapi**  
Company Appointed  
Other Participating Employers



**Kitlanang Phuthogo**  
Company Appointed  
DTCB



**Eunice Mpoloka**  
Company Appointed  
Debswana Diamond Company

### Independent Trustee



**Prof. Mtendeweka Mhango**  
Board Appointed.

### Alternate Member Elected



**Mooketsi Oaitse**  
Member Elected  
MCM



**Victor Mbanga**  
Member Elected  
Debswana Jwaneng



**Potoko Bogopa**  
Member Elected  
Pensioners



**Boitumelo Senyane**  
Member Elected  
OLDM



**George Rantshilwane**  
Retired  
DTCB



## Gosego January

Chief Executive Officer

### DPF Exco



#### Thato Norman

Investment Manager  
Appointed 1 March 2017



#### Mpho Mphafe-Fish

Finance & Administration Manager  
Appointed August 2016



#### Sidney Mganga

Legal & Compliance Manager  
Appointed July 2016



#### Agatha Sejo

Communication Manager

### Senior Leadership



#### Boikanyo Europa

IT & Project Manager



#### Mpho Molefhi

Fund Accountant



#### Omphile Macheng

Fund Administrator





# DEBSWANA PENSION FUND

B. Global Market Overview



# DEBSWANA PENSION FUND

## 2016 Global Market Overview

For the year ended 31 December 2016

### North America

United States (US) equities outperformed in 2016 following an initial sell off in the first quarter. The first half of the year was characterized by weak global growth, high inventories and energy sector weakness. However, the second half of the year registered improved domestic growth as the market anticipated fiscal policy easing and monetary policy tightening. Standard & Poor's Composite Index, Dow Jones Industrial Index and Russell 2000 all reached record highs in November subsequent to the election of Donald Trump as US president. President Elect, Donald Trump, pledged fiscal stimulus and reignited the reflationary trade complemented by monetary policy tightening. Continued wage growth, high levels of employment, strong household consumption, improved credit and increased business activity underpinned US domestic growth.

With a view to normalize interest rates, the Federal Reserve Bank (Fed) unanimously agreed to raise the key policy rate target range from 0.25 - 0.5 percent to a new range of 0.5 - 0.75 percent. This was accompanied by the continued Federal Open Market Committee (FOMC) forward guidance framework which highlighted a gradual increase in policy rates. Against this background, bonds rallied in 2016 with the investment grade bond Barclays US Credit Index increasing 5.6 percent and the high yield bond Barclays US Corporate High Yield Index rising 14.7 percent. In particular, equity earnings revisions approached five year highs as de-regulation, fiscal stimulus and corporate tax cuts underpinned the economy. Liquidity levels remained supportive as US monetary policy continues its accommodative stance further supporting equity prices

### Europe

The Euro-19 Gross Domestic Product (GDP) increased 1.6 percent in 2016. Domestic activity was driven by improvements in household consumption and business activity. The unemployment rate dropped to a seven year low of 9.6 percent in December further supporting investment and household confidence. Household consumption on durable goods and big ticket items such as automobiles rose during the year. With a view to support domestic activity, monetary policy by the European Central Bank (ECB) remained accommodative thereby supporting corporate earnings, investment intentions and the financial sector.

The European Union (EU) risked disintegration following the unexpected vote by the United Kingdom (UK) on June 23,

2016 to leave the union. Specifically, increased concerns over net immigration and the growth in populist political parties have increased risks of protectionism and de-globalisation. Subsequent to the UK vote to leave the EU, David Cameron resigned as Prime Minister on July 11, 2016 and was replaced by Home Secretary, Theresa May. The Great British Pound (GBP) depreciated to a 31 year low of 1.3324 against the United States Dollar (USD). The GBP slipped on concerns over market access to the EU which was pronounced by the UK's current account and fiscal deficits that led to the sale of risky assets coupled by a flight to safety of government bonds. The rotation of capital amongst different asset classes resulted in bond proxies such as defensive stocks underperforming value stocks.

### Japan

Japan's GDP rose from 0.5 percent to 1.0 percent in 2016. Output remained constrained by concerns over the global economy and introduction of negative interest rates by Bank of Japan in February. The appreciation of the Japanese Yen undermined domestic exports while the introduction of negative rates negatively affected the financial sector. As a consequence, equities in the insurance, banking and transportation sectors underperformed in the first half of the year. However, the second half of the year resulted a 20 percent increase in the TOPIX Index as banking and insurance stocks rallied on higher earnings forecasts. The economy was driven by consumer spending, which has benefited from lower commodity prices, capital expenditure and export growth. The workforce in Japan expanded due to labour market reforms which capped wage inflation.

### Emerging Markets

Emerging Markets (EM) comprise approximately half of the global economy and over half of the global youth population. Continued urbanization has created a material demand for infrastructure development in EM economies. In the period leading to the November 2016 US presidential elections, Emerging Markets posted significant outperformance over Development Markets following several years of negative flows. The attractive relative yields offered by Emerging Markets benefited from the appreciation of EM currencies against Developed Markets, in particular the USD.

### China

China's economy slowed down from 6.9 percent in 2015 to 6.5 percent in 2016. Fixed capital investment dropped from 10 percent to 8.1 percent while consumption contributed 4.3



# DEBSWANA PENSION FUND

## 2016 Global Market Overview

For the year ended 31 December 2016

percentage points to growth. In an effort to protect the economic slowdown from capital flight, characterized by a weakening currency and falling equity prices, Peoples Bank of China (PBC) reduced the Reserve Requirement Ratio (RRR) by 50 basis points. Concerns about the structural changes in the economy, financial market regulation, policy uncertainty and a property downturn contributed to the 12.3 percent year on year drop in the Shanghai Stock Exchange Composite Index.

### Asia Ex China

Asian economies have been supported by easier monetary and fiscal policies.

### Brazil

The economic recession continued in 2016 with output contracting by 3.6 percent. Brazil's Statistics Institute reported that overall investment dropped from 18.1 percent to 16.4 percent of Gross Domestic Product (GDP) in 2016. Unemployment increased to 12 percent as businesses activity was curtailed by the recession. The fiscal deficit increased to 8.93 percent of GDP while net debt as a percentage of GDP increased to 45.9 percent. Household and business confidence fell while business and household debt levels increased. A government corruption scandal led to the removal of President Dilma Rousseff from office on August 31 who was subsequently replaced by Michel Temer as interim president. During the year, Brazil's stock exchange, Ibovespa, increased 63 percent while the real appreciated by 21 percent against the USD.

### Russia

According to the Federal Statistics Reserve, Russia's economy contracted by 0.2 percent in 2016. Manufacturing increased 1.4 percent while production of natural resource rose 0.2 percent. Household consumption and business activity remained weak as the economy faced the headwinds of low energy prices and economic sanctions. Oil and gas accounted for 40 percent of the government's budget revenue. With a view of supporting the economy, Bank of Russia lowered the key policy rate from 11 percent to 10 percent while the budget deficit moderated to 2.4 percent of GDP. The Russian MICEX Stock Market Index rose 27 percent while ruble appreciated by 20 percent against the USD.

### South Africa

The South African rand remained volatile in 2016 as a result of global and economic factors. The rand remained primarily driven by political factors as concerns over the independence of the South African Treasury remained pronounced. The country remained investment grade though risks of a sovereign credit downgrade remained.

### Botswana

The growth outlook for the economy improved to 4.3 percent in 2016 from a contraction of 0.3 percent in 2015. Output rose 4.2 percent in Quarter 4, 2016 against a decline of 3.5 percent in Quarter 4, 2015. The economy was driven by an increase of 12.4 percent and 6.5 percent in trade, hotels & restaurants and transport & communications, respectively. Mining activity decreased 6.2 percent as a result of the closure of as BCL and Tati Nickel mines. Notwithstanding, the positive recovery in demand for diamonds resulted in an acceleration of 14.3 percent in output. The strength of trade, hotels and restaurants increased non mining GDP from 1.7 percent to 5.5 percent in Quarter 4, 2016.

Household consumption moderated to 2.2 percent from 3.9 percent while government expenditure fell to 0.5 percent from 2.5 percent. A significant decrease from 8.8 percent to 3.6 percent was recorded in gross capital formation as business investment dropped. Labour market weakness continued with the unemployment rate increasing to 18.37 percent. However, the labour force participation rate increased to 77.46 percent. Global headwinds continue to weigh on economic activity, which remains exposed to commodities. Concerns about global growth, commodity price volatility and geopolitical risks have dominated the country's economic outlook. Households have struggled from high indebtedness, tight credit availability and weak wage growth. The fiscal deficit widened to 4.5 percent of GDP in 2016 from a surplus of 3.7 percent the previous year. Government revenue narrowed as mineral receipts declined and Southern African Customs Union (SACU) transfers softened due to continued output weakness in South Africa. The balance of payments surplus increased to P2.85 billion against a deficit of P57 million in 2015. The current account surplus decreased to 4.1 percent of GDP supported by an improved trade balance.



# DEBSWANA PENSION FUND

## 2016 Global Market Overview

For the year ended 31 December 2016

Inflation decreased from 3.1 to 3 percent in 2016 thereby remaining within the Bank of Botswana (BoB) 3 - 6 percent inflation target. Inflation expectations decreased during the year as a result of moderate domestic demand and oil prices. The low inflation trajectory prompted the Bank of Botswana to cut the Bank rate by 50 basis points to 5.5 percent in August. Monetary policy remained accommodative to offset the negative effects of slower growth. The Pula depreciated against the South African rand by 7.5 percent while appreciating versus the International Monetary Fund (IMF) unit of account the Special Drawing Rights (SDR) by 8.9 percent. Against the USD, the Pula appreciated by 5.23 percent as commodity prices improved in the last quarter of the year thereby driving Emerging Market currencies.

During 2016 the Domestic Companies Index (DCI) declined 11.38 percent as large cap counters such as financial and consumer stocks declined. First National Bank and Standard Chartered Bank contributed to the financial sector underperformance. The liquidation of state owned mine BCL had adverse effects on the economy thereby affecting market confidence. Property stocks, offset some of the decline, as listed real estate counters recorded a strong performance.

The Fleming Aggregate Bond Index (FABI) returned 6.92% over the year. Weak domestic activity, a benign inflation outlook and supply constraints characterized the bond market.

### 2016 DPF Investment Performance Summary

During the year ended December 31, 2016, the Debswana Pension Fund increased 3.04 percent (gross) and 2.09 percent (net) to P6.518 billion. Global equities returned 5.46 percent against a global equity benchmark return of 3.07 percent. Global equity performance was partially offset by the 5.38 percent appreciation of the BWP against the USD. In terms of manager performance, Orbis generated above benchmark returns of 13.81 percent. Global equity managers namely, Walter Scott, Marathon and Aberdeen underperformed the benchmark thereby returning 1.12 percent, 3.21 percent and 2.57 percent, respectively.

Global bonds underperformed equities with the Barclays Global Bond Index contracting 2.13 percent. The fixed income mandate allocation to PIMCO outperformed the benchmark by returning -1.07 percent.

The Domestic Companies Index (DCI) contracted 11.33 percent for the year ended December 31, 2016. During the same period, the Fleming Aggregate Bond Index returned 6.80 percent while cash returned 1.62 percent. Allan Gray outperformed the index and reported a return of 6.91 percent while BIFM and Investec returned 0.67 percent and -1.72 respectively.





**DEBSWANA PENSION FUND**

C. Fund Performance Highlights

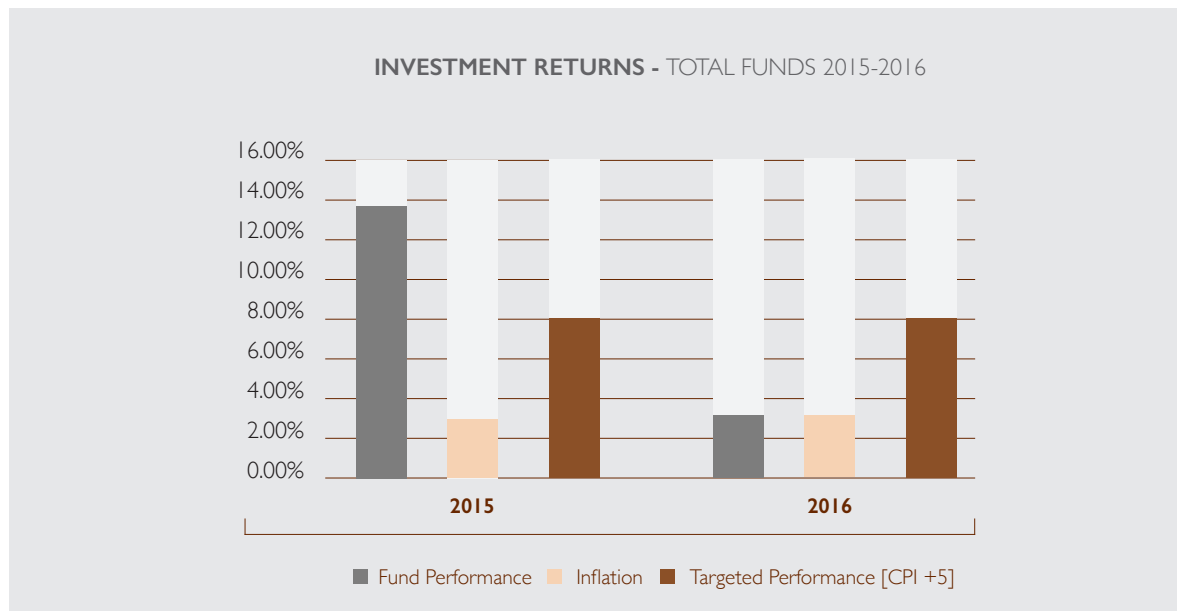
# DEBSWANA PENSION FUND

## 2016 Fund Performance Highlights

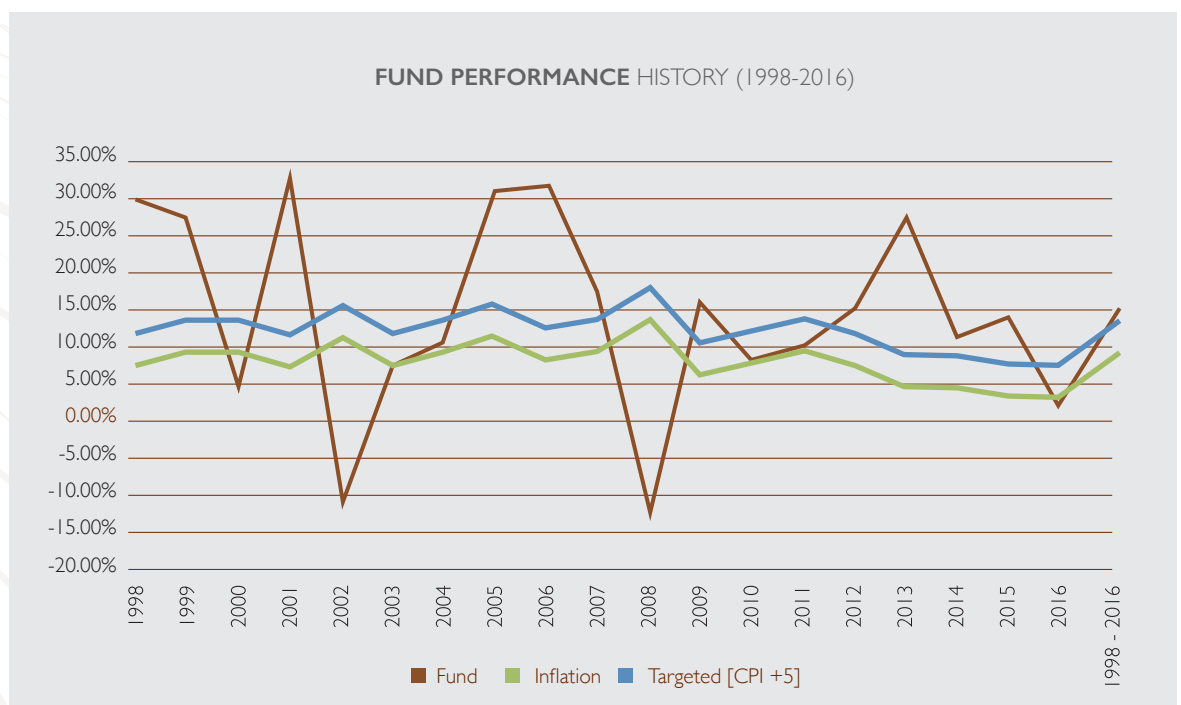
For the year ended 31 December 2016

### Fund Performance - Total Fund

Year On Year



Long Term





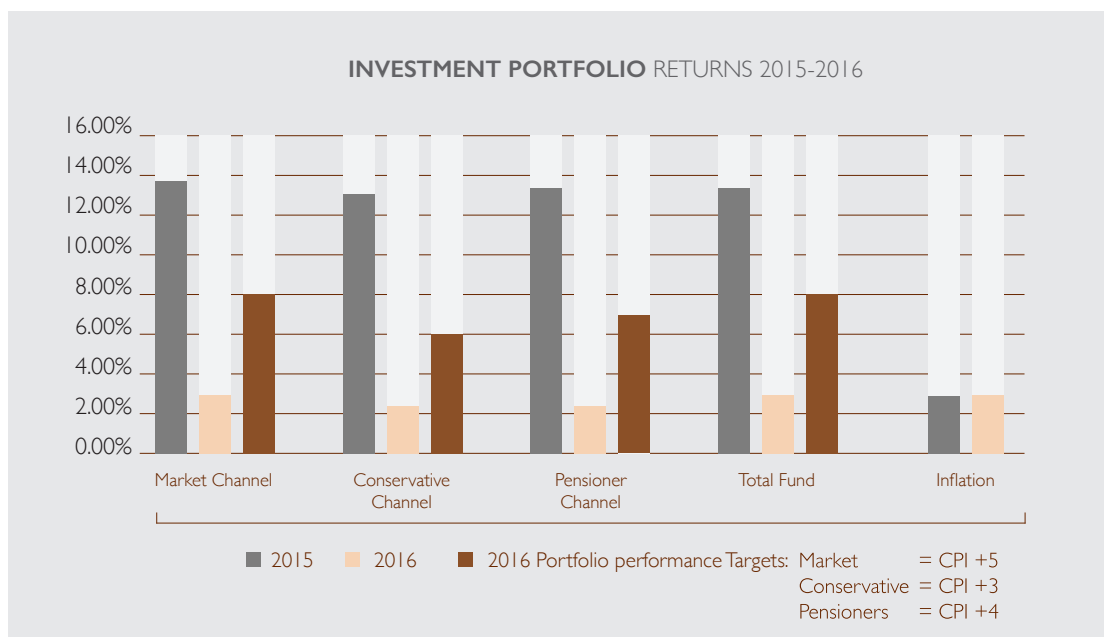
# DEBSWANA PENSION FUND

## 2016 Fund Performance Highlights

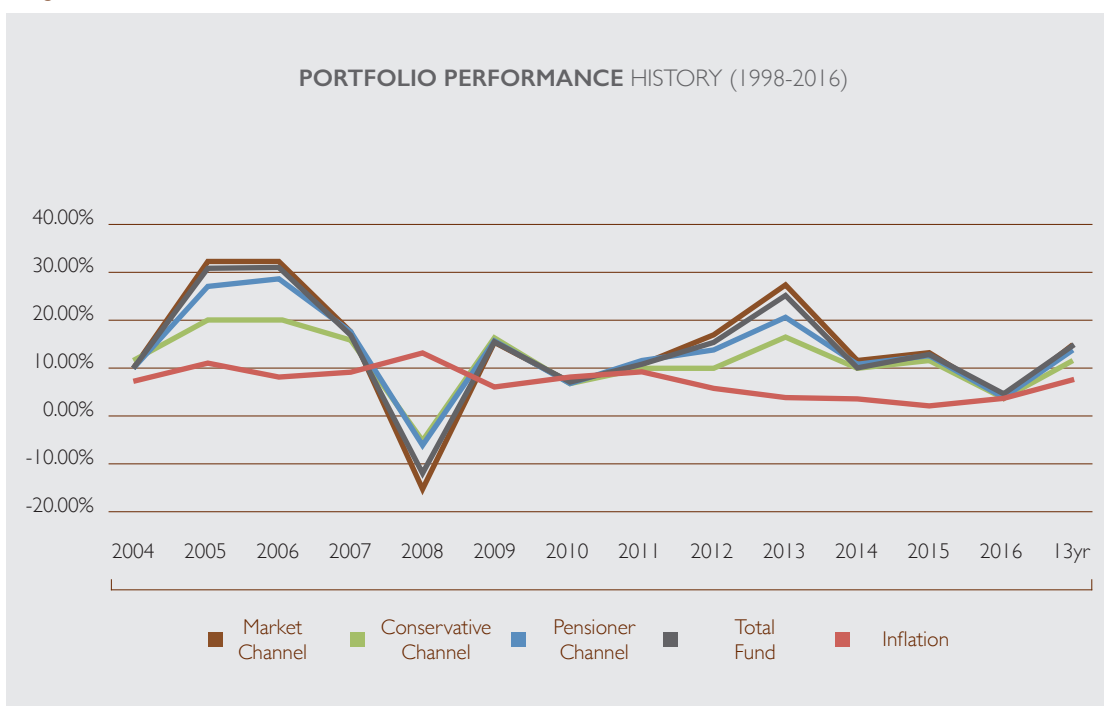
For the year ended 31 December 2016

### Fund Performance - Life Stage Investment Portfolios

Year On Year



Long Term



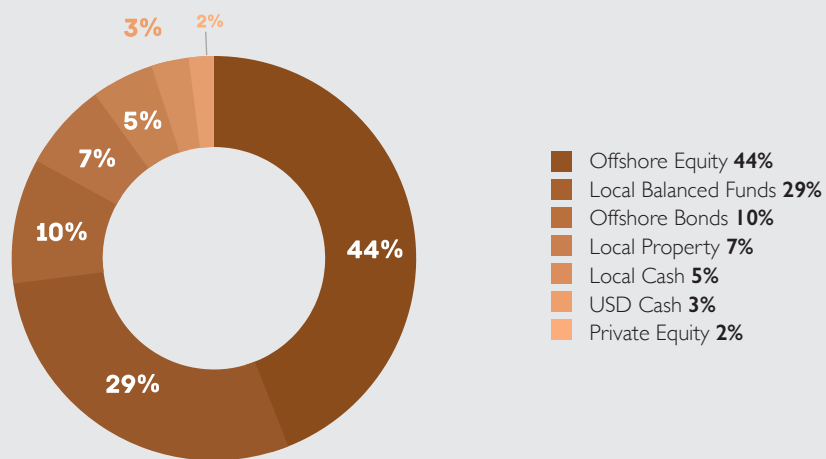
# DEBSWANA PENSION FUND

## 2016 Fund Performance Highlights

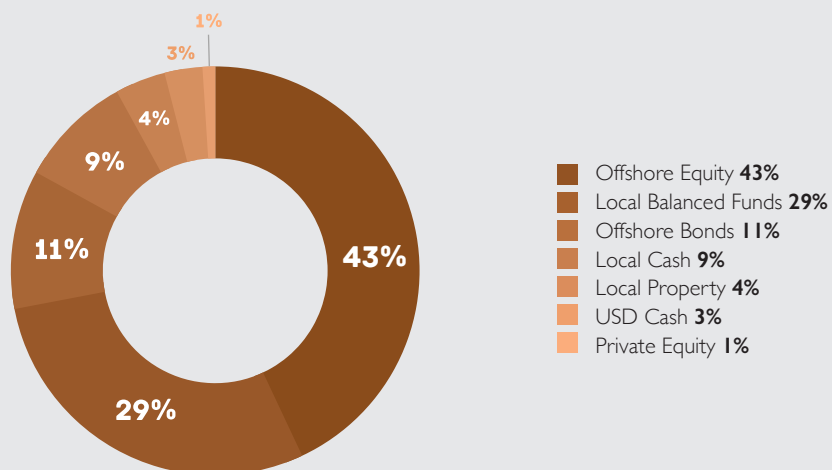
For the year ended 31 December 2016

### Asset Allocation

ASSET ALLOCATION 31 DECEMBER 2016



ASSET ALLOCATION 31 DECEMBER 2015



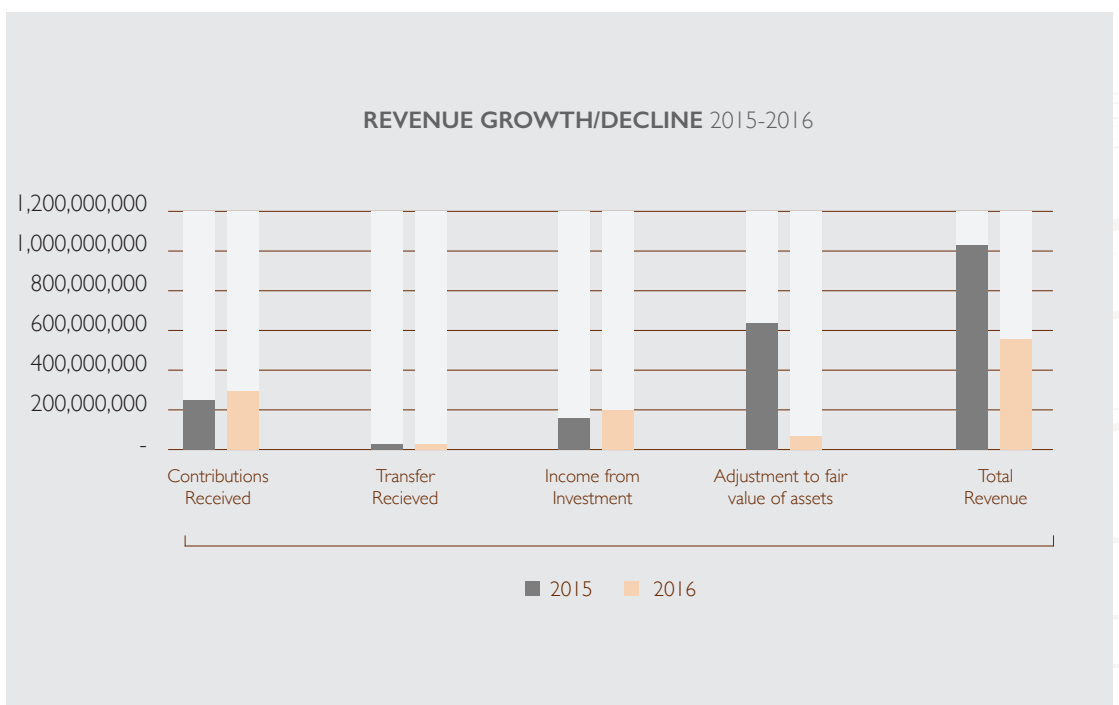
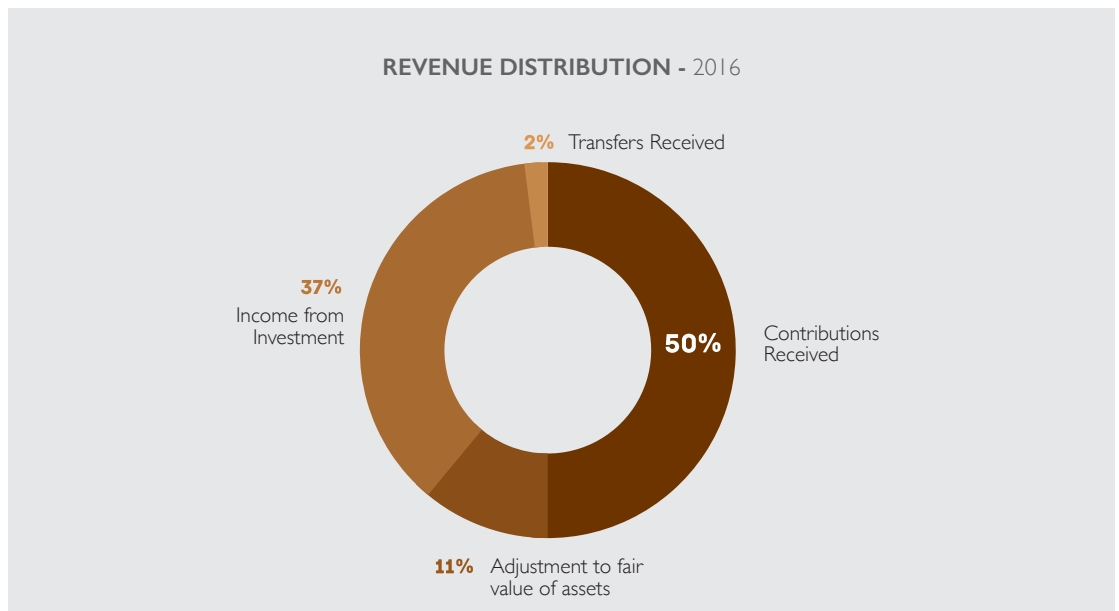


# DEBSWANA PENSION FUND

## 2016 Fund Performance Highlights

For the year ended 31 December 2016

### Revenue

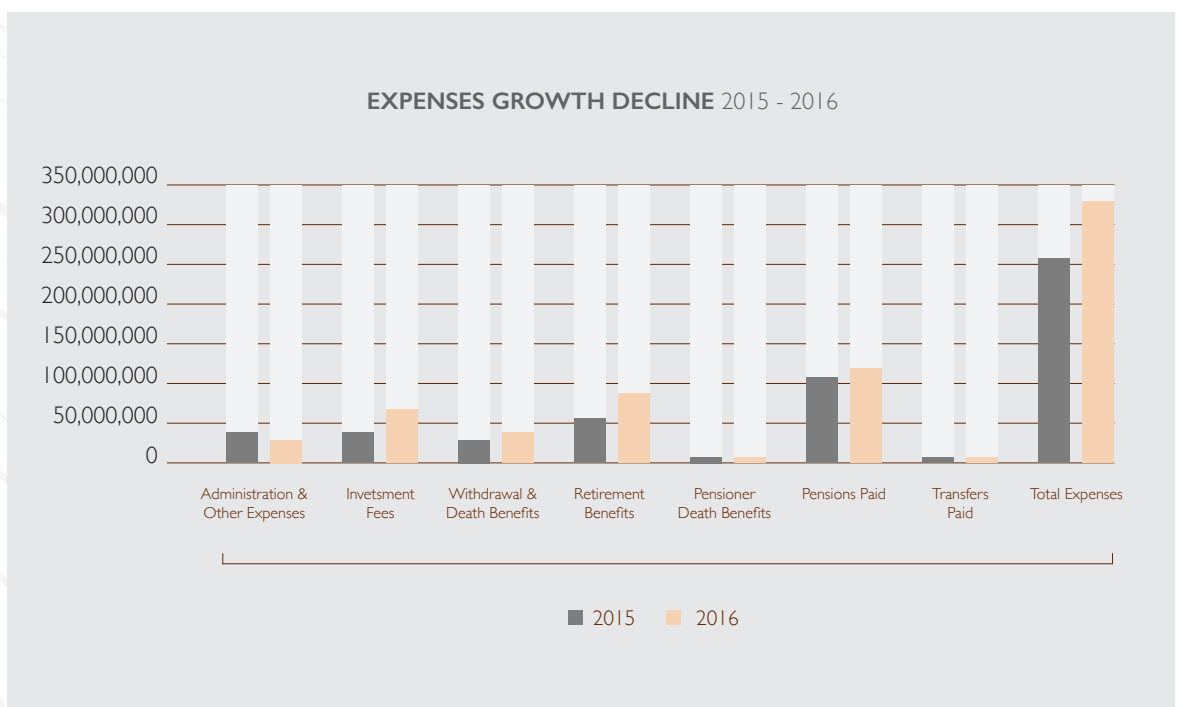
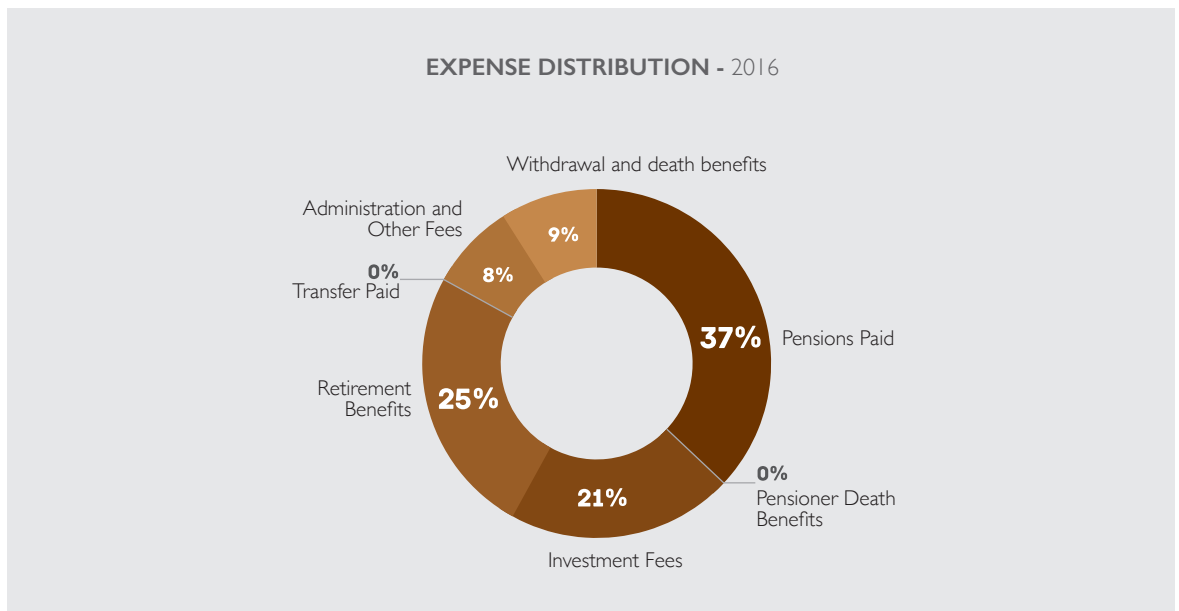


# DEBSWANA PENSION FUND

## 2016 Fund Performance Highlights

For the year ended 31 December 2016

### Expenses



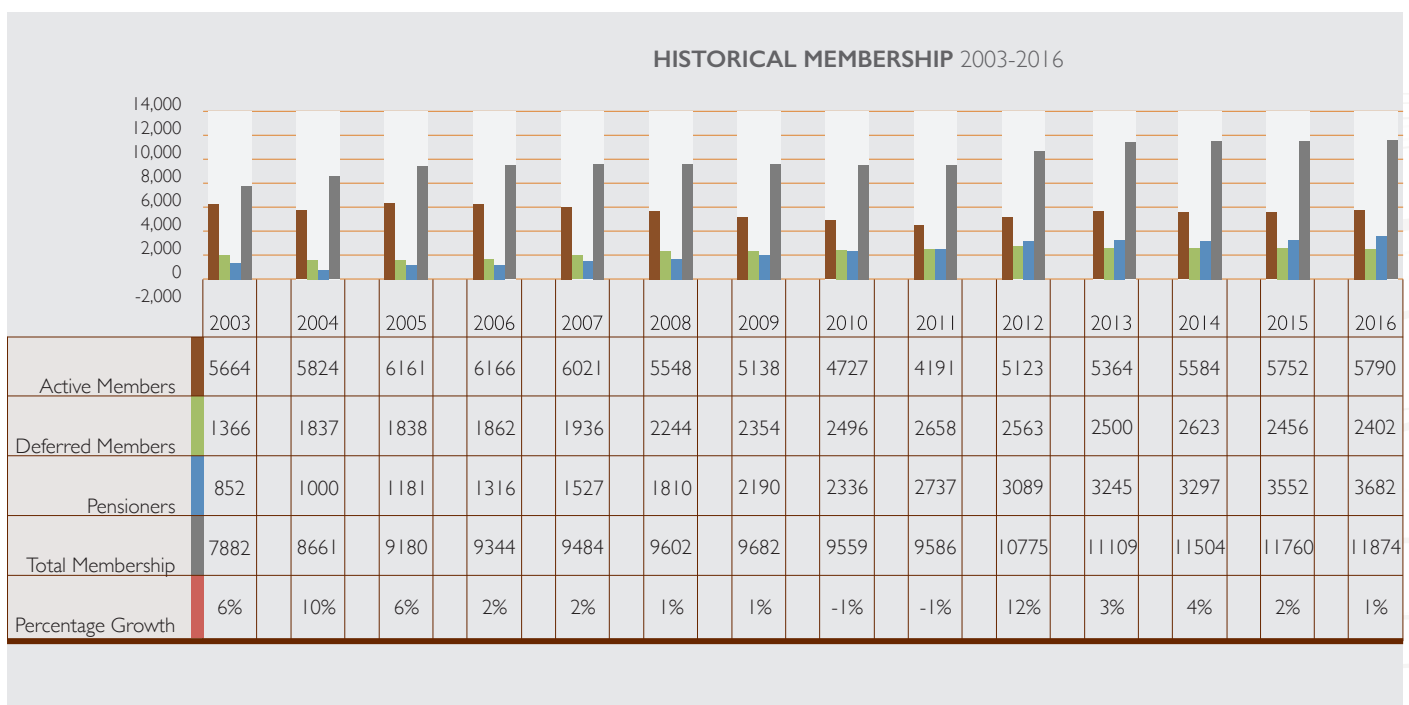
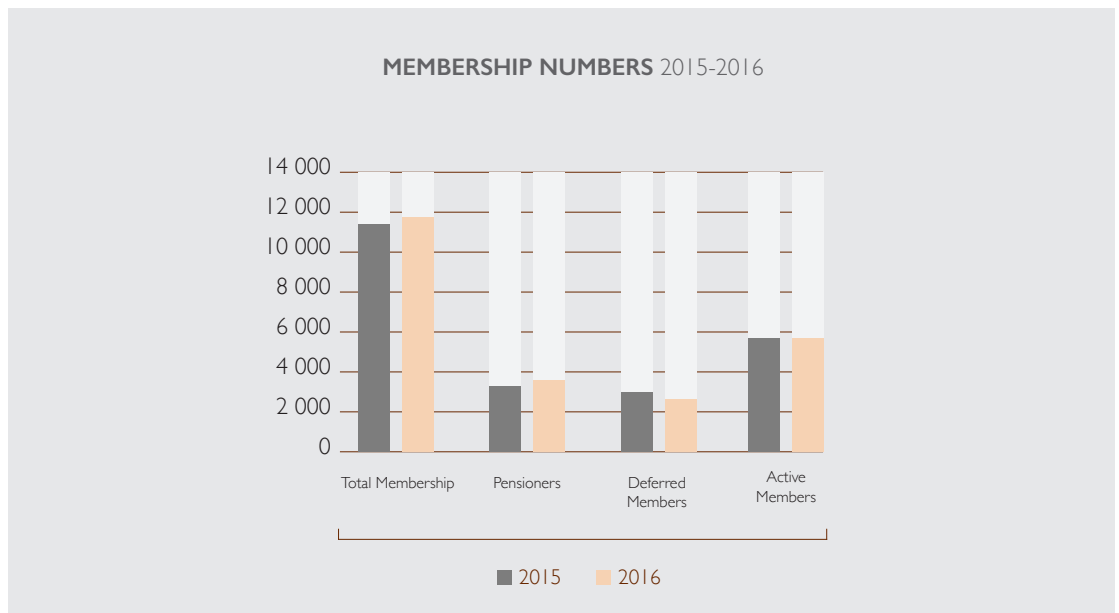


# DEBSWANA PENSION FUND

## 2016 Fund Performance Highlights

For the year ended 31 December 2016

### Membership growth & distribution



# DEBSWANA PENSION FUND

## 2016 Fund Performance Highlights

For the year ended 31 December 2016

### Funding Level

	31.12.2016	31.12.2015
<b>COMBINED POSITION</b>	<b>P'000</b>	<b>P'000</b>
Fair value of assets	6,518,118	6,313,134
Actuarial liabilities	6,191,443	5,863,899
<b>Surplus/(deficit)</b>	<b>326,675</b>	<b>449,235</b>
<b>Funding level</b>	<b>105.3%</b>	<b>107.7%</b>

	31.12.2016	31.12.2015
<b>PENSIONER ACCOUNT</b>	<b>P'000</b>	<b>P'000</b>
Fair value of assets	1,959,299	1,884,672
Pensioner member liabilities	1,840,226	1,628,693
<b>Surplus/(deficit)</b>	<b>119,073</b>	<b>255,979</b>
<b>Funding level</b>	<b>106.50%</b>	<b>115.70%</b>





# DEBSWANA PENSION FUND

D. Chairman's Remarks



## Chris Mokgware

Board Chairman  
Company Appointed

*“Once more, the DPF sailed through a successful but challenging financial year.”*

### Dear Members

It is my pleasure to present to you the 2016 Trustees' Report and Annual Financial Statements for the DPF.

Once more, the DPF had a successful but challenging financial year. A key development in 2016 was the sluggish performance experienced on our investments, which have since yielded below target investment returns as reported in the investment report. We nevertheless derive some degree of comfort in that the results are positive although not on target, and most importantly that our assets' performance met inflation and thus were cushioned against possible attrition on past earnings.

The market volatility marked by current and recent years is an ongoing reminder to us that the future is not guaranteed, and therefore this challenges all stakeholders involved in the pension management mandate to play their part to the fullest in ensuring that we all collectively reach the desired retirement objectives for members. On the part of the Fund management and Trustees, we have the responsibility to constantly seek innovative ideas that will improve our strategies in all aspects of the Fund's management, most importantly the optimisation of investment returns and retention of operating costs to the possible minimum.

In that regard I am happy to assure you that we recognise that responsibility fully as your DPF Trustees and continue to make inroads toward such improvements. Some of the 2016 milestones achieved that are symbolic of that progress

include the following:

- the appointment of global fixed income asset managers and global equity transition managers to solidify the security of our offshore investments.
- kick-starting the revision of our Investment Policy to improve the yield potential of our Strategic Asset Allocation (SAA) by including new asset classes such as international property, African Equity, and International property etc. as part of the continuing work to develop a sound Asset Liability Modelling (ALM) Strategy which is expected to conclude in 2017.

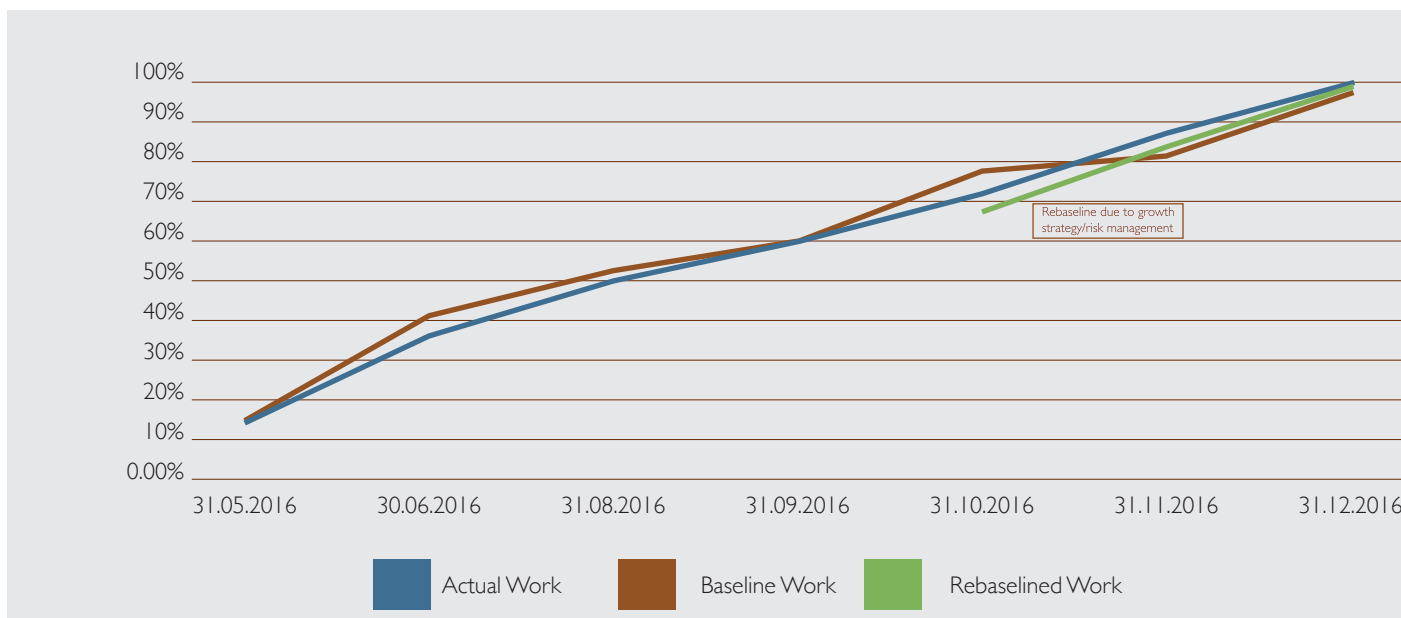
Various policies and processes were reviewed and implemented during the year with the aim to further enhance our operational efficiencies. 2016 marked the conclusion of Project Anchor, which we reported on in the previous year's report to be highly advanced. I am proud to say that the Fund administration has improved significantly over the recent years and much of the credit goes to the excellent execution of this project. At the start of the year a strategic review workshop was held by DPF management with the aim to chart a way forward in terms of aligning functional and support plans, and consolidating these into a clear integrated corporate level implementation plan for 2016. By end of 2016, DPF had implemented most of the operational improvements in the plan. Below shows an updated summary of results of the plan achieved in 2016 since its initiation in 2015:

# DEBSWANA PENSION FUND

## Chairman's Remarks

For the year ended 31 December 2016

Project Name	Stage	%	PM	Budget	2016											
					JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Project Anchor	Closed	100%	MPA		■	■	■	■	■	●						
Project Anchor - Gap List	Closed	100%	MPA		■	■	■	■	●							
Project Anchor IB - Portal Deployment	Closed	100%	MPA		■	■	■	■	■	■		●				
Project Anchor IB - Enhancements	Closed	100%	MPA	140,811.83										■	●	
Desired Culture	Execution	90%	TS											■	●	
Review Finance People, Process & Tech	Closed	100%	MMF						■	■	●			■	■	●
AML Compliance Structure	Closed	100%	SM						■	■	●			■		
Risk Strategy	Closed	90%	SM								■	●	■	■	■	■
Review Property Strategy	Closed	90%	GJ												●	●
Business Continuity	Closed	100%	MPA	60,000.00								■	■	●		
Review Life Stage Model	Closed	95%	MM								■	●				
		<b>97%</b>		<b>200,811.83</b>												

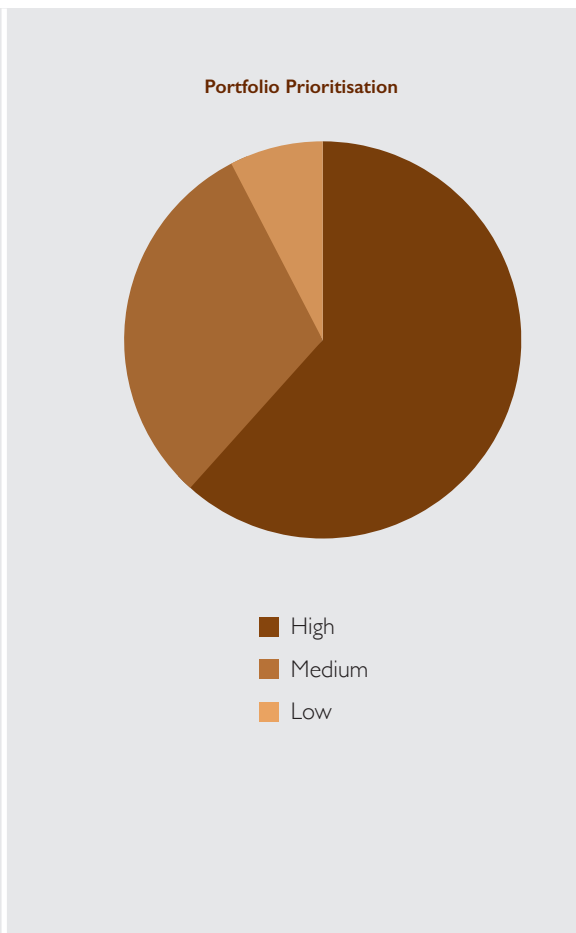
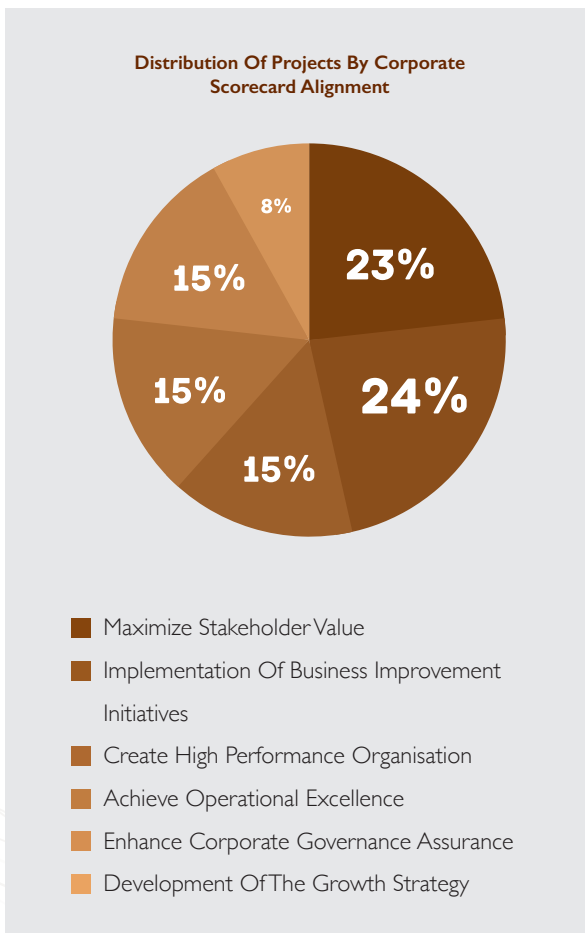




# DEBSWANA PENSION FUND

## Chairman's Remarks

For the year ended 31 December 2016



In conclusion, I would like to emphasise on my earlier inferences that as a member you are also a stakeholder and thus have some accountability towards ensuring that the pension mandate is successful. Key to these are assisting us to maintain accurate records, which form an integral part of your pension growth.

By complying with the administration requirements especially with regard to regularly updating your personal details and nominations, you will help us ensure that you are invested in the right investment portfolio at all times and that we accurately distribute your benefits upon your eventual

demise. You also need to remember to exercise prudence with your retirement savings in order to achieve your desired net replacement ratio. The Fund management alone cannot achieve your desired retirement income, and a lot is dependent upon you preserving your benefit by avoiding cash withdrawals before retirement, and also making additional voluntary contributions to improve your future earnings. Please use the new member portal to regularly check on the progress of your investment.

I look forward to continued growth and success for the Fund in the coming years.

Sincerely  
Chris Mokgware  
**CHAIRMAN**



**DEBSWANA PENSION FUND**

E. Chief Executive Officer's Review



## Gosego January

Chief Executive Officer  
Company Appointed

*“I wish to thank you immensely for your continued patronage, particularly for your unwavering loyalty and solidarity with the Fund through the difficult periods.”*

### Dear Members

I wish to thank you immensely for your continued patronage, particularly for your unwavering loyalty and solidarity with the Fund through the difficult periods, and especially subsequent to the insourcing of our administration in 2010 where after we experienced some challenges. We have since come afar and survived those turbulent periods, key amongst these being the post system implementation administrative problems that occurred between 2011 and 2014 as well as the moderate investment growth experienced over the last year due to global market events such as Greece, Brexit, Trump election, etc. As indicated from the Chairman's reports and the performance highlights, the 2016 investment performance is below expectation; however the targeted long term Fund performance has been achieved and is our lowest since the 2008 financial meltdown. Nevertheless we remain optimistic about the long term performance and will continue to employ all our energies towards mitigating such risks.

The Fund administration has since survived the turbulence and has been running like a well-oiled machine since 2014 thanks to the dedication of the unrelenting team that is the DPF employees. Our constant motivation is largely fuelled by our servitude and love for our members, and thus we are constantly cognisant of our duty to care and protect your investments beyond just the ordinary duty of a regular employee. For that reason you can be assured of our continued hard work and commitment towards the DPF mandate.

In 2016 DPF finalised the resourcing of its functions following the major restructuring that happened in 2015. It was a year to on board new employees and to embed system and processes. 2016 also served as the first test of our new structure and new ways of operating. It has allowed us to identify gaps, particularly in the reviewed structure and to address them promptly.

We appointed eight employees in 2016, which represents over a third of our staff count. These employees proved their mettle as they all seamlessly took up their new positions and integrated well with the existing team. DPF experienced its most devastating moments in July 2016 when a colleague passed away suddenly as a result of a road accident. This incident tested our resolve as a team and we made it through holding hands and supporting one another.

The year's main HR goals were to resource the structure, ensure that new and existing employees were engaged in individual specific developmental initiatives and to kick off an organisational culture redefining exercise. The latter was launched with a culture survey that was aimed at identifying all key issues that may hinder or propel the desired culture. Consequently, the 2017 HR initiatives have been moulded around the action items taken from that survey.

We also focused on building interpersonal relationships within the Fund by having various team building activities which included our first complete Wellness Day in August which was a resounding success. The day covered several areas of wellness including financial, professionalism in the workplace, employee assistance programs and health screenings.

The leadership of the Fund at both managerial and Board level have continually shown their support to the DPF staff; ensuring that our staff is well on its way to having alert, well rounded, motivated employees to fulfil our goal to remain a high performing team. I am very grateful for the astute leadership of the DPF Board of Trustees in 2016, through which some very important resolutions were made that enabled us operationally to successfully deliver on our organisational scorecard deliverables and further achieve a clean and resounding audit outcome from both the internal and external audits. Below is a summary of our overall 2016 scorecard outcome;



# DEBSWANA PENSION FUND

## Chief Executive Officer's Review

For the year ended 31 December 2016

Strategic Themes	Strategic Objectives	Strategic Goals	Performance Overview
Financial	Cost and Capital Management	To provide a cost efficient fund management service	The Fund exceeded targeted performance by making a saving of 8% on budgeted cost per member.
	Maximize Stakeholder Value	To optimize investment returns of all portfolio's	Due to unfavourable global market events, the Fund was unable to obtain the desired investment performance and underperformed significantly relative to target however the long term performance remains sound.
Business Partners	Ensure efficient member services	To provide effective and efficient services to our members	The Fund performed well in the view of members by scoring an above targeted member satisfaction score of 78% in the 2016 year end member satisfaction survey.
	Ensure efficient stakeholder satisfaction	To drive effective business relations with all stakeholders	Our business partners are also exceptionally happy at 83% satisfaction level.
Internal Processes	Development of the growth strategy	Develop business case for growth strategy	The Fund deferred the growth strategy business case to 2017
	Effective Implementation of Business Improvement Initiatives	To adhere to the approved programme	The Fund achieved an impressive 97% compliance rate to the approved business improvement plan
	Enhance Corporate Governance assurance	To ensure improvement on the Internal Audit profile	There were no overdue audit items by year end and the Fund had successfully complied with the 2016 risk mitigation plan, the 2016 audit plan also yielded good results without any major event.
		To ensure effective Risk Management	
To achieve Operational Excellence	To attain and maintain operational excellence	Compliance to operational turnaround times was achieved beyond target at 82%	
People	Create High Performance Organisation	Optimise new organisational structure	The Fund successfully resourced the revised organisational structure and began implementation of the desired Talent management Framework.
		Talent Management Framework	



## DEBSWANA PENSION FUND

### Chief Executive Officer's Review

For the year ended 31 December 2016

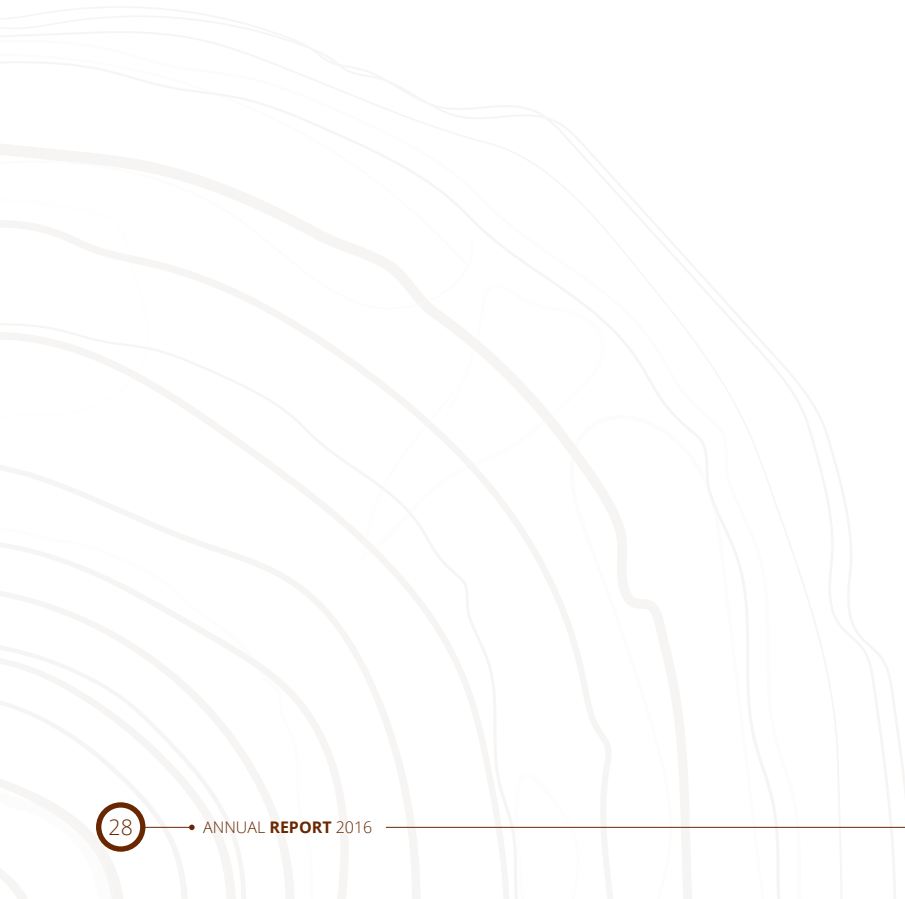
In conclusion, having thoroughly re-modelled our internal environment, we will going forward focus on solidifying our external stakeholder relationships through increased stakeholder engagement. We are also now more confident and ready to propel the Fund into further growth and prosperity through a well-defined growth strategy in the

coming periods. In that regard the future can only be brighter for the DPF members. We are privileged to serve you.

I wish you all great success with your finances for 2017 and beyond. Keep saving towards your retirement. Every "thebe" counts.

Sincerely

Gosego January  
**CHIEF EXECUTIVE OFFICER**





**DEBSWANA PENSION FUND**  
F. Trustees Report





# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### I. CONSTITUTION OF THE FUND

The Debswana Pension Fund (DPF) is mainly a defined contribution pension Fund 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. DPF invests member funds across various asset classes mainly Property, Equities, bonds, Cash and alternatives.

Active and deferred member assets are managed under the defined contribution plan whilst pensioner assets form the defined benefit component through the Fund's provision of life annuities to its retiring active and deferred members. Retiring members are given the option to purchase annuities from other service providers. Fund membership portfolios as at 31 December 2016 registered **11957** members comprising of **5809** active members, **2405** deferred **3628** pensioners and **115** beneficiaries.

All current participating employers of the Fund contribute 20% of pensionable salaries of their employees on their behalf towards the Fund on a monthly basis. Member contributions are exempt of income tax as per the provisions of the Botswana Unified Revenue Services (BURS) Act. The Fund, through its education program, continually encourages Active members to make additional voluntary contributions at a preferred percentage within the parameter provided by the BURS Act as a way of achieving better Net Replacement Ratios (NRR).

The Fund's targeted replacement ratio of 70% is calculated before commutation of the cash lump sum. A member with an average career progression in terms of salary increases and 35 years of service should ideally retire with a pension of 70% of his/her pensionable salary at normal retirement age of 60. The progression of the target member is based on the

following assumptions;

- A career of 35 years continuous employment
- Age at retirement of 60
- Retirement savings contribution rate 20% of pensionable salary
- Consistent annual Salary increases in line with inflation

The Trustees recognise that the target replacement ratio may be different for individual members to the extent that their personal experience deviates from that of the target member if investment conditions so allow, being able to provide benefits in excess of the above. Given the defined contribution nature of the Fund, the above benefits are only a target and are not guaranteed.

### 2. 2016 COMPLIANCE REPORT

#### a. Governance Statement

According to the Retirement Funds Act 2014, fiduciary responsibility for the Fund rests with the Board of Trustees. The Fund is managed by the Trustees on behalf of the Members in accordance with the Fund Rules. The Board of Trustees are elected in terms of the Fund Rules. Currently the DPF Board composition is as follows; (All the other Trustees have their alternates except for the Independent Trustee)

- Four (4) Trustees appointed by the Participating Employers
- Four (4) Trustees appointed by the Members
- One (1) Trustee appointed by the Pensioners
- One (1) Independent Trustee appointed by the Board

The Board of Trustees having set up Committees in terms of the Fund Rules, have delegated some responsibilities to the Committees who act on behalf of the Board but the ultimate responsibility of the administration of the Fund still rests with the Board of Trustees. The Board has its own Board Charter that is reviewed every two years to ensure that it remains up to date and relevant. Each Committee has its own set of Terms of references that clearly outlines the mandate of the Committee.

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

The Term of office for each Trustees is five years and the Trustees can be re-appointed for another five year term. Each principal Trustee has an elected or appointed alternate ensuring full and proper representation at all times. In their endeavour to enhance good governance the Trustees have not only increased the term of office for the Trustees but have also ensured that elected member representatives with the second highest votes are automatically alternate Trustees as they have been elected by the members. Furthermore the company appointed Trustees no longer elect alternates of their choice but the alternates are appointed by the respective Participating employers that appoints the Principal Trustees.

The Board of Trustees have appointed an independent Trustee to augment their skills and enhance independence in decision making. This strengthens Fund governance and oversight.

The Fund is committed to the attainment and maintenance of high standards of corporate governance incorporating the principles of integrity, accountability, transparency and social responsibility and that is attained through optimum use of resources. There are four main Committees and the Board reviewed the Governance structures to re-align the Committee mandates to ensure that corporate objectives are met, resources are equitably allocated and utilised, members' funds are properly invested and risk management as well as member communication is optimised.

### b. Trustee Register (as at April 2017)

Principal Trustees	Alternative Trustees	Representation
Christopher Mokgware (Chairman)	Letsibogo Ndwapi	Other Participating Employer*
Richard Vaka	Eunice Mpoloka	Debswana Diamond Company
Lynette Armstrong	Tefo Modise Setlhare (Appt. May 2015)	Debswana Diamond Company
Lebogang Sebopelo (Appt. May 2015)	Kitlanang Phuthago (Appt. May 2015)	Diamond Trading Company Botswana
Esther Palai	Mogorosi Victor Mbanga (Appt. Jan 2016)	Jwaneng Constituency
Gakenaope Gakologelwang	George Mosiami Rantshilwane	Gaborone Campus Constituency
Reobonye China Abel	Boitumelo Senyane (Appt.)	Orapa Letlhakane Damtshaa Constituency
Lapologang Letshwenyo (Awaiting Vetting)	Mooketsi Oaitse (Appt. May 2017)	Morupule Coal Mine Constituency
Garekwe Mojaphoko (Appt. Dec 2015)	Potoko Bogopa (Appt. Dec 2015)	Pensioners Constituency
Mtendeweka Mhango (Appt. Feb 2017)	N/A	Independent Trustee

\* Other Participating Employers\* include; DeBeers Botswana, Anglo, Morupule Coal Mine, Debswana Pension Fund, DeBeers Global Sightholder Sales

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### c. Board And Committee Membership (As At April 2017)

Trustees	Board	Investment Committee	Benefits & Communications	Audit, Risk & Finance	Noms & Remunerations Committee	Total Number Of Committees
<b>Members</b>						
Mr. Christopher Mokgware (Other PE's)	Board Chairman					0
Mr. R China Abel (Orapa Constituency)	Deputy Chair	●			●	2
Mr. Lebogang Sebopelo	●		●			1
Ms. L Armstrong (Debswana)	●	●		Chairman		2
Ms. Ester Palai (Jwaneng Constituency)	●		●	●		2
Mr. Mtende Mhango (Independent)	●		Chairman			1
Mr. Lapologang Letshwenyo (Morupule Constituency)	●				●	1
Mr. G Gakologelwang (Gabs Constituency)	●		●		●	2
Mr. G Mojaphoko (Pensioner Trustee)	●		●			1
<b>Alternates</b>						
Mrs. Eunice Mpoloka	●	●		●		2
Mr. Tefo Setlhare	●	Chairman	●	●		3
Mr. Kitlanang Phuthogo	●	●		●		2
Mr. Boitumelo Senyane	●	●			●	2
Mr. Mogorosi V Mbanga	●	●			●	2
Mr. Letsibogo Ndwapi	●		●		●	2
Mr. Mooketsi Oaitse	●	●				1
Mr. George Rantshilwane	●		●	●		2
Mr. Potoko Bogopa	●				●	1
<b>Independent Consultant</b>		Riscura				1
<b>Total Members</b>	<b>Eighteen</b>	<b>Eight</b>	<b>Eight</b>	<b>Six</b>	<b>Seven</b>	
<b>Vacancies</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>One</b>	<b>Nil</b>	

Currently the Fund has a vacancy on the Nominations and Remunerations Committee and Steering Committee

### d. Trustee Meeting Attendance Report

#### i. Board And Committee Meetings (Comparison Year 2016 And 2015)

In 2016 the Board of Trustees had in total five (5) meetings which comprised of four (4) scheduled meetings and one (1) special meeting. The table below indicates the number of meetings held by both the Board and its Committees in 2016 compared to 2015.



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

	Planned Meetings	Special Meetings	Total	Planned Meetings	Special Meetings	Total
Meetings	2016			2015		
Board of Trustees	4	1	6	4	5	9
Audit Committee	3	Nil	3	3	Nil	3
Investment Committee	4	Nil	4	4	2	6
Nominations Committee	4	Nil	4	4	Nil	4
Benefits & Communications	4	Nil	4	4	Nil	4

### e. Key Board Achievements In 2016

The Debswana Board of Trustees amongst other things managed to achieve the following in 2016;

#### i. Board Appointments

##### Appointment And/Or Election Of Trustees

- Christopher Mokgware was appointed the new Board Chairman in November 2016 taking over from Richard Vaka who had completed his term.
- R China Abel elected to represent Orapa, Letlhakane and Damtshaa Mines (OLDM) in June 2016 with Boitumelo Senyane as his alternate
- Professor M Mhango appointed as an Independent Trustee
- Approved and rolled out the Conflict of Interest Policy and the Anti-Money Laundering Policy

#### ii. Investments Mandate

- Reviewed and approved the appointment of domestic equity and fixed income managers to manage segregated mandates.
- Implemented the Global Equity Transition.
- Reviewed and approved the appointment of a Global Fixed Income Manager
- Undertook and completed a due diligence on Global Asset Managers
- Reviewed Investment Report (Quarterly)

#### iii. Audit, Risk And Finance Mandate

- Reviewed and approved Auditors terms of engagement and scope
- Reviewed and approved the Fund Top Ten Risks (quarterly)
- Reviewed and approved Valuation Report
- Reviewed and approved Financial Statement
- Reviewed and approved pension increase of 3.5%

#### iv. Benefits And Communications Mandate

- Reviewed and approved Communications Policy and Plan
- Reviewed and approved Death Benefits Distribution quarterly

#### v. Nominations And Remunerations Mandate

- Reviewed and approved the Board Composition
- Elected the Committee Chairperson
- Reviewed and approved 2015 updated Balance Scorecard and 2016 Key performance Indications

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

- Reviewed and approved Salary Increments and Staff Bonuses
- Reviewed and approved Committees Terms of Reference

### vi. Fund Rules Amendments

There were no Fund Rule amendments in 2016. The challenge which the Fund faced was the implementation of the Transition plan following the amendment of the Rules 2015 more especially the new Trustee term.

### vii. Trustees Training

During the year 2016 the Debswana Pension Fund Trustees were trained by specialist advisors on the following fields;

Introduction to Pension Fund Trusteeships  
Fiduciary Duties and Disposal of Death Benefits  
Performance Management and Employee Relations Management  
Pension Funds Annual Conference  
Risk Management  
Conflict of Interest Policy and Guidelines

Over and above the Board of Trustees had a Board Boot Camp where the below topics were discussed;

Fund Valuation Process and Pension Increase  
Net Replacement Ratio  
Review of the Life State Model  
Investment Performance Report

### viii. Audits

#### Internal

In 2016 a total of seven (7) audits were completed by the Internal Auditors and the following profile was issued:

1) Pensioner Payroll	<b>Good</b>
2) Procurement Process (follow up)	<b>Moderate</b>
3) New Benefits Administration System Implementation Project	<b>Good</b>
4) Unit Pricing	<b>Moderate</b>
5) Investment Management	<b>Good</b>
6) Cost per member management	<b>Moderate</b>
7) Board Governance	<b>Moderate</b>

The Internal Auditors were of the opinion that the risk management processes in place at DPF were reasonably adequate and effective to provide reasonable assurance that risks are being managed appropriately and objectives should be met. No significant control breakdown was detected and management was encouraged to improve on the current control environment for sustainability.

#### External Audit

In 2016 there were no significant findings reported by the External Auditors.

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### 3. 2016 RISK MANAGEMENT REPORT & RISK POLICY STATEMENT

Debswana Pension Fund policy is to adopt good practices in the identification, evaluation and monitoring of Risks. The Fund ensures cost effective controls and mitigations are employed to manage risks. The Fund has adopted robust Risk Identification tools and mitigations template to ensure risks are eliminated where possible, reduced to an acceptable level or managed and contained;

In 2016 the most significant risks which were identified, closely monitored and mitigated were;

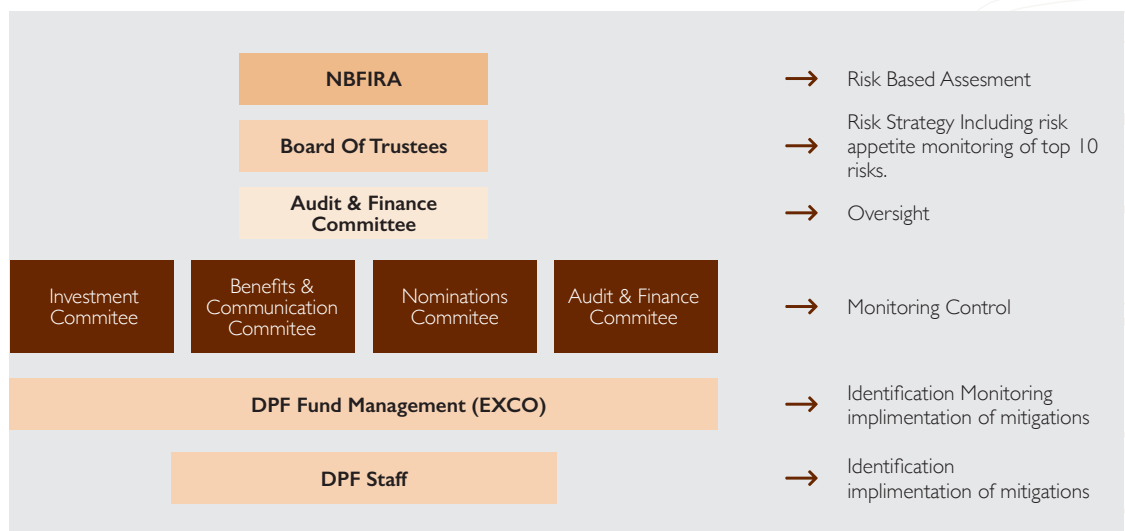
1. Decreasing Membership Numbers risk which emanated from restructuring by participating employers and transfer out by both participating employers and members.
2. Currency Fluctuations caused by change in monetary policies, sovereign political events and market volatility.
3. Increased Fund Administration costs caused by inflation, high fixed costs, inefficiencies, inadequate planning, forecasting and budgeting resulting in erosion of member benefits and low NRR.
4. Sub-optimal returns risk caused by market volatility, exchange rate fluctuations, increasing

inflation, ineffective manager selection process and unsatisfactory asset manager's performance resulting in low Net Replacement Ratio (NRR).

5. Regulatory Risk caused by non-compliance with Pension Fund Regulation resulting in penalties (increased costs) and reputational damage.
6. Inability to meet member obligations risk (benefits payments and pensioner salaries) caused by misalignment of investment policies to membership profiles, inaccurate membership profiles and inefficient processes resulting in imbalance of Asset Liability Model (ALM).
7. Business Continuity risk caused by ineffective implementation of disaster recovery strategy and lack of Business Continuity Management Strategy.
8. Inability to recruit and retain key staff caused by limited pension Fund Skills resulting in compromised service delivery and Fund not meeting High Performance Organization initiatives.
9. Non-delivery of Investment Policy (IP) initiatives caused by unsatisfactory performance by assets managers, inefficient processes and inefficient Investment Policy.
10. Non-delivery of the Fund's strategic intents caused by lack of stakeholder buy-in and limited understanding of the Fund's strategy.

#### Risk Policy Statement

The Following is the Fund Risk management structure and related roles;







# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

The Audit, Risk and Finance Committee reviews the risk logs, where all key financial and non-financial risks affecting the Fund business are recorded. New risks, if and when identified, are added to the risk log while others fall away over a period of time. A systematic process is used to prioritize the risks for on-going monitoring and management.

### Investment Risk Management Philosophy

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.

**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.

**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.

Consistent with the Fund's purpose and risk budget, the primary investment philosophy of the Fund is to provide a return that is:

1. 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)
2. 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)
3. 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.

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. The philosophy gives primacy to retirement benefits. The Fund's investments must be conducted in a manner that is honest, transparent and ethical.

### 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.

### Additional Voluntary Contribution

The member may, subject to the approval of the Trustees and on terms laid down by the Trustees, pay contributions to the Fund in order to increase his pension. Contributions may be paid monthly at a fixed percentage of pensionable earnings, and once each tax year as a lump sum.

The amount of contributions that may be payable in each tax year is subject to a maximum of 15% (fifteen percent) of pensionable earnings or such other sum that may be permitted for tax deductibility purposes in terms of the Income Tax Act.

The member may revoke or change his monthly contribution rate at any time. Where a member elects to pay a monthly contribution, his employer shall deduct that monthly contribution from his earnings and forward it to the Fund within seven days from the end of the calendar month in which it was deducted. Any failure by a participating employer to forward such contributions shall be reported forthwith to the Non-Bank Financial Institutions Regulatory Authority by the Principal Officer.

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### 4. 2016 FINANCE AND ADMINISTRATION REPORT

DPF has been a self-administered private pension fund since June 2010 and currently the Fund is using Everest Administration system. The Fund has a Finance and Administration department that has a staff compliment of twelve (12) employees out of which seven (7) are deployed under Administration and four (4) under Finance section. The department is under the tutelage of the Finance and Administration Manager:

#### a. Membership

##### i. Employer Contribution Rates

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

Contribution rates	Percentage of Pensionable Salary
	All Employers
Member contributions	0.00%
Company contributions	20.00%
Retirement funding	20.00%

In 2016, the Fund rolled out an initiative which allowed contributions by Deferred Members, which forms part of the Fund Rules, as an effort to enable deferred members to increase their fund credits which would eventually enhance their pension salaries on retirement. The guidelines and the policy governing these contributions were shared with members on the Fund's website for accessibility.

##### ii. Membership Movements in 2016

#### Changes In Membership Movements For The Financial Year Ending 31 December 2016

Description	Active members	Deferred members	Pensioners	Beneficiaries	Total
Numbers at beginning of period	5871	2355	3440	113	11779
Beneficiary Age 21 exit	0	0	0	(11)	(11)
Additions	138	210	234	14	596
Transfers-in	0	0	0		0
Transfers-out	0	(2)	0	0	(2)
Withdrawals	(82)	0	0	0	(82)
Retirements	(102)	(141)	0	0	(243)
Deaths	(16)	(17)	(46)	(1)	(80)
<b>Numbers at end of period</b>	<b>5809</b>	<b>2405</b>	<b>3628</b>	<b>115</b>	<b>11957</b>

The Fund's total membership as at 31 December 2016 was 11957 compared to 11779 recorded at the end of December 2015. This represents a total growth of 1.5% (178 members). The growth is mainly attributed to new recruitments by some Participating Employers (PEs), which was negated to some extent by the restructuring exercises which culminated in retrenchments.

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### iii. The Membership Statistics For 2016 Compared To 2015 Is As Follows;

	2016	2015	Difference	Comment
Active	5809	5871	(62)	Decline
Deferred	2405	2335	70	Increase
Pensioners	3628	3440	188	Increase
Beneficiaries	115	113	2	
<b>Total</b>	<b>11957</b>	<b>11759</b>	<b>198</b>	

#### Active Members

Although the Fund engaged new members, the Active members' portfolio was highly affected by the restructuring exercises conducted by Diamond Trading Company Botswana, DeBeers Botswana and Anglo Coal.

#### Deferred Members

Most of the members affected by the restructuring exercise who were below normal retirement age chose to defer their balances within the Fund.

#### Pensioners

Pensioner portfolio increased significantly because quite a lot of deferred members who acquired the early retirement age of 50 years in 2016 opted for early retirement.

### iv. Membership Per Participating Employer

As at year end (December 2016) the active members per PEs were as follows;

Participating Employer	Number
Debswana Diamond Company	4818
Diamond Trading Company Botswana	348
Morupule Coal Mine	495
DeBeers Global Sightholder Sales	92
DeBeers Holdings Botswana	38
Debswana Pension Fund	18
Anglo Coal Botswana	0
<b>Total</b>	<b>5809</b>



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### v. Exits For The Period

Benefits payable for the period amounted to BWP 238 213 524. This amount comprises benefits on withdrawal as a result of resignations or dismissals from employment, member/pensioner deaths, retirements and membership contributions refunds, resulting in an increase of 25% from 2015, during which the Fund made benefit payments amounting to BWP 190 435 619.

### vi. Contributions

All Participating Employers make contributions of 20% on behalf of their members. Total Contributions received in 2016 amounted to BWP 272 829 204 compared to BWP 257 207 415 in 2015. The increase is attributable to salary increases effected by the respective Participating Employers as well as Additional Voluntary Contributions (AVC), although not significant.

### vii. Transfers (In & Out)

Transfers-in for 2016 amounted to BWP 8 230 016 while transfers-out were BWP 289 437. There was generally a decline in both transfers-in and out when compared to 2015, where the Fund had BWP 8 545 875 and BWP 541 106 transfers-in and out respectively.

### b. Administration Expenses

The Fund's expenses are made up of general operating expenses incurred in the process of running the Fund. These include business operating expenses, actuarial and investment consultancy expenses, compliance expenditure, among others. The cost is expressed as cost per member and recovered from investment returns. The Fund ensures that costs are kept to their bare minimum by continuously monitoring them and embarking on cost containment initiatives. For the year under review; 2016, the administration cost per member was budgeted at P210.70. Since this is a budget based on some assumptions and estimates, the actual may be higher or lower and in the case of the financial year 2016, the actual cost was lower.

### c. The Administration System

Benefits from Everest System

The Fund launched a new Administration system in

August 2015 after experiencing some challenges with the initial administration system; Benchmark, which was implemented in June 2010. The new system reduced turnaround times in processing member payments and significantly improved data management. During the implementation period going into 2016, further system enhancements were embarked on, resulting in the following developments:

- Member Portal: this enables members of the Fund to view their records and update their personal details.
- Annuity Calculator and Projection Statements: These were developed in 2016 but for launching in 2017. The annuity calculator is aimed at giving members an opportunity to calculate their pension salaries using available retirement options for planning, which may include opting for AVC earlier in the member's work life. While on the other hand, the projection statement will give members an indication of the Net Replacement Ratio (NRR) of the pensionable salaries at retirement, allowing them to make meaningful retirement decisions ahead of their retirement.

### d. Actuarial Review

#### I. Statement Of The Actuary

While the Retirement Funds Act provides that Fund valuation may be performed once in three years as a maximum threshold, Debswana Pension Fund was valued by the Fund Actuaries; Willies Towers Watson in 2015 as it is in the best interest of the Fund to assess its financial position annually, which the DPF considers reasonable as a measure for risk control in cognizance of the inherent risks in the financial markets where the Fund invests members' money, as well as for an effective management of the annuity book. This cycle has been perpetuated for the financial year 2016, and the valuation report was presented for approval to the Board of Trustees at the May 2016 sitting, which was duly approved by the Trustees. During the valuation period, which is the period between the 2015 valuation and the valuation for the period under review, the Fund was administered by the Debswana Pension Fund.

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### ii. Financial Status Of The Fund

The Fund Actuaries confirm that the Fund remains in a sound financial condition at 31 December 2016 as the value of the assets within each account is equal to or exceeds the liabilities of the respective account. The total fair value of assets was used for purposes of this valuation in order to ensure consistency in the methodology applied in valuing the liabilities.

The table below summarises the overall Fund's financial position, clearly showing the soundness of the Fund as indicated by the funding levels of member liabilities by the Fund assets at 105.3%.

	31.12.2016	31.12.2015
	P'000	P'000
<b>COMBINED POSITION</b>		
Fair value of assets	6,518,118	6,313,134
Actuarial liabilities	6,191,443	5,863,899
<b>Surplus/(deficit)</b>	326,675	449,235
<b>Funding level</b>	<b>105.3%</b>	<b>107.7%</b>

The Fund's fair value of assets grew by 3.25% from BWP 6,313,134,000 in 2015 to BWP 6,518,118,000 in 2016.

### iii. Split Of Assets Between Accounts

The Fund operates various accounts in which the liabilities are housed. The breakdown of these accounts on the table below illustrates the split before and after the adjustments as recommended by the Actuary and approved by the Board in May 2017.

	Member Account	Pensioner Account	Contingency Reserve Accounts	Total
	P'000	P'000	P'000	P'000
<b>Balance per financial statements</b>	<b>4,359,736</b>	<b>1,963,560</b>	<b>194,822</b>	<b>6,518,118</b>
Actuarial adjustment at valuation date	4,261	(4,261)	-	-
<b>Balance of accounts prior to recommended transfer</b>	<b>4,363,997</b>	<b>1,959,299</b>	<b>194,822</b>	<b>6,518,118</b>
Approved transfer to Contingency Reserve Account	(12,780)	-	12,780	-
<b>Balance as per the valuation report</b>	<b>4,351,217</b>	<b>1,959,299</b>	<b>207,602</b>	<b>6,518,118</b>

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### iv. Pension Increase

The Trustees awarded a 7.1% pension increase in 2016 and in 2017 the Trustees approved a pension increase of 3.5% which will be effective on 1 July 2017. This was in line with the guideline formula adopted by the Fund for granting increases, and motivated by the fact that the Fund investments performed moderately in 2016 and the outlook for 2017 remains characterised by high levels of uncertainty.

### v. 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 different categories of the Fund. The Statement of Investment Principles has been revisited by the Trustees from time to time and the investment strategy is in the process of being refined to increase exposure to other asset classes. This is captured in a signed version of the Statement of Investment Principles, dated May 2013 and revised in July 2015. 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 and contingency reserve accounts are credited monthly with the actual net investment returns (positive or negative) achieved on the relevant assets backing the accounts.

A history of the Fund returns over the period since the initial Statement of Investment Principles was adopted as set out below.

31 December	Market Channel	Conservative Channel	Pensioner Channel	Total Fund	Inflation
2005	32.9%	21.0%	26.9%	31.2%	11.4%
2006	33.9%	20.9%	27.9%	32.4%	8.5%
2007	16.6%	15.3%	17.5%	16.8%	8.2%
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%
2011	10.6%	10.7%	11.7%	10.9%	9.2%
2012	16.7%	11.1%	13.8%	15.4%	7.4%
2013	28.9%	17.7%	22.1%	26.0%	4.1%
2014	11.5%	9.7%	11.0%	11.2%	3.8%
2015	13.6%	10.9%	12.6%	13.1%	3.1%
2016	3.01%	3.41%	2.69%	2.91%	3.0%
<b>12 year annualised return (2005-2016)</b>	<b>13.9%</b>	<b>11.3%</b>	<b>13.0%</b>	<b>13.5%</b>	<b>7.1%</b>



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### vi. Fund Liabilities And Reserves

#### 1. Active and Deferred Member Liabilities

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.

The liabilities in respect of active and deferred members are determined as the sum of their individual accounts. The individual member records totalled **P4,345,449,000**, this liability represents the active and deferred liability following the cashflows applicable at the end of December 2016.

There were no inconsistencies identified between the administration data and the financial statements and thus no adjustments to the liabilities have been made in the valuation in order to ensure consistency. Some records with negative balances investigated and confirmed were removed, increasing the system liabilities by some **P581,000**.

Furthermore, an adjustment to the liabilities in respect of the investment return allocated after the financial year-end, but in respect of the current year investment income has been made. This will increase the system liabilities by some **P5,187,000**. The adjustment arises from the revaluation of the direct property, property partnerships and associate property companies at the year-end.

The total active and deferred liabilities, after allowance for the above adjustments, amounted to **P4,351,217,000**.

#### 2. The Financial Position For The Fund In Respect Of Active And Deferred Member Assets Is As Below:

	31.12.2016	31.12.2015
<b>Member Account</b>		
Fair value of assets	4 363 997	4 235 206
Member liabilities	4 351 217	4 235 206
<b>Surplus/(deficit)</b>	<b>12 780</b>	<b>Nil</b>
<b>Funding level</b>	<b>100.3%</b>	<b>100.0%</b>

#### 3. Pensioner Liability And Calculation Methodology

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 the pensions 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 Fund Credit 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. In terms of the Fund's policy, pension increases are targeted at 100% of the mid-point of the Botswana inflation rate target range.

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

#### 4. The Pensioner Liability As At 31 December 2016 Is As Reflected Below:

	31.12.2016	31.12.2015
<b>Pensioner Account</b>		
Fair value of assets	1,959,299	1,884,672
Pensioner Member liabilities	1,840,226	1,628,693
<b>Surplus/(deficit)</b>	<b>119,073</b>	<b>255,979</b>
<b>Funding level</b>	<b>106.5%</b>	<b>115.7%</b>

#### 5. 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 affordability and our understanding is that 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.

#### vii. Contingency Reserve

The Rules provide that the opening balances would be as determined by the actuary in the valuation conducted at 31 December 2013. In the valuation conducted at 31 December 2013, recommendations were made in respect of the allocation of the amount set aside in the contingency reserve account, to various contingency reserve accounts as would be defined in the revised set of Rules and in line with Prudential Fund Rules 1 (PFR1) issued by the NBFIRA. These recommendations were accepted by the Trustees of the Fund. To this extent, the Fund Actuary has set out below the opening balance of each of the contingency reserve accounts and their build-up over the financial year.

Typically, expenses recovered from the Expense Reserve Account reflect extraordinary expenses (strategic and legal expenses). In the current year, there have not been any expenses deemed to be extraordinary. The amount recovered from the Processing Error Reserve Account reflects amounts required for previous processing errors and adjustments to data that have led to investment losses.

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

The Contingency Reserve was kept at required levels in accordance with the Rules of the Fund as follows:

	Date	Processing Error	Expense	Solvency	Total Reserve
	Reserve	Reserve Account	Reserve	Reserve	Accounts
	P'000	P'000	P'000	P'000	P'000
RULE	12.5.3	12.5.4	12.5.5	12.5.6	N/A
Maximum Allowable	5%	1.5%	No limit	25%	N/A
Maximum Reference	Liabilities	Defined Contribution Liabilities	Future Expense	Fund Assets	
Actual Value	Nil	1.5%	N/A	2.0%	
<b>Conclusion</b>	<b>Within limit</b>	<b>Within limit</b>	<b>Within limit</b>	<b>Within limit</b>	

The Financial Position OfThe Contingency Reserve Is As Depicted Below:

Contingency Reserve Account	Following transfer	Prior to transfer	
	31.12.2016	31.12.2016	31.12.2015
	P'000	P'000	P'000
Fair value of assets	207 602	194 822	193 256
Actuarial liabilities	Nil	Nil	Nil
<b>Surplus/(deficit)</b>	<b>207 602</b>	<b>194 822</b>	<b>193 256</b>
<b>Percentage of Fund assets</b>	<b>3.2%</b>	<b>3.0%</b>	<b>3.0%</b>



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### viii. Certification Statement by Actuaries

We certify that:

1. The Fund remains in a sound financial condition at 31 December 2016 as the value of the assets within each account is equal to or exceeds the liabilities of the respective account. 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:
  - 5a. The adjustments made to the liabilities in the valuation report be investigated and, where not already done so, be confirmed by the Fund's administrator and corrected accordingly;
  - 5b. The Trustees should approve the recommended transfer to the Processing Error Reserve Account, and then the Trustees should consider the appropriate level of the Processing Error Reserve Account to be held and whether a distribution of such account should be made in the current financial year;
  - 5c. The Trustees retain the various other contingency reserve accounts allowable in terms of PFRI, as reflected in the Rules of the Fund;
  - 5d. The administration system be aligned to the valuation results, particularly in respect of the Contingency Reserve Account.
  - 5e. The Trustees continue to monitor the expenses of the of the Fund and to ensure that they are managed appropriately;



**K M Lynch, B.Sc., F.A.S.S.A.**

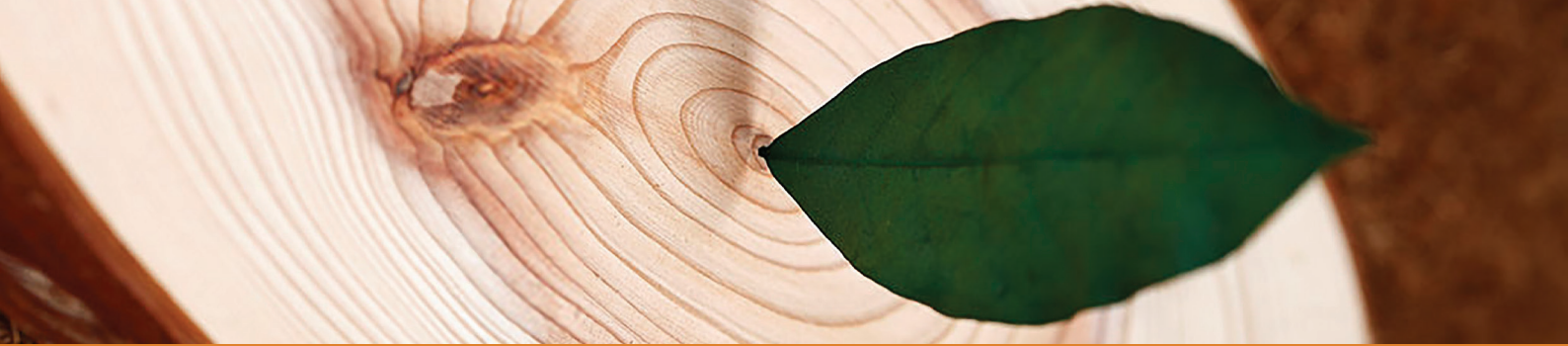
Fellow of the Actuarial Society of South Africa  
In my capacity as the valuator of the Fund and as an employee of Willis Towers Watson.



**Lubaya, B.Com.**

In my capacity as an employee of Willis Towers Watson

Our primary regulator is the Actuarial Society of South Africa.



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### 5. 2016 COMMUNICATION REPORT & POLICY STATEMENT

#### a. 2016 Communication Report

##### i. Communication Plan Implementation Overview

The 2016 Communication plan was successfully implemented with a plan compliance rate of **85%**. The 2016 plan carried thirty projects of which 22 were successfully completed by 31st December 2016, four were postponed to the 2017 calendar whilst the remaining four were cancelled due to various factors.

The following is a summary of the key projects completed during the year 2016

Key Projects Completed During 2016	
<b>Productions</b>	
Annual Report 2016	
DPF Brand Manual	
AVC & Retirement Planning Guide	
Pensioner Guide	
Member Guide	
Book of Rules	
Pensioner Calendar 2017	
3 BOKAMOSO Newsletter Editions	
DPF Brand Manual	
Social Media Policy	
<b>Events</b>	
Deferred Members Stakeholder Engagement Meeting (02.12.16)	
Annual Pensioners Conference (24.11.16)	

##### ii. 2016 Stakeholder Climate Survey Outcome

The Debswana Pension Fund conducts annual satisfaction surveys on all of its stakeholders as a means to measure the effectiveness of its operations for the year in review. The Fund management recognize the important need for a continuous and periodical audit of the Fund's overall service delivery in all areas of its Function. The Fund Communication department is therefore tasked with the measurement of stakeholder satisfaction levels as part of the annual Fund communication plans.

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

For the 2016 year, the stakeholder categories and their surveyed population are the following:

Category	Description	Surveyed Population 2015	Surveyed Population 2016	Survey Issued
Members	This category includes Active, Deferred and Pensioner Members who received the survey	11353	11874	Member Satisfaction Survey
Business Partners	Liaisons for all service providers, regulators, HR Partners of participating employers, consultants etc. who received the survey	132	70	Business Partners Satisfaction Survey

The Survey was administered through two mediums, **On Line** for Active members and by **Surface Mail** for both deferred members. Follow up reminders were also made via email, the Fund SMS line as well as the DPF Facebook Page.

The Survey was launched on **22<sup>nd</sup> November 2016** and closed on **February 10<sup>th</sup>, 2017**, running for a total period of 2 and a half months. Based on the outcomes of the surveys, members and business partners are generally satisfied with DPF service with a recorded improvement since 2014. Satisfaction levels between 2015 and 2016 have stagnated with a slight decline on the member outcome in particular. A more detailed assessment of the variance is provided further in the report.

SURVEY	Overall summary scores		
	2014	2015	2016
Member satisfaction	69%	80%	78%
Business Partners Satisfaction	78%	83%	83%

### Performance Targets Vs. Benchmarks

- Survey Response Rate target

The DPF currently targets a response rate of **10% or better** on the surveyed population for all surveys carried out. This is in line with the general trends across most surveys in the research industry. In his ACSI market review for 2013, The Director of Research for ACSI Forrest V. Morgeson III's presented the following findings with regard to the historical response rates across their survey markets;

1. Response rates vary greatly from industry to industry
2. Response rates average between 15-25% for all industries
3. Co-operation rate (completed interviews/eligible respondents) very high – usually over 95%

It should be noted that there is unfortunately no specific global benchmark for customer satisfaction surveys response rates due to the wide variety of variables affecting customer inclinations to respond, and these range from survey incentives to brand recognition and loyalty.



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

The DPF response rate achieved for 2016 mainly for the member satisfaction survey is 19%, which is a 2% improvement from the 2015 response rate and a 6% increase from 2014. The positive year on year increase in the responses is largely influenced by the aggressive communication campaigns carried out during the survey periods using multiple mediums to encourage member participation.

Year	Total Surveyed Population	Total responses received	Response Rate	Previous year	Growth/decline
2015	11477	2007	17%	13%	4%
2016	11874	2228	19%	17%	2%

- **Satisfaction Target**

In terms of targeted outcomes, the Fund overall performance target as per the 2016 Balance scorecard is to achieve a minimum 75% satisfaction levels on all of its stakeholder surveys as a target with a stretch of 80%.

The target is informed by prevailing customer satisfaction benchmarks, identified through numerous globally recognized consumer research bodies; amongst them mainly The American Customer Satisfaction Index (ACSI), the UK Institute for Customer Services and the South African Customer Service Index (SACSI). As at the end of December 2014 the average benchmark for the three bodies combines was at 75%, and 77% for 2015. The SACSI 2016 results were unavailable at the time of reporting.

- **2015/2016 Global Customer Service Benchmarks**

A review of the 2016 reports from ACIS and UKCSI revealed the results below. The overall conclusion is that the benchmarks have not moved, at least not significantly enough to warrant a different target for the DPF in 2017.

Index (Finance & Insurance sector)	2016	2015
ASCI (American Customer Satisfaction index)	74.8	76.5
UKCSI (Institute of Customer Service – UK)	79.5	78.4
DPF – Member Satisfaction	78	80
DPF – Business Partners	83	83

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### • Respondents Profiles

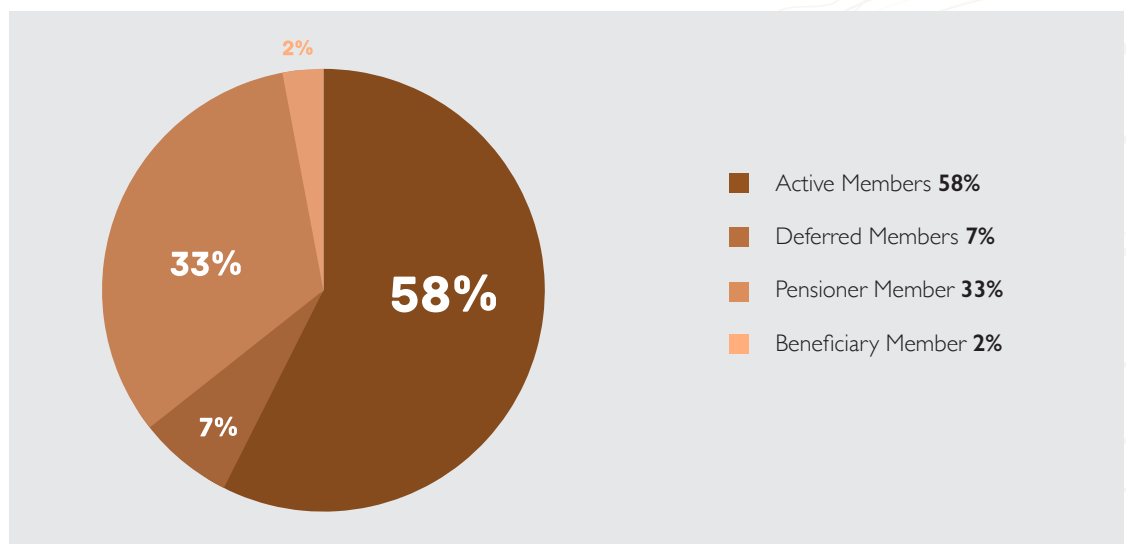
#### Response Rate By Membership Category

Compared against surveyed population (i.e. actual membership), the survey was successful in achieving an overall representative number of respondents (preferably 10% and above). However, the pensioner category experience a decline from previous year response rate whilst the active members remained stagnant. There is a notable improvement of 4% on deferred members' responses which remains below target.

Category	Sub-Category	2016 Surveyed Population	2016 Responses Received	2016 Response Rate	Previous Year (2015)	Change
Members	Actives	5790	1283	22%	22%	0%
	Deferred	2402	163	7%	3%	4%
	Pensioner	3567	728	20%	27%	-7%
	Beneficiary members	115	33	27%	30%	-3%
<b>Sub-Total-members</b>		<b>11874</b>	<b>2228</b>	<b>19%</b>	<b>17%</b>	<b>2%</b>
	Business Partners	70	14	20%	36%	-16%

Compared against actual response population, the membership categories competed against one another in the following manner;

2016 Member Satisfaction Survey		
Answer Options	Response Percent	Response Count
Active Member	58.1%	1283
Deferred member	7.4%	163
Pensioner member	33.0%	728
Beneficiary member	1.5%	33
		<b>2228</b>



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

- Response Rate By Participating Employers

The distribution of member respondents per pay point relative to total the surveyed population i.e. actual membership figures is as follows;

Answer Options	2016 Response Count	Survey population (Membership as at 31st December 2016)	2016 Survey reach	Previous year reach 2015	Change	Comments
Debswana Corporate Centre (Head Office)	84	299	28%	23%	5%	All DDC
Debswana Jwaneng Mine	425	1901	22%			
Debswana Orapa Mine	652	2599	25%			
Morupule Coal Mine	116	495	23%	2%	21%	MCM members were found to have been disconnected from DPF email notices in 2015 thus the 2% response to the 2015 survey.
Anglo Coal Botswana	1	0	n/a	n/a	n/a	Company closed. The one respondent may be a deferred member and a former employee.
DTCB	168	348	48%	49%	1%	Membership and respondents reduced due to retrenchments.
DBGSS	25	92	27%	40%	13%	No known issues attributable to decline. Possibly just apathy.
DeBeers Botswana Holding Company	9	38	24%	0%	24%	Notable improvement from last survey.
Debswana Pension Fund	48	18	100%	100%	0%	DPF only has 18 employees, the additional respondents may just be pensioners or beneficiaries that misunderstood the question.
Deferred members	137	2402	6%	4%	2%	
Beneficiary members	22	115	19%	21%	-2%	
Pensioners	541	3567	15%	16%	-1%	
	<b>2228</b>	<b>11874</b>	<b>19%</b>	<b>17%</b>		



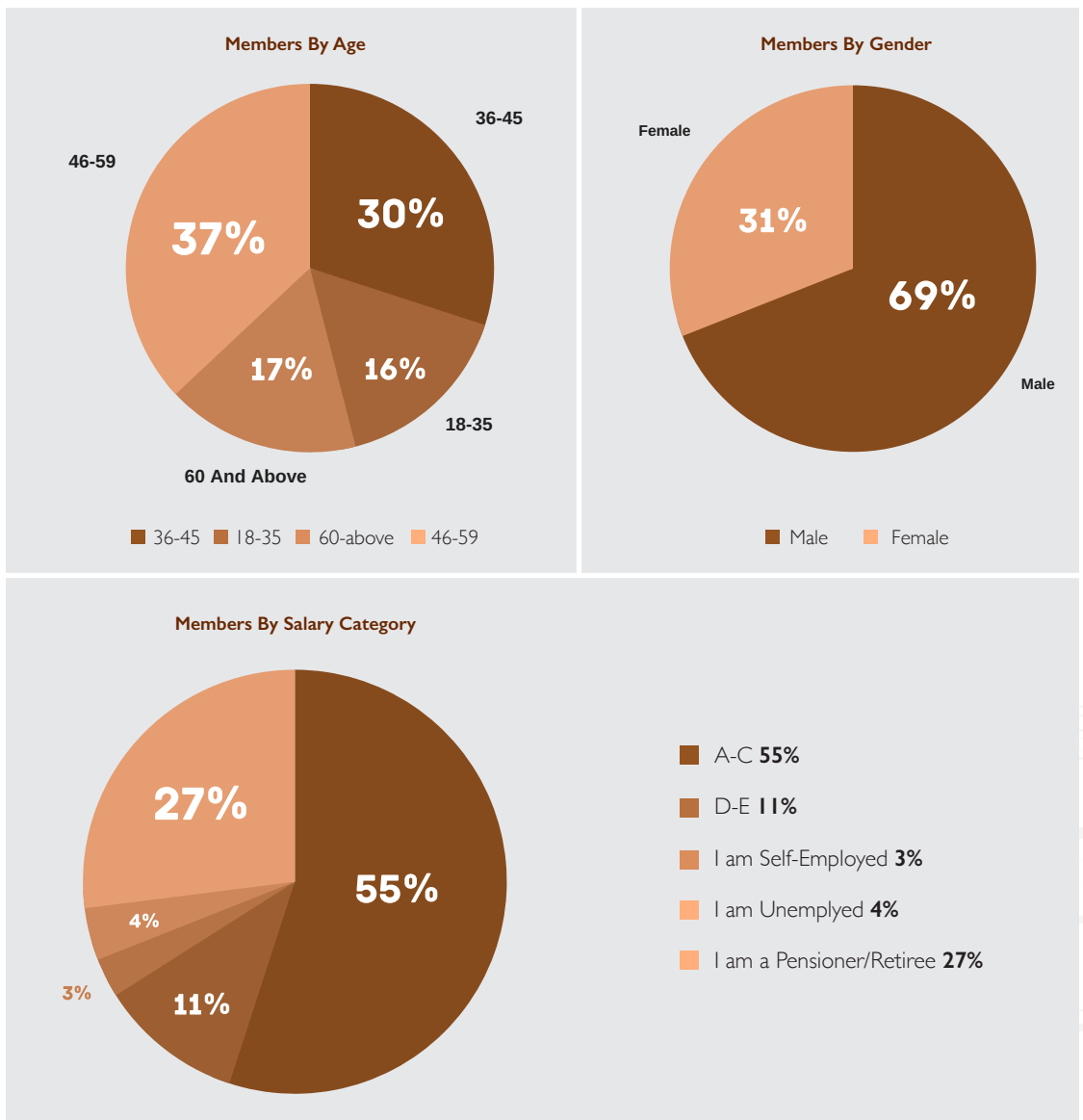
# DEBSWANA PENSION FUND

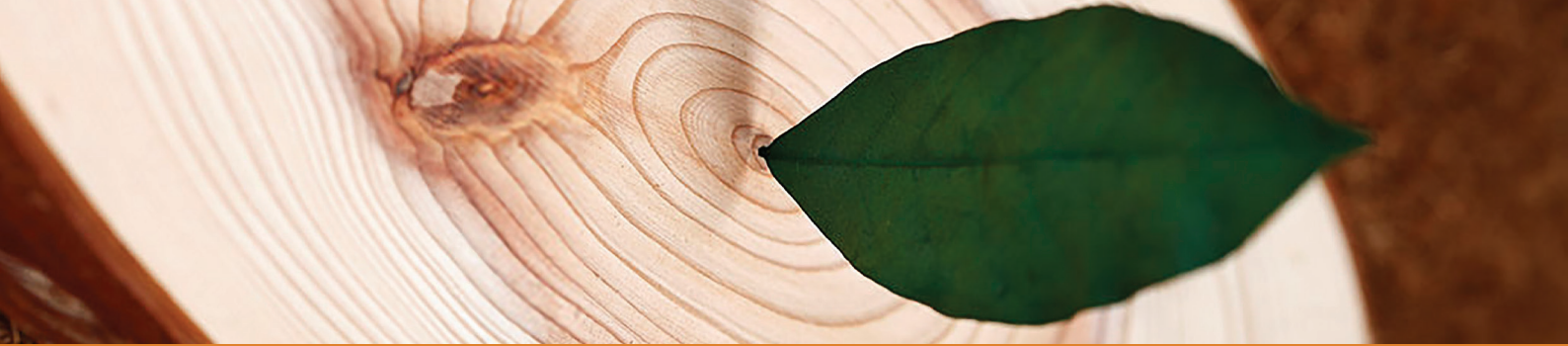
## Trustees' Report

For the year ended 31 December 2016

### • Respondents Demographics

The responses in terms of demographics are in sync with normal distribution/trends found in the DPF membership profile hence no anomalies.





# DEBSWANA PENSION FUND

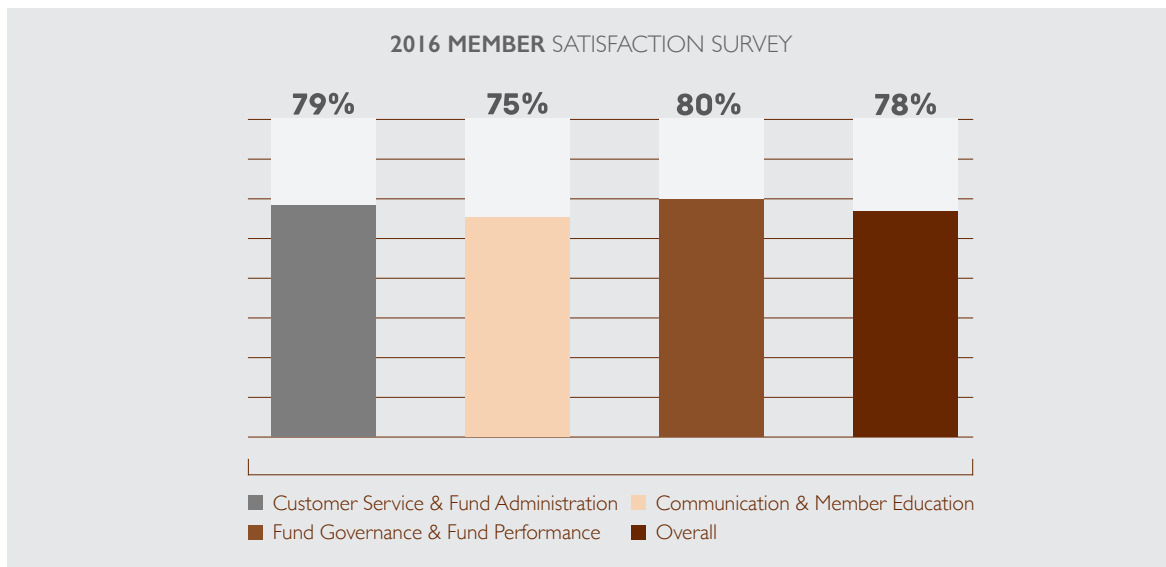
## Trustees' Report

For the year ended 31 December 2016

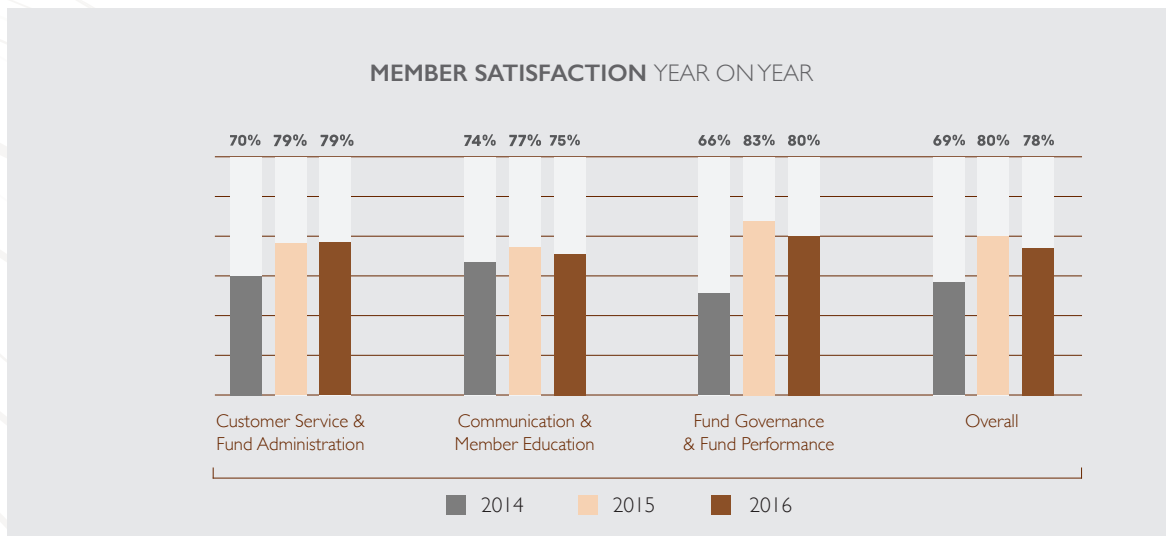
- Results

### Member Satisfaction

The Fund is pleased to note that the targeted 75% outcome has been achieved and exceeded in all key performance areas with an overall **78%** score for member satisfaction.



In reviewing the year on year variances, we note a slight decline of 2% in overall member satisfaction between 2015 and 2016 but a significant improvement since 2014.



Further evaluation of the results to understand the 2% decline reveals the following key positives and negatives in the members' service experience for 2016;

# DEBSWANA PENSION FUND

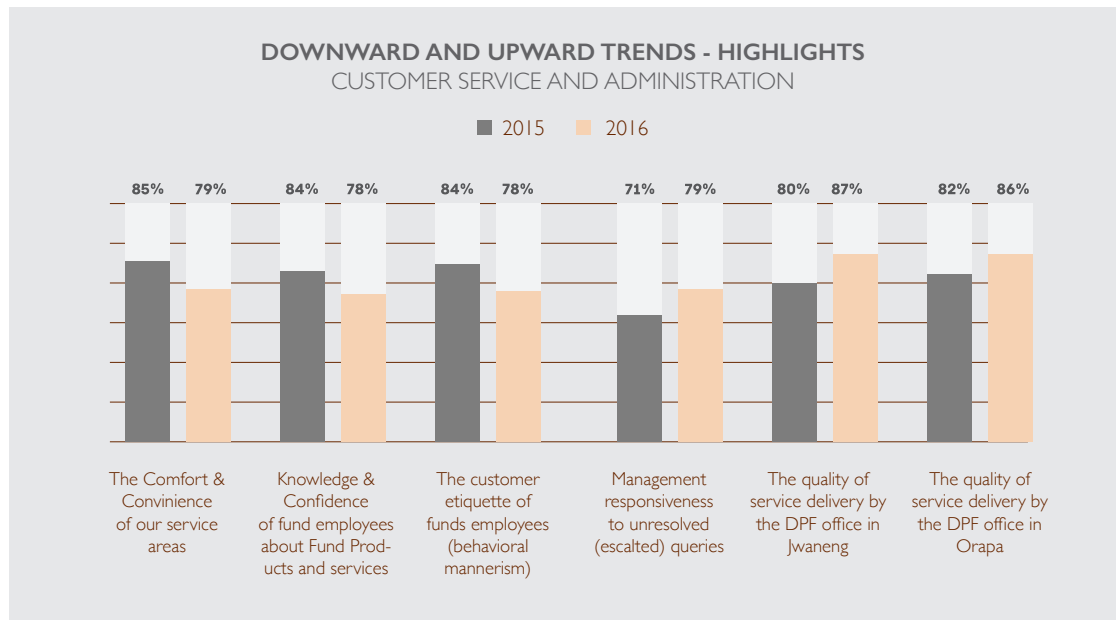
## Trustees' Report

For the year ended 31 December 2016

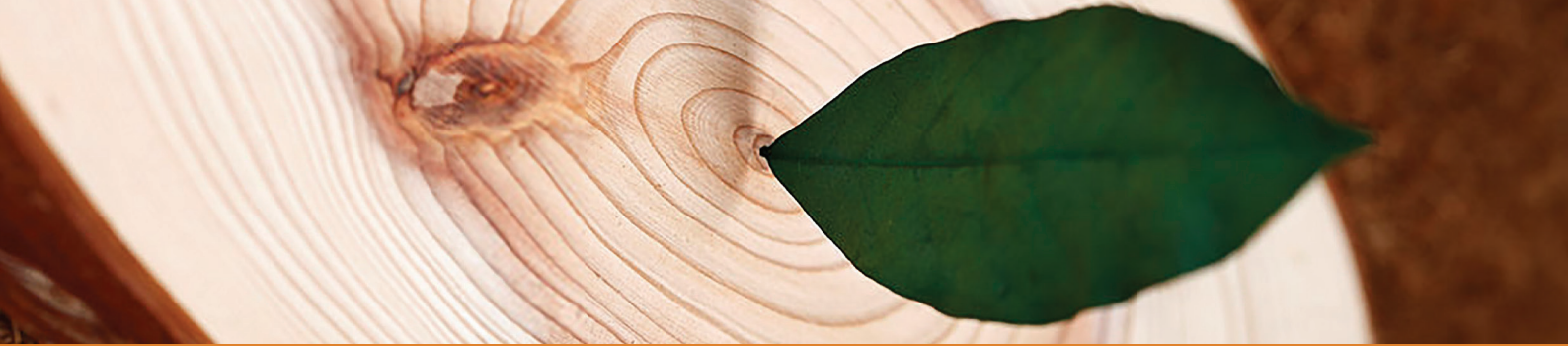
### i. Customer Service & Administration

Three main downward trends were noted under Fund administration; service areas convenience, knowledge and confidence displayed by employees about fund services as well as employee etiquette. These averaged a 6% decline each from the previous year. The upward trend

includes mainly Management responsiveness to member queries and the quality of service provided in the Jwaneng satellite office. Both registering an upward growth of 8% and 7% respectively, with Orapa office registering a 4% improvement.







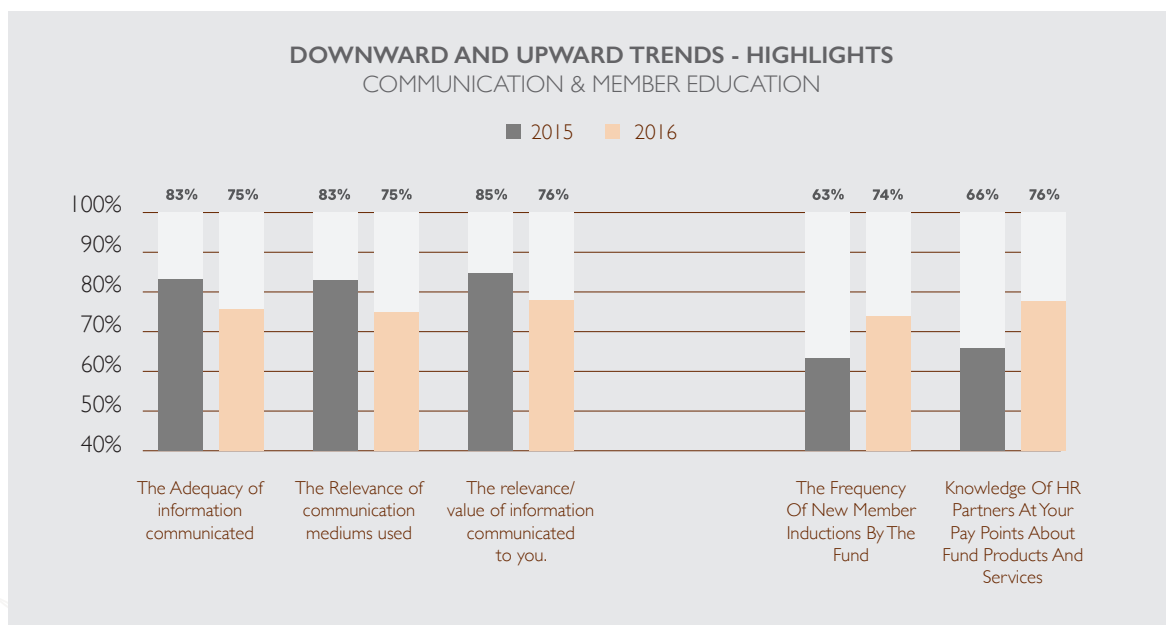
# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### iii. Communication And Member Education

The respondents seem to have a dissatisfaction with adequacy and relevance of our communication, relative to past periods. On the positives, this year's Active member respondents seem to be happier with service delivered by their HR counterparts at the pay points.

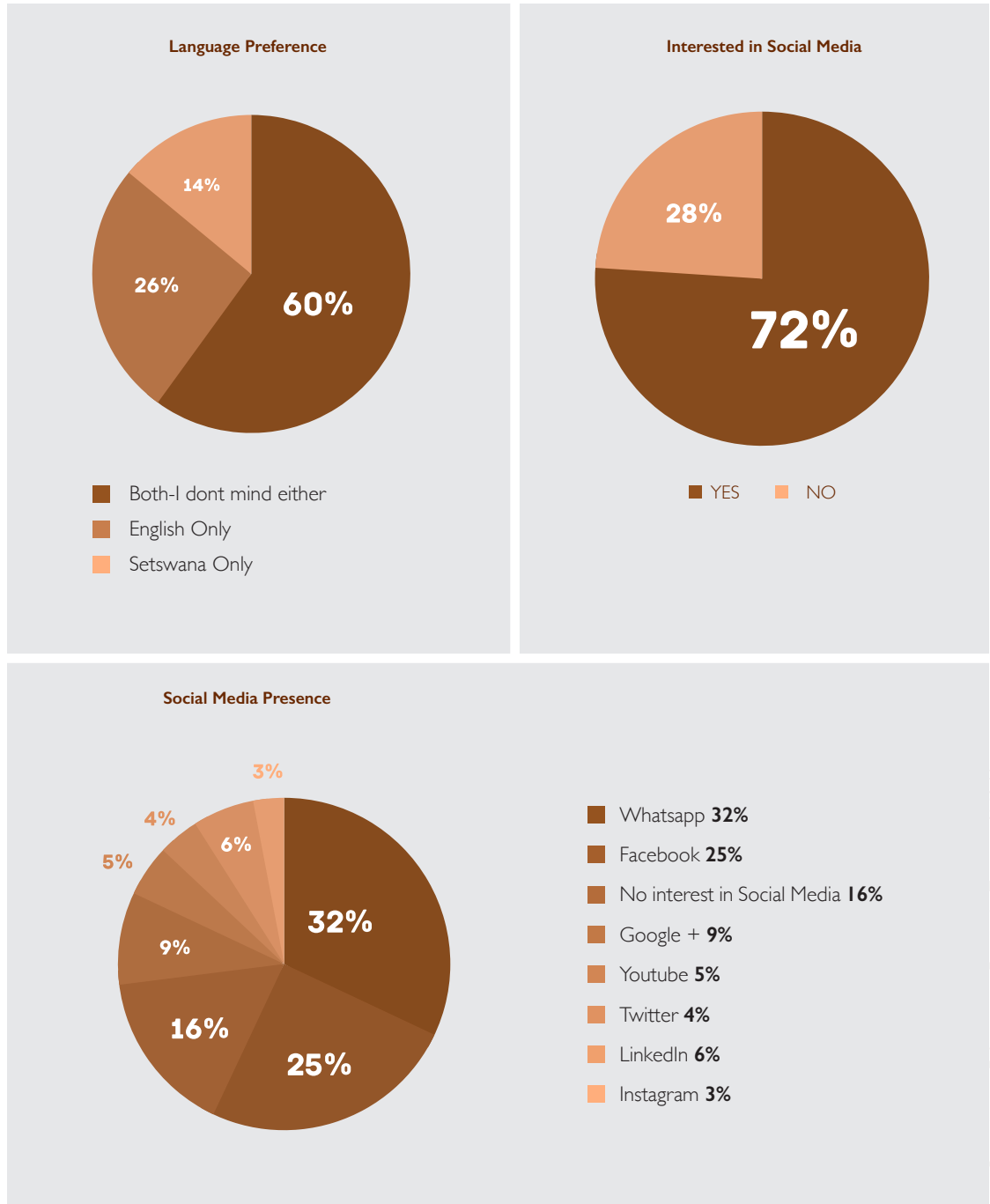


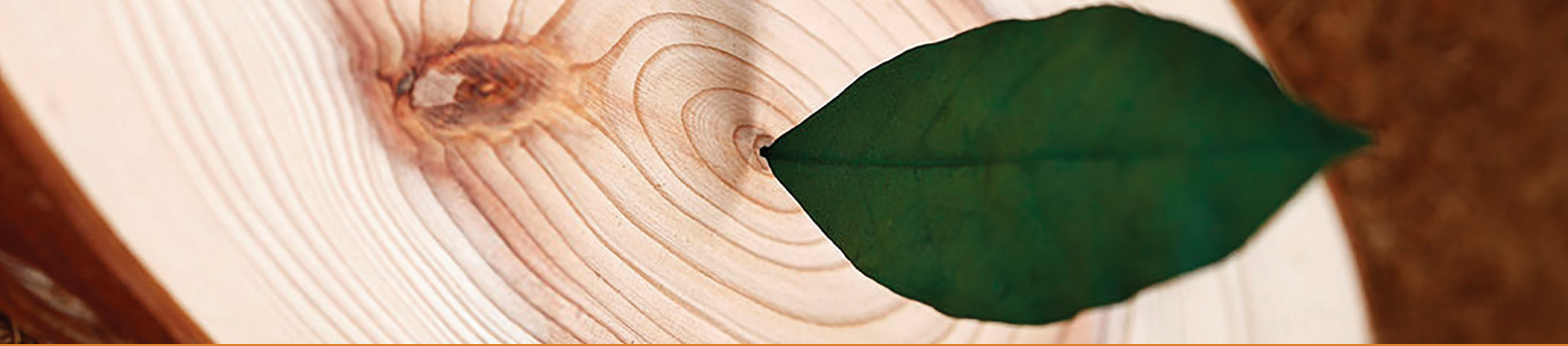
In the same survey we sought to understand respondents' preferences with regard to communication mediums, the outcome of which was as follows;

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016





# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

**Q11 Give us suggestions for what you think are the best methods that DPF can use to communicate with you. List at least 3 of your most preferred mediums**

Answered: 1,641 Skipped: 587

Television Tube Social Media Bokamoso Mail  
Workshops Letters Youtube  
Email WhatsApp Box Face Book  
Communication E-mail Meetings Sms DPF  
Phone Setswana Telephone Nil Cellphone  
Radio

The suggested communication mediums by the respondents are aligned to the current DPF communication strategy, however with the exception of WhatsApp and Television.

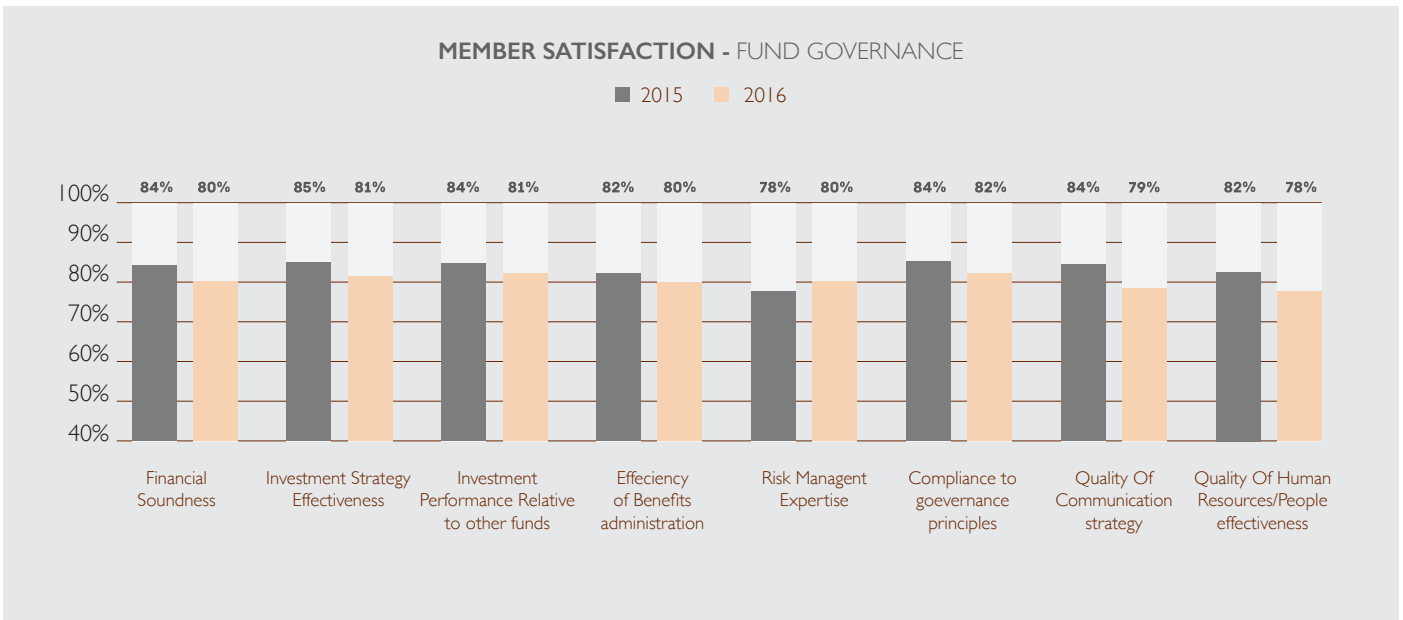
# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### iii. Fund Governance

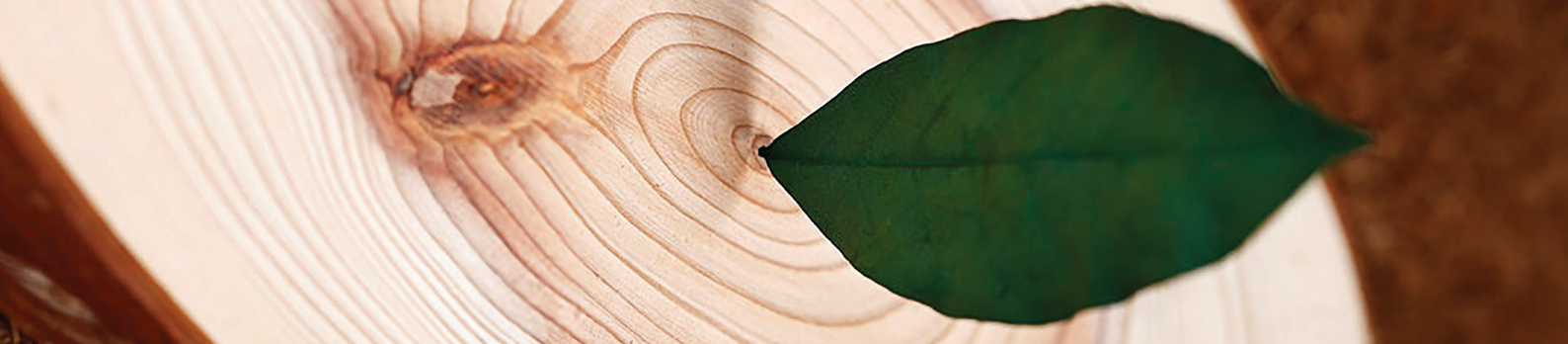
Satisfaction with Fund governance remains good at a score of 80% but saw a 3% decline in 2016. There were no major indicators of poor performance in this area.



### iv. Member Comments And Suggestions

Over 1000 comments were received from member respondents which the Fund will use to develop and enhance the Fund communication strategy going forward.





# DEBSWANA PENSION FUND

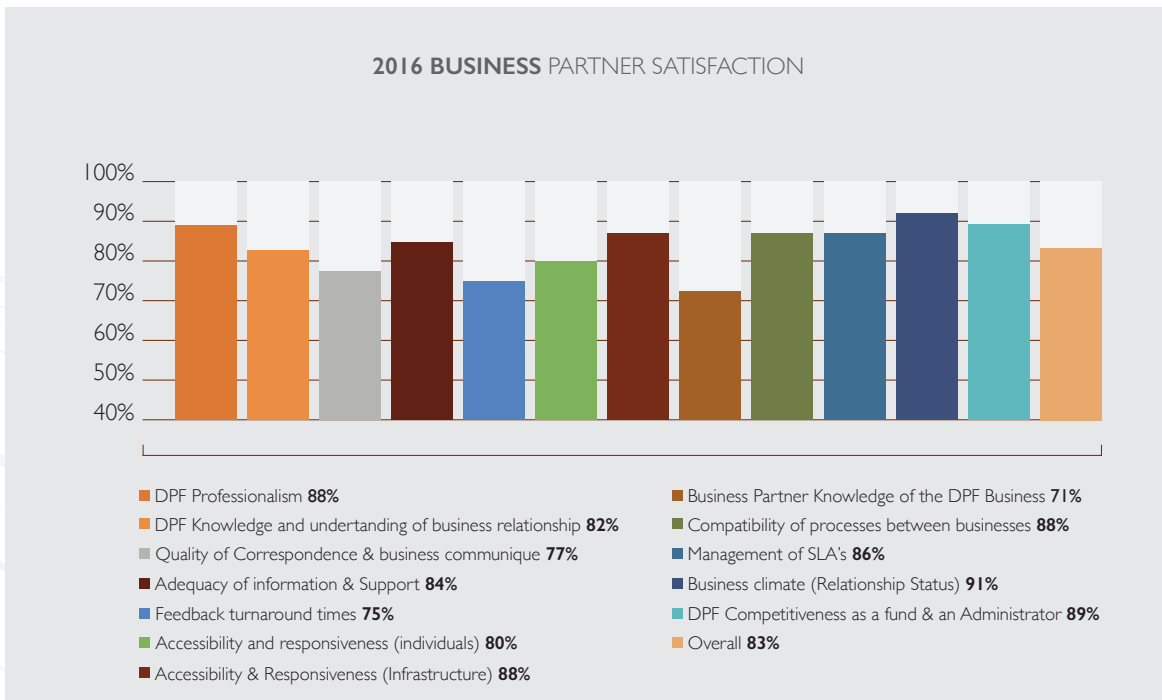
## Trustees' Report

For the year ended 31 December 2016

- Business Partners

Similar to previous years, business partner satisfaction is high, however there is a notable decline in response rate from 36% in 2015 to 20% in 2016. An overall 83% satisfaction score was achieved in 2016, which is the same as in 2015. There is significant growth since the year 2014 which recorded a 78% outcome then.

Business Partners Respondents Profile		
Participating employer HR partner/employee liaison	35.7%	5
Asset Management services	0.0%	0
Outsourced consultancy and/or agency services	21.4%	3
Supplies, maintenance and other support services	7.1%	1
Financial services	28.6%	4
Other	7.1%	1
<b>Total Respondents</b>		<b>14 or 20%</b>
<b>Surveyed population</b>		<b>70</b>



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### a. Communication Policy Statement

The DPF has a standing communications policy document which clarifies our communication objectives, defines our audiences, as well as how we aim to communicate with them and the frequency with which we communicate to achieve the desired objectives. The detailed communication policy is available on the DPF Website.

#### i. Primary Fund communication objectives

- To ensure an educated and informed membership
- To manage Fund reputation
- To ensure that the DPF administrative provisions and requirements are communicated accurately to all stakeholders
- To identify and meet all regulatory requirements regarding communication of information by the DPF to members
- To appropriately promote the objectives of the Fund to all stakeholders
- To facilitate ease of access to information between DPF and its stakeholders
- To ensure timely communication

#### ii. Secondary Communication Objectives

The DPF communications policy is designed to complement the Fund's compliance and risk management strategies hence it is geared towards the following principles:

##### Professionalism

- To demonstrate the Fund's professionalism by ensuring adherence to Fund values and thorough knowledge by DPF staff of the rules, regulations, products and services

##### Understanding And Accessibility

- To respond promptly to stakeholders' needs for information and contact by ensuring that needs are properly understood and providing effective access for all.

##### Pro-Active Planning And Development

- To anticipate and respond to stakeholder needs through development of a rolling communication strategy informed by continuous communication research, planning and measurement.

##### Customization Of Communication Messages Taking Cognizance Of Stakeholder Differences And Needs.

- To provide targeted communication based on the varying needs of groups of stakeholders: members, beneficiaries, employers, service providers etc.

##### Responsiveness

- To develop strategies for crisis communication and ensure that appropriate responses for all events as well as on-going mitigation of Fund reputational risks.



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### iii. Our Audiences

The DPF communicates with various stakeholders. For the purposes of our communication policy, communication with the following audiences is considered;

- Members
- Prospective members
- Employers
- Community leaders
- Trustees
- Regulators
- Fund employees
- Business Partners/service providers
- Public and Media.

### iv. Communication Mediums

The DPF endeavours to optimise communication with members and stakeholders as much as possible through the deliberate utilisation of multiple communication platforms, blending between both traditional and new media to create maximum effectiveness. The communication mediums that the DPF uses from time to time include the following;

#### 1. New Media

- DPF Website
- DPF Social Media pages
- Debswana intranet
- Email notices (mass communication)
- SMS Communication System
- Audio-visual media (Edutainment videos/film)

#### 2. Traditional Media

- Publications
- General Correspondence (surface mail - e.g. administration correspondence forms and letters)
- Telephone
- Member Welfare Office consultations
- Pensioner Meetings and conferences
- In-house member education presentations and workshops for active members
- Induction presentations for new employees of participating employers
- Annual education & business Fairs
- Pre-Retirement Workshops
- HR Training Workshops
- Field trips (stakeholder engagement meetings and member death claims investigations)

# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### 6. INVESTMENT REPORT

#### a. 2016 DPF Investment Performance Review

##### Fund And Portfolio Performances

During the year ended December 31, 2016, the Debswana Pension Fund increased 3.04 percent (gross) and 2.09 percent (net) to P6.518 billion. Global equities returned 5.46 percent against a global equity benchmark return of 3.07 percent. Global equity performance was partially offset by the 5.38 percent appreciation of the BWP against the USD. Orbis generated above benchmark returns of 13.81 percent. Global equity managers namely, Walter Scott, Marathon and Aberdeen underperformed the benchmark thereby returning 1.12 percent, 3.21 percent and 2.57 percent, respectively.

Global bonds underperformed equities with the Barclays Global Bond Index contracting 2.13 percent. The fixed

income mandate allocation to PIMCO outperformed the benchmark by returning -1.07 percent. The Domestic Companies Index (DCI) contracted 11.33 percent for the year ended December 31, 2016. During the same period, the Fleming Aggregate Bond Index returned 6.80 percent while cash returned 1.62 percent. Allan Gray outperformed the index and reported a return of 6.91 percent while BIFM and Investec returned 0.67 percent and -1.72, respectively.

Figure 1 illustrates the Market Channel, Conservative Channel, Pensioner Channel and Aggregate Fund returns since 2005. In particular, returns in 2016 declined due to several factors such as the appreciation of the BWP against the USD, economic and political uncertainty in addition to geopolitical risks. Global economic performance remained uneven, with challenges relating to economic restructuring in both developed and emerging market economies.

Figure 1. 2016 Investment Return History

Fund	12 month	36 month	60 month	Since Inception (Aug 2004)
Market	3.48%	9.38%	14.51%	13.90%
Conservative	2.42%	8.55%	10.83%	11.53%
Pensioner	2.36%	8.85%	12.37%	13.05%
Contingency	2.81%	8.97%	13.78%	15.50%
Fund	3.04%	9.07%	14.37%	15.75%
Inflation	3.01%	3.30%	4.27%	7.09%

##### Market Portfolio Performance

The Market Portfolio performance for 2016 returned 3.01 percent consistent with inflation. The Market Portfolio has achieved a return of 13.9 percent since inception of the life stage model.

##### Conservative Portfolio Performance

For the year ending December 31, 2016 the Conservative Portfolio returned 3.41 percent above inflation. Since inception the Conservative Portfolio has achieved a return of 11.3 percent in the life stage model.

##### Pensioner Portfolio Performance

The Pensioner Portfolio performance for 2016 returned 2.69% below inflation. The Pensioner Portfolio has achieved a return of 13.0 percent since inception of the life stage model.



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### Manager Performances & Asset Class Benchmarks

Region	Asset Class	Manager	2016 Performance	2016 Benchmark	2015 Performance
<b>Domestic</b>	Balanced mandate	Allan Gray	6.91%	-1.56%	10.89%
	Balanced mandate	BIFM	0.67%	-1.56%	17.54%
	Balanced mandate	Investec	-1.72%	-1.56%	11.23%
	Cash	African Alliance	3.76%	0.64%	6.53%
	Cash	STANLIB	3.76%	0.64%	6.82%
	Property	Khumo	-3.15%	-11.33%	14.55%
	Property	Knight Frank	11.26%	-11.33%	13.34%
<b>Africa</b>	Private Equity	Vantage Capital	-0.72%	27.14%	-0.90%
<b>International</b>	Equity	Aberdeen	2.57%	3.07%	5.09%
	Equity	Marathon	3.21%	3.07%	20.63%
	Equity	Orbis	13.81%	3.07%	14.08%
	Equity	Walter Scott	1.12%	3.07%	19.67%
	Bond Funds	PIMCO	-1.07%	-2.13%	13.78%
	Cash	Barclays	-4.39%	0.22%	14.00%

Asset Class	Benchmark	2016
BW Cash	BOB 91 day	1.66%
BW Bonds	Fleming Aggregate Bond Index (FABI)	6.92%
BW Equity	Domestic Companies Index (DCI)	-11.38%
Global Bonds	BarCap GABI – USD	2.06%
Global Equities	MSCI World – USD	6.64%
Exchange Rate	USDBWP	-5.23%

# DEBSWANA PENSION FUND

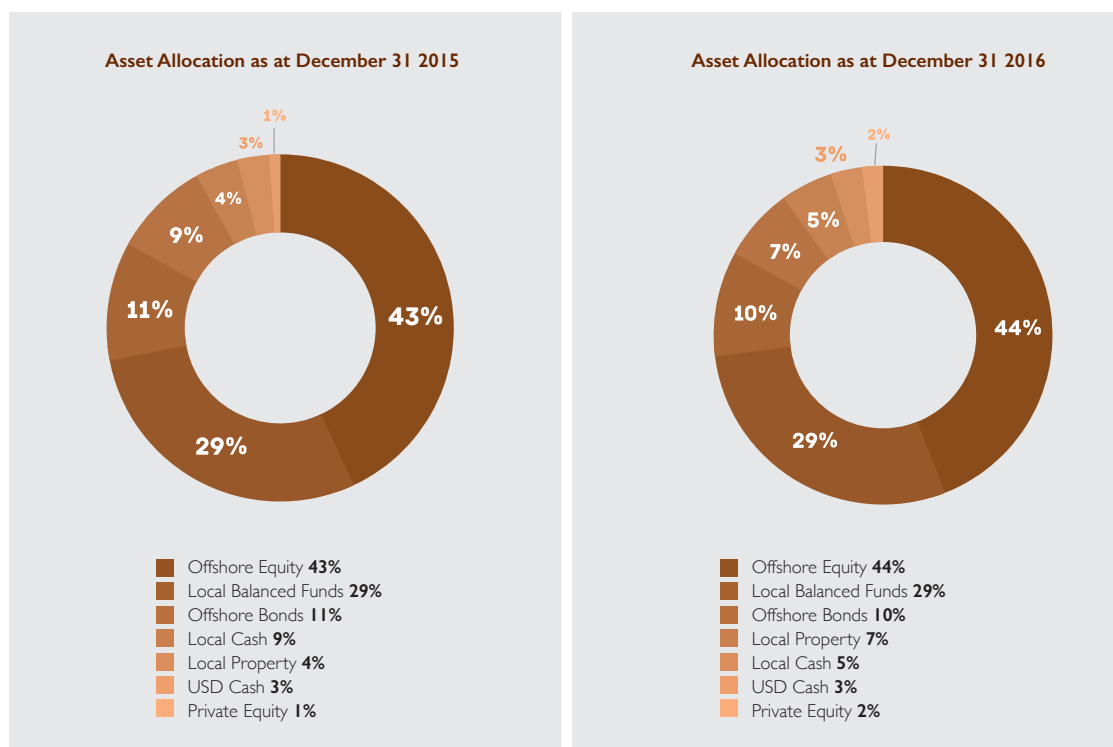
## Trustees' Report

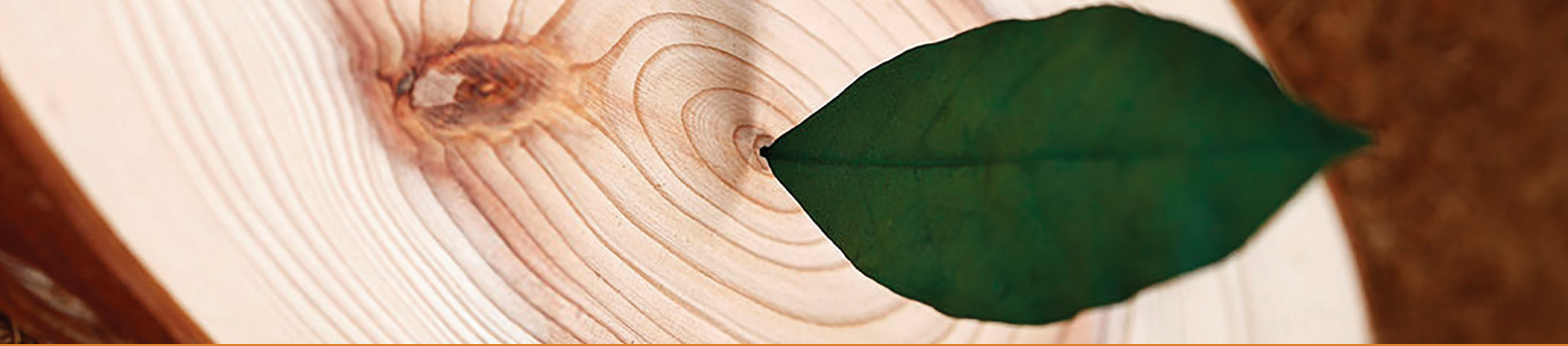
For the year ended 31 December 2016

### b. Strategic Asset Allocation And Manager Share Of Fund As At December 31, 2016.

For the year ended December 31, 2016 the Fund had an allocation of P2.723 billion equivalent to 42 percent in Botswana domestic assets and P3.816 billion equivalent to 58 percent invested in international assets. Offshore investments for the Fund remain overweight the Strategic Asset Allocation due to the historical outperformance of foreign asset classes, particularly US based assets.

Empirical evidence indicates that the performance of pension funds is predominantly driven by Strategic Asset Allocation and the investment policy. *There is a notable increase in allocation to property in 2016 relative to 2015 due to the Trustees' decision to increase the SAA for property to 12.5% from 5% in previous periods.*



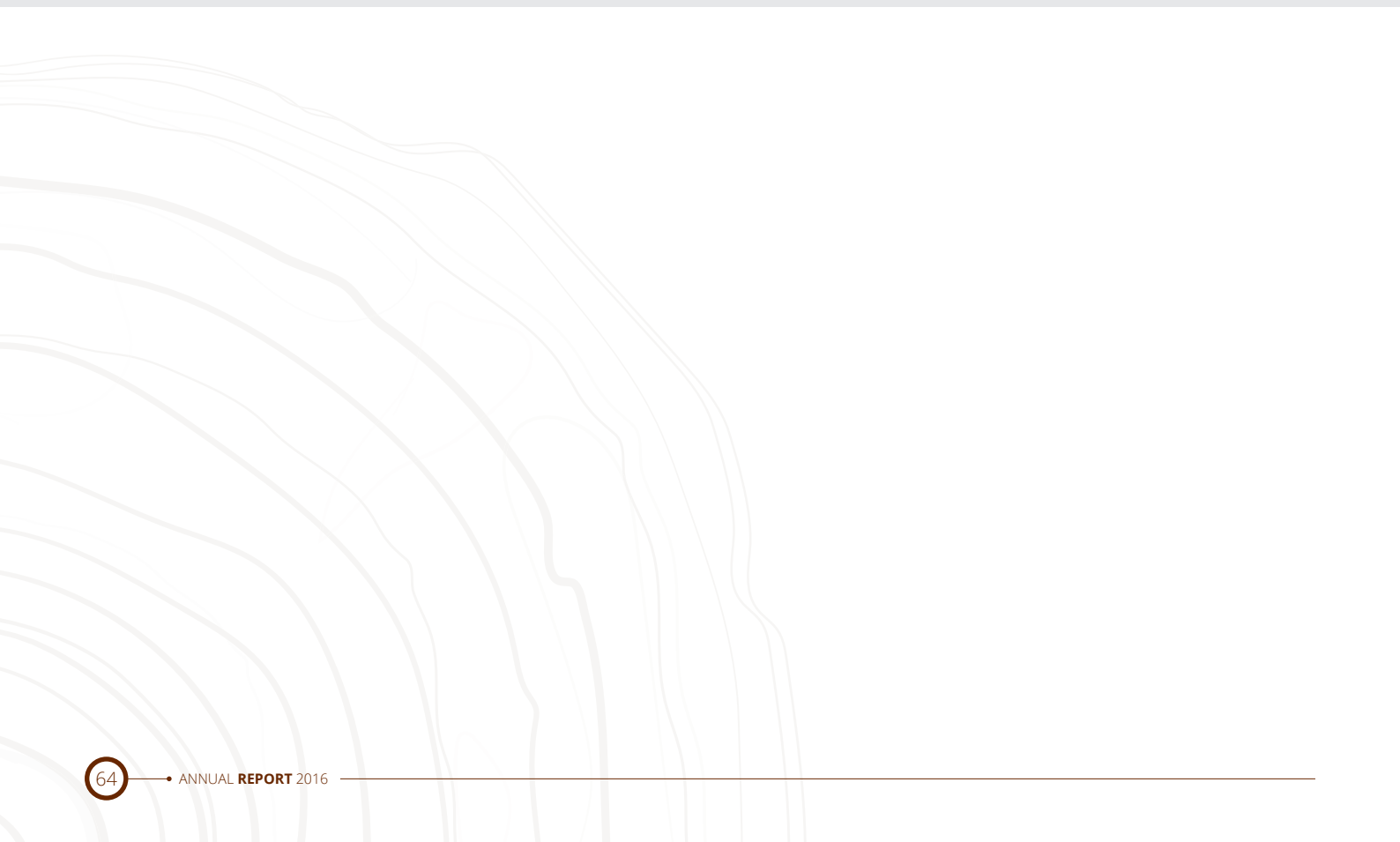
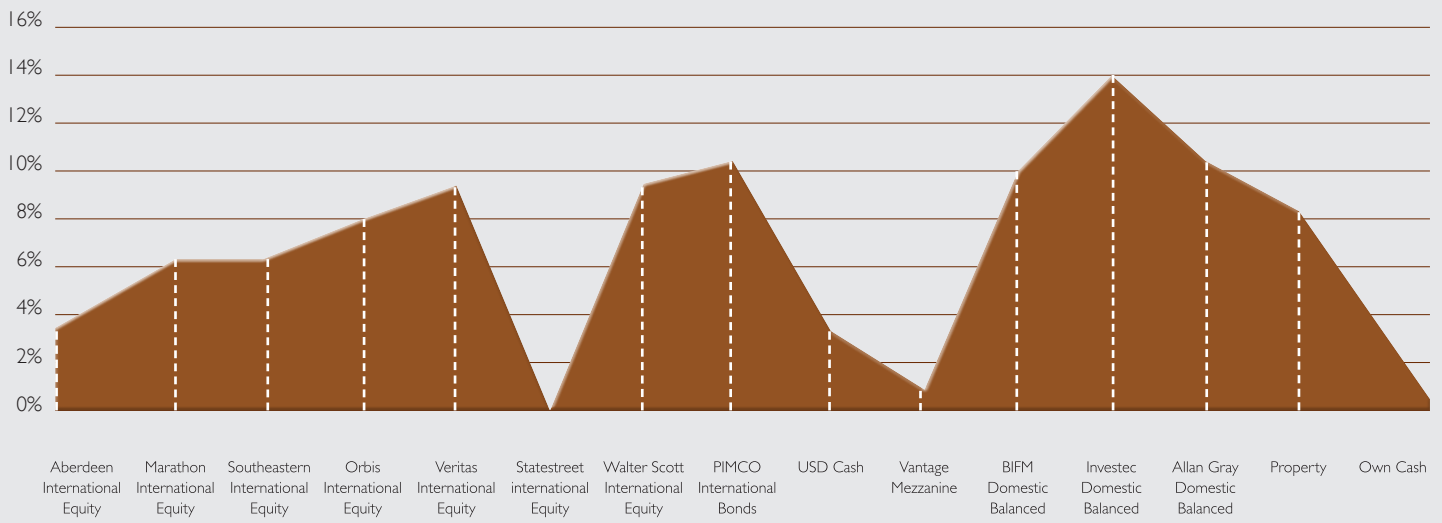


# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

ASSET MANAGEMENT SHARE OF FUNDS  
AS AT 31 DECEMBER 2016



# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

### Assets Under Management Per Asset Manager

Manager	31.12.16
Aberdeen International Equity	215,845,063.00
Marathon International Equity	429,022,174.00
Orbis International Equity	478,264,196.00
Walter Scott International Equity	568,419,632.00
PIMCO International Bonds	674,701,124.00
State Street Fund Services (Ireland) Ltd	422,021,535.00
State Street Global Advisors	146,136,057.00
Nedgroup Investments (IOM) Ltd	575,828,014.00
Vantage Mezzanine	94,571,285.00
BIFM Domestic Balanced	557,486,235.00
Investec Domestic Balanced	757,656,983.00
Allan Gray Domestic Balanced	579,525,455.00
Property	472,133,071.00
Own Cash	558,964,631.00
<b>Total AUM</b>	<b>6,530,575,455.00</b>

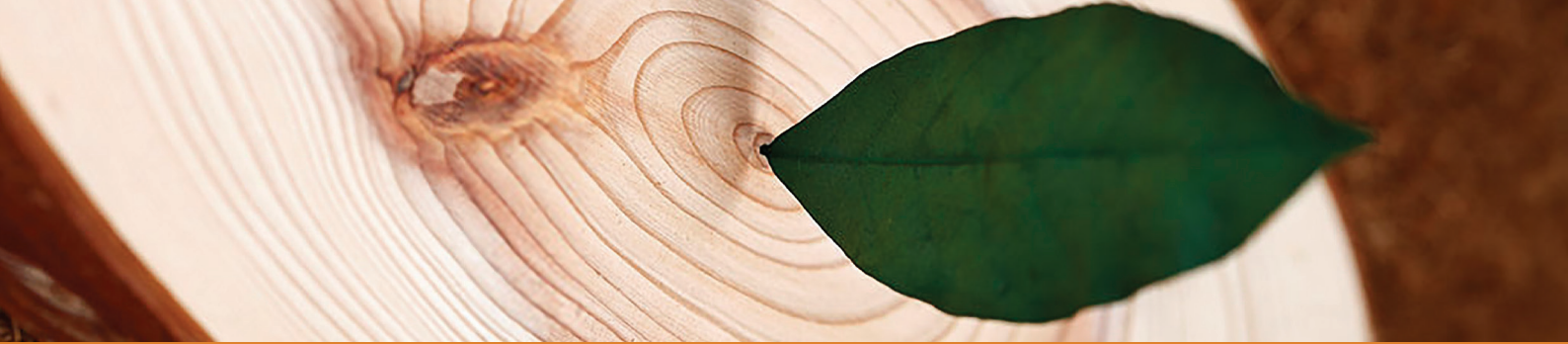
### c. 2016 Investment Policy Asset Allocations

The Fund reviewed its Investment Policy in 2016 and the Strategic Asset Allocation continued to include assets such as African Equity, South African Inflation Linked Bonds and Botswana Inflation Linked Bonds. The allocation to other asset classes remained unchanged.

The 2016 Strategic Asset Allocation is expected generate the following performance targets over a 3 year rolling period:

- Inflation + **5.8%** - Market Channel
- Inflation + **5.0%** - Pensioner Channel
- Inflation + **5.0%** - Conservative Channel





# DEBSWANA PENSION FUND

## Trustees' Report

For the year ended 31 December 2016

	SAA	LB	UB	SAA	LB	UB	SAA	LB	UB
<b>SA ILB MT</b>	0.0%	0.0%	0.0%	15.0%	0.0%	17.5%	12.5%	0.0%	15.0%
<b>SA ILB LT</b>	5.0%	0.0%	10.0%	7.5%	0.0%	10.0%	12.5%	0.0%	15.0%
<b>Botswana Equity</b>	20.0%	15.0%	25.0%	20.0%	10.0%	25.0%	20.0%	10.0%	25.0%
<b>Botswana Cash</b>	0.0%	0.0%	15.0%	2.5%	0.0%	15.0%	4.0%	0.0%	15.0%
<b>Botswana Bonds</b>	5.0%	0.0%	10.0%	7.5%	2.5%	12.5%	5.0%	0.0%	15.0%
<b>Botswana ILB</b>	0.0%	0.0%	5.0%	0.0%	0.0%	7.5%	0.0%	0.0%	10.0%
<b>Botswana Property</b>	10.0%	5.0%	25.0%	15.0%	5.0%	25.0%	16.0%	5.0%	25.0%
<b>Foreign Equity</b>	50.0%	45.0%	55.0%	22.5%	17.5%	27.5%	22.0%	17.0%	27.0%
<b>Foreign Bonds</b>	5.0%	0.0%	15.0%	5.0%	0.0%	15.0%	5.0%	0.0%	15.0%
<b>Africa Equity</b>	5.0%	0.0%	7.5%	5.0%	0.0%	7.5%	3.0%	0.0%	7.5%
<b>Total</b>	<b>100.0%</b>			<b>100.0%</b>			<b>100.0%</b>		



# DEBSWANA PENSION FUND

## G. Annual Financial Statements

For the year ended 31 December 2016



# DEBSWANA PENSION FUND

## Annual Financial Statements

For the year ended 31 December 2016

### GENERAL INFORMATION

#### CHAIRMAN

Christopher Mokgware  
Richard Vaka

(Appointed 24 November 2016)  
(Resigned 24 November 2016)

#### PRINCIPAL TRUSTEES

Richard Vaka  
Christopher Mokgware  
Lynette Armstrong  
Lebogang Sebopelo  
Esther Palai  
Gakenaope Gakologelwang  
Reobonye China Abel  
Ishmael Mokobi (Resigned 13 January 2017)  
Garekwe Mojaphoko

#### ALTERNATE TRUSTEES

Eunice Mpoloka  
Tefo Setlhare  
Kitlanang Phuthego  
Mogorosi Victor Mbanga  
George Rantshilwane  
Boitumelo Senyane (Appointed 21 October 2016)  
Letsibogo Ndwapi  
Menyatso Mooketsi (Resigned 13 January 2017)  
Potoko Bogopa

#### INDEPENDENT TRUSTEES

Professor Mtendeweka Mhango  
Wanjiru Kirima

(Appointed 6 February 2017)  
(Resigned 30 June 2016)

#### CHIEF EXECUTIVE OFFICER

Gosego January

#### CUSTODIAN

Stanbic Bank Botswana Limited

#### REGISTERED OFFICE

Plot 50361 Block D,  
Carlton House,  
Fairgrounds Office Park  
Gaborone, Botswana

#### INVESTMENT CONSULTANTS

Riscura Consulting Services (Proprietary) Limited

#### AUDITORS

Deloitte & Touche

#### BANKERS

Barclays Bank of Botswana Limited

#### ACTUARIES

Willis Towers Actuaries and Consultants  
(Proprietary) Limited

#### OFFSHORE INVESTMENT MANAGERS

Walter Scott & Partners Limited  
Marathon Asset Management LLP  
Aberdeen Asset Management PLC  
PIMCO Funds  
Vantage Capital Fund Managers (Proprietary) Limited  
Orbis Investment Management Limited  
Nedgroup Investment (IOM) Limited (Veritas)  
State Street Global Advisors  
State Street Fund Services (Ireland) Limited  
(South Eastern)

#### ONSHORE INVESTMENT MANAGERS

Investec Asset Management Limited  
Botswana Insurance Fund Management Limited  
Allan Gray Botswana (Proprietary) Limited



# DEBSWANA PENSION FUND

## Annual Financial Statements

For the year ended 31 December 2016

<b>CONTENTS</b>	<b>Page</b>
Trustees' Responsibility For The Financial Statements _____	<b>70</b>
Trustees' Approval Of The Financial Statements _____	<b>70</b>
Independent Auditor's Report _____	<b>71</b>
Statement Of Comprehensive Income _____	<b>73</b>
Statement Of Financial Position _____	<b>74</b>
Statement Of Changes In Members' Funds _____	<b>75</b>
Statement Of Cash Flows _____	<b>76</b>
Significant Accounting Policies _____	<b>77</b>
Notes To The Financial Statements _____	<b>86</b>





# DEBSWANA PENSION FUND

## Trustees' Responsibility And Approval Of The Financial Statements

For the year ended 31 December 2016

The members of the Board of Trustees are responsible for the preparation and fair presentation of the financial statements of Debswana Pension Fund ("the Fund"), comprising the statement of financial position as at 31 December 2016, and the statements of comprehensive income, changes in members' funds and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies, in accordance with International Financial Reporting Standards ("IFRS").

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 the financial statements and the related financial information included in this report. It is their responsibility to ensure that the 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 financial statements and their unmodified report is presented on pages 71 and 72.

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

The 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 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 Financial Statements

The financial statements set out on pages 73 to 103 which have been prepared on the going concern basis, were approved by the members of the Board of Trustees on 8 May 2017 and were signed on its behalf by:

**CHRIS MOKGWARE**  
CHAIRMAN  
Board Of Trustees

**LYNETTE ARMSTRONG**  
CHAIRMAN  
Audit Committee

# DEBSWANA PENSION FUND

## Independent Auditor's Report To The Members Of Debswana Pension Fund

For the year ended 31 December 2016

### Report On The Audit Of The Financial Statements

#### Opinion

We have audited the financial statements of Debswana Pension Fund set out on pages 73 to 103, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in members funds and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Debswana Pension Fund as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### Basis For Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Debswana Pension Fund in accordance with the independence requirements that are relevant to our audit of financial statements in Botswana and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

The Trustees are responsible for the other information. The other information comprises the Statement of Trustees' Responsibility and Approval of the Financial Statements. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is

materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities Of The Trustees For The Financial Statements

The Trustees are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's Responsibilities For The Audit Of The Financial Statements

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

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



## DEBSWANA PENSION FUND

### Trustees' Responsibility And Approval Of The Financial Statements (Continued)

For the year ended 31 December 2016

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trustee's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.

- Conclude on the appropriateness of the Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required

to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

#### Report on Other Legal and Regulatory Requirements

In accordance with Section 15 of the Pension and Provident Funds Act (Cap 27:03), we confirm that in our opinion, the Fund has kept proper books of account with which the financial statements are

*Deloitte & Touche*

**Deloitte & Touche**  
Certified Auditors  
Practicing member: CV Ramatlapeng (20020075)

Gaborone  
24 May 2017

# DEBSWANA PENSION FUND

## Statement Of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 P	2015 P
<b>REVENUE</b>		280 769 603	265 212 184
Contributions	1	272 829 024	257 207 415
Net transfers from other funds	2	7 940 579	8 004 769
<b>Net investment income</b>		137 506 976	129 776 282
Dividends income		66 433 881	46 981 707
Interest income		53 793 584	59 669 997
Net rental income		16 262 196	16 808 307
Share of profits from private equity loan investment		1 009 065	6 316 271
Other income		8 250	-
<b>Total revenue</b>		<b>418 276 579</b>	<b>394 988 466</b>
<b>GAINS ON INVESTMENTS</b>		45 870 369	636 255 874
Loss on disposal of financial assets at fair value through profit and loss		(2 865 405)	(3 056 768)
Unrealised foreign exchange (loss)/gain on financial assets		(195 118 757)	554 368 267
Unrealised fair value gains on financial assets		234 097 111	77 877 104
Net unrealised gains on fair valuation of investment properties	5	9 757 420	7 067 271
<b>Share of profits from associates</b>	6	<b>58 944 976</b>	-
<b>EXPENDITURE</b>			
<b>Benefits payable</b>		(238 213 524)	(190 435 319)
Benefits on withdrawal and death		(29 881 207)	(25 767 990)
Pensions to retired members		(122 316 065)	(109 603 710)
Pensioners' deaths benefits		(1 549 422)	(2 680 679)
Lump sums on retirement		(81 876 404)	(52 382 940)
Membership contributions refunds and interest		(2 590 426)	-
<b>Fund expenses</b>		(79 894 075)	(69 126 050)
Administration expenses	3	(25 861 849)	(34 382 340)
Onshore investment management fees		(13 725 108)	(12 667 833)
Offshore investment management fees		(39 373 629)	(21 050 965)
Depreciation of plant and equipment	9	(231 559)	(754 580)
Amortisation of intangible asset	10	(701 930)	(270 332)
<b>Surplus for the year</b>		204 984 325	771 682 971
<b>Other comprehensive income for the year</b>		-	-
<b>Total comprehensive income for the year</b>		<b>204 984 325</b>	<b>771 682 971</b>





# DEBSWANA PENSION FUND

## Statement Of Financial Position

as at 31 December 2016

	Notes	2016 P	2015 P
<b>ASSETS</b>			
<b>Investments</b>			
Investment properties	5	300 316 885	235 157 001
Investment in associates	6	171 816 186	3 503 314
Other financial assets	7	5 499 477 753	5 367 999 053
Cash and cash equivalents	8	558 964 631	739 320 871
<b>Total investments</b>		<b>6 530 575 455</b>	<b>6 345 980 239</b>
<b>Other assets</b>			
Plant and equipment	9	628 638	1 304 268
Intangible asset	10	2 537 389	2 973 674
Contributions and other receivables	11	31 635 533	13 752 292
<b>Total other assets</b>		<b>34 801 560</b>	<b>18 030 234</b>
<b>Total assets</b>		<b>6 565 377 015</b>	<b>6 364 010 473</b>
<b>FUNDS, RESERVES AND LIABILITIES</b>			
<b>Funds and reserves</b>			
Fund account		4 351 216 606	4 235 205 689
Pensioners' account	14	1 959 299 000	1 884 671 811
Contingency reserves	18	207 602 225	193 256 006
<b>Total funds and reserves</b>		<b>6 518 117 831</b>	<b>6 313 133 506</b>
<b>Other liabilities</b>			
Benefits payable	12	31 650 407	37 066 566
Other payables	13	15 608 777	13 810 401
<b>Total other liabilities</b>		<b>47 259 184</b>	<b>50 876 967</b>
<b>Total funds, reserves and liabilities</b>		<b>6,565,377,015</b>	<b>6,364,010,473</b>

## DEBSWANA PENSION FUND

### Statement Of Changes In Members' Funds

For the year ended 31 December 2016

	Notes	Fund Account P	Pensioner's Account P	Contingency Reserves P	Total P
Balance at 1 January 2015		3 673 715 000	1 693 825 000	173 910 535	5 541 450 535
Total comprehensive income for the year		771 682 971	-	-	771 682 971
Transfers during the year		(216 811 621)	190 846 811	25 964 810	-
Transfer of expenses	18	6 619 339	-	(6 619 339)	-
Balance at 31 December 2015		4 235 205 689	1 884 671 811	193 256 006	6 313 133 506
Total comprehensive income for the year		204 984 325	-	-	204 984 325
Transfers during the year		(91 563 834)	74 627 189	16 936 645	-
Transfer of expenses	18	2 590 426	-	(2 590 426)	-
Balance at 31 December 2016		<b>4 351 216 606</b>	<b>1 959 299 000</b>	<b>207 602 225</b>	<b>6 518 117 831</b>



# DEBSWANA PENSION FUND

## Statement Of Cash Flows

For the year ended 31 December 2016

### CASH FLOWS FROM OPERATING ACTIVITIES:

Surplus for the year

Adjusted for:

Depreciation of plant and equipment

Amortisation of intangible asset

Loss of disposal of plant and equipment

Net investment revenue

Net gains on investments

Share of profit of associate

Cash (used in)/generated from operations

Increase in contributions and other receivables

(Decrease)/increase in benefits payable

Increase in other payables

Net cash (used in)/generated from operating activities

### CASH FLOWS FROM INVESTING ACTIVITIES:

Net investment revenue

Payments for plant and equipment

Payments for intangible asset

Proceeds on disposal of assets

Payments for investment in properties

Payments for investment in associates

Payments for investments in other financial assets

Net cash (used in)/generated from investing activities

**Net (decrease)/increase in cash and cash equivalents for the year**

**Cash and cash equivalents at the beginning of the year**

**Cash and cash equivalents at the end of the year**

	2016 P	2015 P
Surplus for the year	204 984 325	771 682 971
Adjusted for:		
Depreciation of plant and equipment	231 559	754 580
Amortisation of intangible asset	701 930	270 332
Loss of disposal of plant and equipment	381 392	-
Net investment revenue	(137 506 976)	(129 776 282)
Net gains on investments	(45 870 369)	(636 255 874)
Share of profit of associate	(58 944 976)	-
Cash (used in)/generated from operations	(36 023 115)	6 675 727
Increase in contributions and other receivables	(17 883 241)	(4 381 278)
(Decrease)/increase in benefits payable	(5 416 159)	6 131 038
Increase in other payables	1 798 376	1 888 587
Net cash (used in)/generated from operating activities	(57 524 139)	10 314 074
Net investment revenue	137 506 976	129 776 282
Payments for plant and equipment	(51 738)	(192 843)
Payments for intangible asset	(265 645)	(3 244 006)
Proceeds on disposal of assets	114 417	-
Payments for investment in properties	(55 402 464)	-
Payments for investment in associates	(109 367 896)	-
Payments for investments in other financial assets	(95 365 751)	(99 464 197)
Net cash (used in)/generated from investing activities	(122 832 101)	26 875 236
<b>Net (decrease)/increase in cash and cash equivalents for the year</b>	(180 356 240)	37 189 310
<b>Cash and cash equivalents at the beginning of the year</b>	739 320 871	702 131 561
<b>Cash and cash equivalents at the end of the year</b>	558 964 631	739 320 871

# DEBSWANA PENSION FUND

## Significant Accounting Policies

For the year ended 31 December 2016

### BASIS OF PREPARATION

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

### ADOPTION OF NEW AND REVISED STANDARDS

#### Adoption Of New And Revised International Financial Reporting Standards

The Debswana Pension Fund accounting policies are described in the notes to the financial statements. The accounting policies adopted by the Fund are in line with International Financial Reporting Standards. In the current year, the following applicable new or revised Standards issued by the International Accounting Standards Board and effective for annual reporting periods beginning on or after 1 January 2016 were adopted by the Fund.

*IFRS 14 Regulatory Deferral Accounts (effective annual periods beginning on or after 1 January 2016)*

IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities.

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the consolidation exception (effective annual periods beginning on or after 1 January 2016).*

The amendment clarifies that the exemption from preparing consolidated financial statements is available to a parent that is a subsidiary of an investment entity, even

if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10.

*Amendments to IFRS 11 Accounting for acquisitions of interest in joint operations (effective annual periods beginning on or after 1 January 2016).*

The amendments provides guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations.

*Amendments to IAS 1 Disclosure initiative (effective annual periods beginning on or after 1 January 2016).*

The amendment clarifies that an entity need not provide specific disclosure required by an IFRS if the information resulting from that disclosure is not material. The amendment provides systematic grouping of the notes.

*Amendments to IAS 16 and IAS 38 Clarification of acceptable method of depreciation and amortisation (effective annual periods beginning on or after 1 January 2016).*

The amendment to IAS 16 prohibits entities from using a revenue-based depreciation method for items of property, plant and equipment while the amendment to IAS 38 introduces rebuttable presumption that revenue is not an appropriated basis for amortisation of an intangible asset.

*Equity Method in Separate Financial Statements (Amendments to IAS 27).*

Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

*Annual Improvements 2012-2014 Cycle (effective annual periods beginning on or after 1 January 2016).*

Makes amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.





## DEBSWANA PENSION FUND

### Significant Accounting Policies (Continued)

For the year ended 31 December 2016

Other than improved disclosures and presentation, the adoption of these Standards and Interpretations has not resulted in material changes to the Debswana Pension Fund financial results.

At the date of approval of these financial statements, the following applicable standards and interpretations were in issue but not effective.

*IFRS 2 Classification and measurement of share based payment transactions (effective annual periods beginning on or after 1 January 2018).*

The amendment clarified that in estimating the fair value of a cash-settled share based payment, the accounting for the effects of vesting and non-vesting conditions should follow same approach as for equity share-based payments. It also clarifies the accounting for a share-based payment that changes the transaction from cash-settled to equity-settled.

*IFRS 9 Financial Instruments: Classification and Measurement (effective annual periods beginning on or after 1 January 2018).* Amendment relates to classification and measurement requirements for financial instruments based on a combined business model and contractual cash flow test. Entities may recognise changes in their own credit risk for fair valued financial liabilities in Other Comprehensive Income. Impairment methodology is now based on expected credit losses rather than incurred credit losses.

*IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (effective annual periods beginning on or after 1 January 2018).*

Introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

*IFRS 9 Financial Instruments (2014) (effective annual periods beginning on or after 1 January 2018).*

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The key impact of IFRS 9 will be to require that financial assets be classified into two measurement categories: fair value and amortised cost.

*IFRS 10 and IAS 27 Sale or contribution of assets between an investor and its associate or joint venture (effective date not yet published).*

The amendment clarified the treatment of a sale or contribution of assets between an investor and associate or joint venture.

*IFRS 15 Revenue from Contracts with Customers (effective annual periods beginning on or after 1 January 2018).*

IFRS 15 provides a new model for the recognition and measurement of all revenue arising from contracts with customers. In principle, an entity will be required to recognise revenue amounts that reflect consideration an entity is entitled to in exchange for transferring goods or services to a customer.

*IFRS 16 Leases (effective annual periods beginning on or after 1 January 2019).*

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

# DEBSWANA PENSION FUND

## Significant Accounting Policies (Continued)

For the year ended 31 December 2016

*IAS 7 Disclosure initiative (effective annual periods beginning on or after 1 January 2017).*

The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

*IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective annual periods beginning on or after 1 January 2017).*

The amendment clarifies the method of evaluating the future taxable profits giving rise to deferred tax asset. The carrying amount of an asset does not limit the estimation of probable future taxable profits.

*IAS 40 Transfers of Investment Property (effective annual periods beginning on or after 1 January 2017).*

The amendment clarifies that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use.

*Annual Improvements to IFRS Standards 2014–2016 Cycle. Makes amendments to IFRS 1, IFRS 12 and IAS 28.*

*IFRIC 22 Foreign Currency Transactions (effective annual periods beginning on or after 1 January 2018).*

The interpretation addresses foreign currency transactions or part of transactions where there is consideration that is denominated or priced in a foreign currency and the prepayment asset or deferred income liability is non-monetary.

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

### **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 cover 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 2016.

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

Depreciation is charged so as to write off the cost of 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
Furniture and fittings	10 years



# DEBSWANA PENSION FUND

## Significant Accounting Policies (Continued)

For the year ended 31 December 2016

### INTANGIBLE ASSET

#### Internally-generated intangible asset

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 the intangible asset so that it will be available for use;
- the intention to complete the intangible asset and use it;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use 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 assets 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 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 4 years.

### INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals

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

### INVESTMENT IN ASSOCIATES

An associate is an entity over which the Fund has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not in control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised the statement of financial position at cost and adjusted thereafter to recognise the Fund's share of the profit or loss and other comprehensive income of the associate. When the Fund's share of losses of and associate exceeds the Fund's interest in that associate (which includes any long term interests that, in substance, from part of the Fund's net investments in the associate), the Fund discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Fund has incurred legal or constructive obligations or made payments on behalf of the associate.

## DEBSWANA PENSION FUND

### Significant Accounting Policies (Continued)

For the year ended 31 December 2016

An investment in an associate is accounted for using the equity method from date on which the investee becomes an associate. Any excess of the Fund's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Fund's investments in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment.

Any reversal of the impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Fund discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is held for sale. When the Fund retains an interest in the former associate and the retained interest is a financial asset, the Fund measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds of disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate. In addition, the Fund accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on

the disposal of the related assets or liabilities, the Fund reclassifies the gain or loss from the equity to profit or loss (as reclassification adjustment) when the equity method is discontinued.

When the Fund reduces its ownership interest in an associate but the Fund continues to use the equity method, the Fund reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When the Fund transacts with an associate of the Fund, profits and losses from the transactions with the associate are recognized in the Fund's financial statements only to the extent of interests in the associate that are not related to the Fund.

#### INTEREST IN PARTNERSHIPS

A partnership is a joint arrangement whereby the parties that have joint control of the partnership have rights to the assets and obligations for the liabilities, relating to the partnership. Joint control is the contractually agreed sharing of the control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Fund undertakes its activities under partnerships, the Fund as a joint operator recognises in relation to its interest in the partnership:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the partnership.
- Its share of the revenue from the sale of the output by the partnership.
- Its expenses, including its share of any expenses incurred jointly.





# DEBSWANA PENSION FUND

## Significant Accounting Policies (Continued)

For the year ended 31 December 2016

The Fund accounts for the assets, liabilities, revenues and expenses relating to its interest in a partnership in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Fund transacts with partnerships in which the Fund is a joint operator (such as a sale or contribution of assets), the Fund is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Fund's financial statements only to the extent of other parties' interests in the joint operation.

When the Fund transacts with a joint operation in which the Fund is a joint operator (such as a purchase of assets), the Fund does not recognize its share of the gains and losses until it resells those assets to a third party.

### 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.

## DEBSWANA PENSION FUND

### Significant Accounting Policies (Continued)

For the year ended 31 December 2016

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 are 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.

#### Loans And Receivables

Contributions receivables and other receivables that have a 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 cost 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 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.



# DEBSWANA PENSION FUND

## Significant Accounting Policies (Continued)

For the year ended 31 December 2016

### 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 7.5% 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.

### 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.

### 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 the end of each reporting period, 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 re-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.

# DEBSWANA PENSION FUND

## Significant Accounting Policies (Continued)

For the year ended 31 December 2016

### RELATED PARTY TRANSACTIONS

Related parties are defined as those parties:

- (a) directly, or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  - 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 arm's 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

### 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.

### Valuation Of Investment Properties

Determining the fair value of investment properties requires an estimation of the value in use of the properties. 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.

### Fair Value Estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques such as discounted cash flows.

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.





# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 5. INVESTMENT PROPERTIES (Continued)

#### Fair Value Measurement Of The Fund's Investment Properties

The fair value of the Fund's investment properties as at 31 December 2016 and 31 December 2015 has been arrived at on the basis of valuation carried out at the respective dates by Roscoe Bonna Valuers (Proprietary) Limited, Messrs MG Properties International Botswana, Wragg (Proprietary) Limited and Willy Kathurima (Proprietary) Limited firms of independent chartered valuers not related to the Fund. The valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were based on open market values.

The investment properties of the Fund are measured at fair value at the end of each reporting period and fall under Level 3.

	2016 P	2015 P	
<b>Recurring fair value measurements at the end of the reporting period</b>	298 751 334	233 497 668	
<b>Reconciliation of fair value measurements categorised within Level 3 of fair value hierarchy</b>			
Balance at beginning of the year	233 497 668	226 430 397	
Net unrealised gains on fair valuation of investment properties	9 757 420	7 067 271	
Additions	55 496 246	-	
Balance at end of the year	<b>298 751 334</b>	<b>233 497 668</b>	
Gains and losses arising from fair valuation of investment properties are shown as a separate line in the statement of comprehensive income as follows:			
Net unrealised gains on fair valuation of investment properties	<b>9 757 420</b>	<b>7 067 271</b>	
<b>Valuation techniques and inputs</b>	<b>Valuation technique</b>	<b>Unobservable input</b>	<b>Range</b>
	Discounted net rentals	Capitalisation rate	8-15%

#### Information About Sensitivity To Changes In Unobservable Inputs

The fair value of investment properties is a function of the unobservable inputs and the net rental generated by each property in the portfolio of the company. Significant increases/(decreases) in the capitalisation rate would result in significantly lower (higher) fair value measurement. The changes are dependent on various market factors including location of property and quality and length of lease periods.

# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 6. INVESTMENT IN ASSOCIATES

Balance at the beginning of the year  
 Additions  
 Share of profits from associates  
 Balance at the beginning of the year

	2016 P	2015 P
	3 503 314	3 503 314
	109 367 896	-
	58 944 976	-
	171 816 186	3 503 314

#### Details Of Material Associates

Details of each of the Fund's material associates at the end of the reporting period are as follows:

Name of Associate	Principal Activity	Place of incorporation and principal place of business	Proportion of ownership interest/voting rights held by Fund
Healthcare Holdings (Proprietary) Limited (i)	Property Management. The Company owns a hospital and residential buildings	Gaborone, Botswana	58.16%/33,33%
Sphinx Associates (Proprietary) Limited (ii)	Property Investment (Shopping mall)	Gaborone, Botswana	25%

All of the above associates are accounted for using the equity method in these financial statements.

- i. Pursuant to the shareholder agreement, the Fund has the right to cast 33.33% of the votes at Directors meetings of Healthcare Holding (Proprietary) Limited.
- ii. The Fund holds 25% of the equity shares of Sphinx Associates (Proprietary) Limited. The Fund exercises significant influence by virtue of its right to appoint a director to the board of directors of Sphinx Associates (Proprietary) Limited.

The associates are exposed to property market risk and changes in the general economic environment could have an impact on the rentals charged on the properties.

## DEBSWANA PENSION FUND

### Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

#### INVESTMENT IN ASSOCIATES (continued)

Summarised financial information in respect of each of the Fund's associates is set out below.

##### Healthcare Holdings (Proprietary) Limited

	2016 P	2015 P
Current assets	13 929 803	13 114 468
Non-current assets	211 681 857	209 262 981
Current liabilities	1 684 494	854 454
Non-current liabilities	2 004 043	2 004 043
Revenue	14 124 164	15 519 839
Profit for the year	19 923 735	20 074 224
Other comprehensive income for the year	-	-
Total comprehensive income	19 923 735	20 074 224

##### Sphinx Associates (Proprietary) Limited

Current assets	2 055 281	3 033 856
Non-current assets	199 002 088	196 755 170
Current liabilities	4 562 496	2 905 660
Non-current liabilities	57 137 321	61 013 711
Revenue	20 126 002	17 357 212
Profit for the year	6 617 087	36 866 826
Other comprehensive income for the year	-	-
Total comprehensive income	6 617 087	36 866 826



# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 7. OTHER FINANCIAL ASSETS

#### Designated as at fair value through profit and loss (FVTPL)

Onshore equity investments by asset manager

Investec Asset Management Limited

Botswana Insurance Fund Management Limited

Allan Gray Botswana (Proprietary) Limited

2016 P	2015 P
467 120 348	503 896 317
390 861 099	423 046 643
450 944 674	415 581 661
<b>1 308 926 121</b>	<b>1 342 524 621</b>

Onshore bonds by asset manager

Investec Asset Management Limited

Botswana Insurance Fund Management Limited

Allan Gray Botswana (Proprietary) Limited

290 536 635	281 412 081
142 301 828	103 574 925
128 580 781	93 317 926
561 419 244	478 304 932

Offshore bonds unitised funds

Pimco Funds

<b>674 701 124</b>	<b>685 334 644</b>
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Offshore equity unitised funds

Marathon Asset Management LLP

Orbis Investment Management Limited

Walter Scott & Partners Limited

State Street Fund Services (Ireland) Limited

State Street Global Advisors

Nedgroup Investments (IOM) Limited

Aberdeen Asset Management PLC

429 022 174	573 517 060
478 264 196	749 361 545
568 419 632	780 662 262
422 021 535	-
146 136 057	-
575 828 014	-
215 845 063	643 161 887
2 835 536 671	2 746 702 754

<b>5 380 583 160</b>	<b>5 252 866 951</b>
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#### Carried at amortised cost

Private equity loan investments in Vantage Mezzanine

Fund II Partnership - offshore

Botswana Insurance Fund Management Limited

short-term loans

94 571 285	90 797 304
24 323 308	24 334 798
118 894 593	115 132 102

**Total**

<b>5 499 477 753</b>	<b>5 367 999 053</b>
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### 8. CASH AND CASH EQUIVALENTS

Short-term deposits

Bank balances

Denominated in Pula

Denominated in US Dollars

245 633 584	322 946 183
313 331 047	416 374 688
102 002 892	228 204 536
211 328 155	188 170 152

<b>558 964 631</b>	<b>739 320 871</b>
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# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 9. PLANT AND EQUIPMENT

#### 2016

##### Cost

Balance at 1 January 2016	868 272	3 842 922	1 951 290	6 662 484
Additions	-	51 738	-	51 738
Disposals		(2 454 358)	(743 688)	(3 198 046)
Balance at 31 December 2016	868 272	1 440 302	1 207 602	3 516 176

##### Accumulated depreciation

Balance at 1 January 2016	868 272	3 364 193	1 125 751	5 358 216
Charge for the year	-	133 722	97 837	231 559
Disposals	-	(2 441 042)	(261 195)	(2 702 237)
Balance at 31 December 2016	868 272	1 056 873	962 393	2 887 538

##### Carrying amount

#### 2015

##### Cost

Balance at 1 January 2015	868 272	3 651 279	1 950 090	6 469 641
Additions	-	191 643	1 200	192 843
Balance at 31 December 2015	868 272	3 842 922	1 951 290	6 662 484

##### Accumulated depreciation

Balance at 1 January 2015	788 336	2 907 047	908 253	4 603 636
Charge for the year	79 936	457 146	217 498	754 580
Balance at 31 December 2015	868 272	3 364 193	1 125 751	5 358 216

##### Carrying amount

	Motor Vehicle P	Office Equipment P	Furniture and Fittings P	Total P
<b>2016</b>				
<b>Cost</b>				
Balance at 1 January 2016	868 272	3 842 922	1 951 290	6 662 484
Additions	-	51 738	-	51 738
Disposals		(2 454 358)	(743 688)	(3 198 046)
Balance at 31 December 2016	868 272	1 440 302	1 207 602	3 516 176
<b>Accumulated depreciation</b>				
Balance at 1 January 2016	868 272	3 364 193	1 125 751	5 358 216
Charge for the year	-	133 722	97 837	231 559
Disposals	-	(2 441 042)	(261 195)	(2 702 237)
Balance at 31 December 2016	868 272	1 056 873	962 393	2 887 538
<b>Carrying amount</b>	-	383 429	245 209	628 638
<b>2015</b>				
<b>Cost</b>				
Balance at 1 January 2015	868 272	3 651 279	1 950 090	6 469 641
Additions	-	191 643	1 200	192 843
Balance at 31 December 2015	868 272	3 842 922	1 951 290	6 662 484
<b>Accumulated depreciation</b>				
Balance at 1 January 2015	788 336	2 907 047	908 253	4 603 636
Charge for the year	79 936	457 146	217 498	754 580
Balance at 31 December 2015	868 272	3 364 193	1 125 751	5 358 216
<b>Carrying amount</b>	-	478 729	825 539	1 304 268

### 10. INTANGIBLE ASSET

#### Cost

Balance at beginning of year	3 244 006	-
Additions	265 645	3 244 006
Balance at end of year	3 509 651	3 244 006

#### Amortisation and impairment

Balance at beginning of year	(270 332)	-
Amortisation charge for the year	(701 930)	(270 332)
Balance at end of year	(972 262)	(270 332)

#### Carrying amount

	2016 P	2015 P
<b>Cost</b>		
Balance at beginning of year	3 244 006	-
Additions	265 645	3 244 006
Balance at end of year	3 509 651	3 244 006
<b>Amortisation and impairment</b>		
Balance at beginning of year	(270 332)	-
Amortisation charge for the year	(701 930)	(270 332)
Balance at end of year	(972 262)	(270 332)
<b>Carrying amount</b>	2 537 389	2 973 674

The intangible asset comprises software costs incurred on implementation of the Everest Pension Administration and Accounting System which was implemented in August 2015.



# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 11. CONTRIBUTIONS AND OTHER RECEIVABLES

Contributions receivables	
Net advance benefit payments	
Advance benefit payments	
Allowance for doubtful debts - advance benefit payments	
20% death advance claim	
Pensioner deaths overpayments	
Benefit clearing account	
Interest receivable	
VAT refundable	
Property rentals receivable	
Property partnership current assets	
Other receivables	

2016 P	2015 P
1 266 322	1 543 226
518 842	607 242
2 891 894	2 980 294
(2 373 052)	(2 373 052)
186 870	220 726
290 994	290 994
-	240 935
694 398	694 398
8 640 000	-
2 345 970	2 741 514
16 814 013	6 489 767
878 124	923 490
<b>31 635 533</b>	<b>13 752 292</b>

Contributions and other 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.

### 12. BENEFITS PAYABLE

Retirement	
Withdrawal	
Death	
Pensioner deaths	
Monthly pensions	
Unclaimed benefits	
Tax payable on benefits	
Contributions for ineligible members	

12 703 868	13 114 332
815 631	5 683 766
12 824 283	12 188 211
1 390 777	2 235 660
1 964 333	1 594 804
1 870 955	1 922 795
-	246 438
80 560	80 560
<b>31 650 407</b>	<b>37 066 566</b>

Benefits payables are settled in accordance with the Rules of the Fund. No interest is charged on outstanding benefits payables.

### 13. OTHER PAYABLES

Rental deposits	
Rental received in advance	
Withholding tax	
Property partnership current liabilities	
Administration costs payable	
Provisions and accruals	

942 613	807 496
421 771	1 321 339
-	24 611
7 014 018	659 182
5 450 085	1 223 086
1 780 290	9 774 687
<b>15 608 777</b>	<b>13 810 401</b>

No interest is charged on outstanding other payables.

# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 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 the 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 2016. The valuation shows that the pensioner's account of the Fund, as reflected in the statement of changes in Funds on page 8 amounting to **P1,963,559,761** (2015: **P1,884,671,811**) adequately cover the pensioner's liabilities at that date amounting to **P1,840,226,000** (2015: **P1,628 693,000**), 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 on-going 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 on-going 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.

#### 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 Board of 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 Riscura Consulting Services, who report regularly to the Board of 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.

##### Benefits And Communications Committee

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





# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 15. FINANCIAL RISK MANAGEMENT (Continued)

#### Risk Management Governance Structure (continued)

##### Nominations and Remuneration Committee

The Nominations and Remuneration Committee comprising of the Board of Trustees meets regularly and ensures that there is a formal, rigorous and transparent procedure for the appointment of new Independent Trustees and Committee members to the Board and Sub-Committees. The Committee ensures that the Board and its Sub-Committees have appropriate balance of skills, experience, independence and knowledge of the Fund to enable them to discharge their respective duties and responsibilities. The Nominations and Remuneration Committee is also responsible for the Fund's Human Resources mandate.

##### Types Of Risk Exposure

The Fund is exposed to various types of risk exposures, namely market risk, comprising currency risk, interest rate risk, 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 2016 amounted to P3,816,137,235 (2015: P3,620,207,550).

##### 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 2016 amounted to P585,742,552 (2015: P502,639,730) being investments in onshore bonds and short-term loans, P674,701,124 (2015: P685,334,644) being investments in offshore bonds, and P558,964,631 (2015: P739,320,871) being short term deposits and cash and cash equivalents as disclosed in notes 7 and 8.

##### 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 stipulate the allowable holding levels. The net exposure to equity price risk as at 31 December 2016 amounted to P1,308,926,121 (2015: P1,342,702,621) for local equities, P2,835,536,671 (2015: P2,746,702,754) for offshore equities and offshore unitised funds and P94,571,285 (2015: P90,797,304) for offshore private equity loan investments as disclosed in note 7.

# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 15. FINANCIAL RISK MANAGEMENT (Continued)

#### Fair values of financial instruments

##### 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 approximate their fair values.

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

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

The fair values 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 determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for 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).



# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 15. FINANCIAL RISK MANAGEMENT (Continued)

#### Fair Values Of Financial Instruments (Continued)

This note provides information about how the Fund determines the fair values of the various financial assets.

#### Fair value of the Fund's financial assets that are measured at fair value on a recurring basis

Some of the Fund's financial assets are measured at fair value at the end of each reporting period. The following table gives information about the fair values at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2016 P	2015 P				
Onshore listed equity investments (see note 7)	1 308 926 121	1 342 524 621	Level 1	Quoted last traded prices in an active market.	N/A	N/A
Onshore listed bonds (see note 7)	561 419 244	478 304 932	Level 2	Quoted last traded prices in an active market.	N/A	N/A
Offshore bonds unitised funds (see note 7)	674 701 124	685 334 644	Level 2	Weighted average price for units held in portfolio. Fair value of underlying assets in portfolio is determined using quoted bid prices in an active market.	N/A	N/A
Offshore equity unitised funds (see note 7)	2 835 536 671	2 746 702 754	Level 2	Weighted average price for units held in portfolio. Fair value of underlying assets in portfolio is determined using quoted bid prices in an active market.	N/A	N/A

There were no transfers between level 1 and 2 in the current year.

# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 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.

#### 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.

Risk Variable	Adverse market change			Beneficial market change		
	Scenario	Effect on statement of comprehensive income		Scenario	Effect on statement of comprehensive income	
		2016 P	2015 P		2016 P	2015 P
Currency Risk	Strengthening of the Pula by 1%	(38 161 372)	(36 202 076)	Weakening of the Pula by 1%	38 161 372	(36 202 076)
Global Equity Risk	Decline in global equity prices by 1%	(28 355 367)	(27 467 028)	Increase in global equity prices by 1%	28 355 367	(27 467 028)
Local Equity Risk	Decline in local equity prices by 1%	(13 089 261)	(13 425 246)	Increase in local equity prices by 1%	13 089 261	(13 425 246)
Interest Rate Risk	Increase in interest yield by 1%	(18 194 083)	(19 272 952)	Decline in interest yield by 1%	18 194 083	(19 272 952)

#### 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 on-going 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.

# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 15. FINANCIAL RISK MANAGEMENT (Continued)

#### Concentration Of Credit Risk

Counterparty (Investment Manager)	Investment type	2016 P	2015 P
Investec Asset Management Limited	Government bonds	184 179 815	163 079 492
Investec Asset Management Limited	Corporate bonds	59 225 066	65 784 543
Investec Asset Management Limited	Parastatals bonds	47 131 754	52 548 046
Botswana Insurance Fund Management Limited	Government bonds	54 014 634	53 093 396
Botswana Insurance Fund Management Limited	Corporate bonds	72 453 116	31 407 001
Botswana Insurance Fund Management Limited	Parastatals bonds	15 834 078	19 074 528
Allan Gray Botswana (Proprietary) Limited	Government bonds	31 311 460	6 939 855
Allan Gray Botswana (Proprietary) Limited	Corporate bonds	64 796 657	59 183 547
Allan Gray Botswana (Proprietary) Limited	Parastatals bonds	32 472 664	27 194 524
Pimco Funds: Global Investors Series plc.	Unitised offshore bonds	674 701 124	685 334 644
Botswana Insurance Fund Management Limited		24 323 308	24 334 798
<b>Total</b>		<b>1 260 443 676</b>	<b>1 187 974 374</b>

#### Bank Balances And Fixed Deposits

Counterparty (Investment Manager)	Investment type	2016 P	2015 P
First National of Bank Botswana Limited	Fixed deposits	11 273 355	27 715 945
Barclays Bank of Botswana Limited	Fixed deposits	60 518 539	31 350 000
Barclays Bank of Botswana Limited	Bank balances	233 344 686	301 583 431
Standard Chartered Bank Botswana Limited	Fixed deposits	50 115 615	68 459 121
Standard Chartered Bank Botswana Limited	Bank balances	555 864	-
Stanbic Bank Botswana	Fixed deposits	34 462 920	131 533 850
Stanbic Bank Botswana	Bank balances	79 430 497	-
Bank of Botswana	Treasury bills	13 979 000	20 827 230
Other Institutions	Fixed Deposits	75 284 155	157 851 294
<b>Total (per note 8)</b>		<b>558 964 631</b>	<b>739 320 871</b>



## 15. FINANCIAL RISK MANAGEMENT (Continued)

### 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 of the financial statements.

### Categories of financial instruments

#### Financial assets

Cash and cash equivalents

	2016 P	2015 P
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	558 964 631	739 320 871
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Designated as at fair value through profit and loss (FVTPL)

	5 380 583 160	5 252 866 951
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Investments carried at amortised cost

	1 18 894 593	1 15 132 102
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Contributions and receivables

	22 517 669	11 733 213
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#### Financial liabilities

Other financial liabilities at amortised cost

	<b>45 814 240</b>	<b>48 396 523</b>
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## 16. RELATED PARTY TRANSACTIONS AND BALANCES

Contributions income from participating employers (note 19)

	2016 P	2015 P
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	272 829 024	257 207 415
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Remuneration of key management personnel:

Key management personnel comprises the Principal Executive Officer

Gross emoluments of the key management personnel are:

Short term benefits

	1 548 897	1 474 075
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Internal audit fees charged by Debswana Head Office

	<b>821 654</b>	<b>799 680</b>
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# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 17. INTEREST IN PROPERTY PARTNERSHIPS

Details of the Fund's material investments in other entities at the end of the reporting period are as

Name of partnership	Principal activity	Place of incorporation and Principal place of business	2016	2015
Engen Palapye partnership	Property partnership	Palapye	20%	20%
Engen Maun partnership	Property partnership	Maun	25%	25%
DBN Developments partners	Property partnership	Gaborone	66,66%	33,33%
Francistown Retail partnershi	Property partnership	Francistown	75%	75%

Summarised below is the Fund's share of assets and liabilities and share of the financial results of the partnerships:

31 December 2016	Engen Palapye Partnership P	Engen Maun Partnership P	DBN Developments Partnership P	Francistown Retail Partnership P	TOTAL P
Investment properties (note 5)	8 680 588	5 574 216	63 633 409	19 663 121	97 551 334
Current assets (note 11)	2 818 628	535 791	8 285 268	5 174 326	16 814 013
Current liabilities (note 13)	(143 797)	(148 669)	(6 375 580)	(345 972)	(7 014 018)
Revenue - net rental income	1 253 126	646 411	5 654 072	2 090 191	9 643 800
Unrealised fair value gains on fair valuation of investment property	1 140 000	450 000	6 270 000	1 398 750	9 258 750
Total comprehensive income for the year	2 393 126	1 096 411	11 924 072	3 488 941	18 902 550
Net cash generated from operating activities	1 120 944	635 010	5 526 469	1 994 936	9 277 359
Net cash utilised in investing activities	(1 060 443)	18 604	(435 073)	80 027	(1 396 885)
Net cash used in financing activities	-	(1 000 000)	-	-	(1 000 000)
Net cash (outflow)/inflow	60 501	(346 386)	5 091 395	2 074 963	6 880 473

## DEBSWANA PENSION FUND

### Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

#### 17. INTEREST IN PROPERTY PARTNERSHIPS (Continued)

Summarised below is the Fund's share of assets and liabilities and share of the financial results of the partnerships:

31 December 2015	Engen Palapye Partnership P	Engen Maun Partnership P	DBN Developments Partnership P	Francistown Retail Partnership P	TOTAL P
Investment properties (note 5)	7 540 559	5 124 216	28 968 522	18 264 371	59 897 668
Current assets (note 11)	1 335 462	847 714	1 252 199	3 054 392	6 489 767
Current liabilities (note 13)	(81 896)	(108 408)	(152 649)	(316 229)	(659 182)
Revenue - net rental income	1 010 157	573 841	2 914 924	2 131 323	6 630 244
Unrealised fair value gains on fair valuation of investment property	320 000	258 250	932 844	(1 522 500)	(11 406)
Total comprehensive income for the year	1 330 157	832 091	3 847 768	608 823	6 618 838
Net cash generated from operating activities	1 018 772	563 673	2 883 923	2 124 215	6 590 583
Net cash utilised in investing activities	(1 279 975)	(649 976)	(649 962)	(43 748)	(2 623 661)
Net cash used in financing activities	-	-	(2 999 700)	(2 517 782)	(5 517 482)
Net cash (outflow)/inflow	(261 203)	(86 303)	(765 739)	(437 315)	(1 550 560)



# DEBSWANA PENSION FUND

## Notes To The Financial Staments (Continued)

For the year ended 31 December 2016

### 18. CONTINGENCY RESERVES

In the current year, contributions refunds and related interest amounting to P2 590 426 were settled, correcting fund credits due to unallocated contributions and interest thereon. The Contingency Reserve was utilised for this.

In the prior year, operating expenses amounting to P6 619 339 relating to retrenchment costs and project implementation costs were adjusted against the Contingency Reserve.

The reason for allocating the expenses to the Contingency Reserve was to avoid overburdening members who retire with the once-off cost which would have negatively impacted on their fund credits. The Contingency Reserve is utilised for such purposes.

The contingency reserve has been split into various contingency reserve accounts as defined in the revised set of rules and in line with PFR1 issued by NBFIRA as follows:

		2016 P	2015 P
	Percentage		
Processing error reserve	1,5	74 217 000	62 679 000
Expense reserve	0,0	3 074 225	3 009 006
Solvency reserve	25	130 311 000	127 568 000
		207 602 225	193 256 006

#### Processing Error Reserve

Processing errors include provision for mismatching and for timing differences in the actual investment or disinvestment of moneys from the time when the errors are deemed to have occurred in the calculation of benefits or the accrual of investment returns.

#### Expense Reserve

This reserve is meant to handle fluctuations in future expenses of the Fund or to provide for future increases in expenses.

#### Solvency Reserve

The solvency reserve is meant to introduce a level of prudence into the valuation and it is influenced by the recognition of inherent risks in the asset valuation method adopted.

### 19. 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 of the qualifying members as the case may be.

The participating employers are: Debswana Diamond Company (Proprietary) Limited, Morupule Coal Mine Limited, De Beers Holdings Botswana (Proprietary) Limited, Diamond Trading Company Botswana (Proprietary) Limited, Anglo Coal (Proprietary) Limited, De Beers Global Sightholder Sales (Proprietary) Limited and Debswana Pension Fund.

# DEBSWANA PENSION FUND

## Notes To The Financial Statements (Continued)

For the year ended 31 December 2016

### 20. MEMBERSHIP STATISTICS

		<b>2016</b>	<b>2015</b>
Number of members:	Active	5 809	5 871
	Deferred	2 405	2 335
	Pensioners	3 628	3 440

### 21. COMMITMENTS

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

	<b>2016</b>	<b>2015</b>
	<b>P</b>	<b>P</b>
Due within one to two years:	1 332 624	1 234 910
Due within two to five years	-	1 309
	<b>1 332 624</b>	<b>2 544 100</b>

### 22. FIDELITY INSURANCE COVER

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

### 23. EVENTS AFTER THE REPORTING PERIOD

No events have occurred between the end of the reporting period and the date of approval of the financial statements, which would materially affect the financial statements.



## Debswana Pension Fund Contact Details

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