

**2004 TRUSTEE REPORT**

**BOTSWANA  
PUBLIC OFFICERS  
PENSION FUND**



## CHAIRMAN'S FOREWORD

The Botswana Public Officers Pension Fund makes up a very important part of your retirement planning. It was established with the aim of helping you gain a head start towards an enjoyable and financially secure retirement.

You may recall that in our last report, we discussed the poor performance of the local and offshore investment markets in detail. As a result of that poor performance, the Trustees had the unenviable task of reporting that your assets in the Fund had earned a rate of return of negative 14.75% for the year ended 31 March 2003. We also went to great lengths to argue that it was important to measure investment performance over the long term rather than over just one year. Despite the poor performance in the 2003 financial year, the Trustees remained true to their investment strategy to ensure that your retirement savings are maximised in the long run.

In this report, we are pleased to report that there was a phenomenal recovery in investment performance during the year ended 31 March 2004. The period under review was a great year for pension funds. In contrast to the previous period, stock markets all over the world staged a remarkable recovery. Had it not been for the continued strength of the Pula against major world currencies, the return earned by the Fund would have been even better in Pula terms over the period.

The Trustees are confident that you will find this report useful and informative as, amongst other issues, it covers membership, investment performance and cashflow. The Trustees go to great lengths to keep you up-to-date with what is happening within your Fund so that any decisions you need to make regarding your retirement are informed decisions.

Should you have any suggestions or comments regarding the contents of the Report, or simply require more information regarding the Fund, please do not hesitate to contact any one of the Trustees or the Principal Officer, who will be able to assist you.

In conclusion, I would once again like to thank each and every one of you for supporting the Trustees' aim to continue to ensure that the Fund meets its objective of playing a meaningful role in your continued financial security during your retirement.



DN Mokgethi  
Chairperson



## TRUSTEES, ADVISORS & MEMBERS

### Your Trustees

In accordance with the Rules, a Board consisting of 14 Trustees and Alternate Trustees manages the Fund. The Trustees of the Fund, whether they are elected by Staff Associations, on behalf of the Members, or appointed by the Employer, have a duty to act in your best interests at all times. They meet regularly to fulfil this objective. Some of the important issues they deal with at these meetings are:

- Choosing suitable investment managers to invest the Fund's money;
- Making sure that benefits are paid to you and your beneficiaries; and
- Communicating with you and keeping you informed.

The Trustees are:

Trustee	Area	Employer/Member
Mr Mokgethi	Independent Trustee	Independent
Ms Pelaelo	DPSM	Principal Officer
Mr Peke	BDF	Employer
Mr Nkele	BDF	Employer
Mr Reetsang	DLSGM	Employer
Ms Y Galeage	DPSM	Employer
Mrs Mapiitse	MFDP	Employer
Mr Duha	Police	Employer
Ms Seitiketso	Prisons	Employer
Mrs Rathedi	Tribal Admin	Employer
TBA	TSM	Employer
Mr Mutheto	Tonota College of Education	Member
Mr Gaobakwe	BCSPA	Pensioner
Ms Masuku	DPSM	Alternate Employer
Mr E Letebele	MFDP	Alternate Employer
Mr Bagopi	Police	Alternate Employer
Mr Messe	Prisons	Alternate Employer
Mr Bantsi	TSM	Alternate Employer
Mr Magola	BCSA	Alternate Member
Mr Tlale	BOFESETE	Alternate Member
Ms Kentsitshwe	BULGASA/BOTASA	Alternate Member
Mrs Mathe	BCSPA	Alternate Pensioner

Please refer to the last page of the report for contact details.

The Fund's Chairman is Mr DN Mokgethi and the Fund's Principal Officer is Ms M Pelaelo.

### The Trustees are responsible for the following:

- Managing the Fund in terms of the Rules of the Funds and in terms of the provisions of the Pension and Provident Funds Act and the Income Tax Act;
- Taking all reasonable steps to ensure that the interests of Members are protected;

- Acting with due care and diligence and in good faith;
- Avoiding conflicts of interest;
- Acting with impartiality in respect of all members and beneficiaries;
- Ensuring that proper control systems are in place;
- Ensuring that adequate and appropriate information is communicated to members;
- Taking all reasonable steps to ensure that contributions are paid timeously;
- Obtaining expert advice where they require expertise;
- Ensuring that the operation and administration of the Fund complies with all the relevant laws.

The Trustees are always striving to improve on their service delivery to members. They have therefore agreed to set up a permanent office to boost their ability to deal with important issues relating to the Fund and its members. This office will focus on some the following issues:

- Member Communication;
- Monitoring standards of Service providers;
- Liaison with Government;
- Assisting with the implementation of executive decisions taken by Trustees;
- In the event of the death of a member, assisting the Trustees to identify and trace the deceased member's dependants.

### Advisors

The Trustees are responsible for running the Fund and ensuring that the Fund is administered properly and that the Fund's assets are invested carefully. They have a duty to seek professional advice in those areas where they do not have the necessary skills. Currently, the following companies assist the Trustees in the complex task of running your Fund:

#### Auditors

PricewaterhouseCoopers

#### Bankers

Standard Chartered Bank Ltd

#### Consultants and Administrators

Alexander Forbes Financial Services Botswana (Pty) Ltd

#### Actuary

Actuarial Solutions (Pty) Ltd

#### Investment Managers

African Alliance Ltd  
Botswana Insurance Fund Management Ltd  
Investec Asset Management Botswana (Pty) Ltd  
Fleming Asset Management (Pty) Ltd

#### Asset Consultant

The Trustees recognise that they have an enormous responsibility to manage the assets of the Fund in your best interests. In line with international trends, they have agreed to appoint a specialist consultant to assist them in issues relating to the investments of the Fund. It is envisaged that the specialist consultant will be appointed by 1 January 2005.

## Membership

The Fund is run for the benefit of its Members. As at 31 March 2004 the membership was as follows:

	Active Members	Deferred Members
<b>Opening Balance at 1 April 2003</b>	56 362	358
New entrants	8 693	489
Transfers In & Late New Entrants	6 649	105
Transfers Out	0	-22
Deaths	-314	-6
Retirements	-577	-5
Resignations/Dismissals/Withdrawals	-611	0
Other Adjustments	-424	0
<b>Closing Balance at 31 March 2004</b>	<b>69 778</b>	<b>919</b>

## BENEFITS PAID

During the 2004 financial year, the following benefits were paid to members (2003 figures for comparison purposes):

	2004	2003
Monthly Pensions	P 2 614 250	P 371 007
Lump sums on resignation/dismissal	P 26 940 317	P 16 355 436
Lump sums on death	P 92 409 794	P 39 552 803
Lump sums on retirement	<u>P 313 840 788</u>	<u>P 143 203 015</u>
<b>Total benefits awarded</b>	<b>P 435 805 149</b>	<b>P 199 482 261</b>

## YOUR FUND'S FINANCIAL STATEMENTS

It is important for you to understand how your Fund's financial statements are laid out and what goes in and out of the Fund in terms of money. It is, after all, your retirement savings!

### INCOME & PAYMENTS TO 31 MARCH 2004

Income	31-Mar-04 Pula	31-Mar-03 Pula
Employer's Contributions (17.5%)	415 233 289	240 233 011
Members' Contributions (2.5%)	138 404 420	80 079 725
Additional Voluntary Contributions	308 370	203 668
Investment Income	530 509 050	169 238 664
Transfers in from Government	2 609 526 487	6 048 203 466
<b>Total Income</b>	<b>3 693 981 616</b>	<b>6 537 958 534</b>
Expenses		
Admin and Consulting Fees	7 878 971	5 219 425
Audit Fees	109 876	95 400
Actuarial Fees	232 338	173 576
Investment Management Fees	69 718 570	42 873 365
Fidelity Cover	6 963	6 000
Trustee Expenses	50 719	40 659
Other Expenses	108 051	323 638
<b>Total Expenses</b>	<b>78 105 488</b>	<b>48 732 063</b>

#### Notes:

1. There was a significant increase in the value of member and employer contributions because the Fund's membership increased significantly.
2. The value of transfers from Government reduced because the option period to join the Fund ended on 30 June 2003.
3. There was a significant increase in Investment Manager fees, because the value of the Fund's assets managed by the Investment Managers grew from around P6.7bn to P11.8bn.

## YOUR FUND'S INVESTMENTS

### The Investment Objective

Retirement funds are a long-term business. When the Trustees set their investment strategy, their main objective is to ensure that the value of your investment in the Fund is maximised in the long run after taking risk into account. It is therefore necessary for the Trustees to allow their chosen investment managers to invest in shares in local companies and offshore investments. Investments in these growth assets tend to generate very volatile (unpredictable) returns in the short run.

#### Did you know.....

*It is generally accepted that at retirement you will require a lump sum of approximately 10 times your annual salary to produce an annual/monthly income in your retirement years of approximately 70% of the annual/monthly income you were receiving while you were working.*

## Investment Management

The Trustees acknowledge that they do not possess the required expertise to manage the Fund's investments. They have therefore appointed professional asset managers to do this job. The Fund's assets continue to be managed by African Alliance (AA), Botswana Insurance Fund Management (bifm), Investec Asset Management (IAM) and Fleming Asset Management (FLEM). These professional Investment Managers invest the assets in a range of investments, including shares, property, fixed interest instruments and cash.

The split between the assets invested with the different Investment Managers, both locally and off-shore (foreign investments) as at 31 March 2004 was as follows:

	Local Equities	Offshore Equities	Local Fixed Interest Funds/Bonds	Offshore Fixed Interest Funds/Bonds	TOTAL 2004
	Pula	Pula	Pula	Pula	Pula
African Alliance	289 229 849	816 816 350	1 389 668 144	443 702 709	2 939 417 052
B I F M	428 370 299	1 578 493 368	806 490 278	292 175 095	3 105 529 040
Fleming	233 685 849	852 587 567	1 083 646 410	792 577 303	2 962 497 129
Investec	375 029 969	785 274 375	1 073 863 555	566 316 632	2 800 484 531
	<b>1 326 315 966</b>	<b>4 033 171 660</b>	<b>4 353 668 387</b>	<b>2 094 771 739</b>	<b>11 807 927 752</b>

*Remember... as a Member of the Botswana Public Officers Pension Fund, you carry the full investment risk because your Fund is a "defined contribution" fund. This means that the growth of your Fund benefit is directly related to the investment returns on the Fund's investments.*

*If there is a healthy positive investment return, the value of your benefit increases. If there is a negative investment return, the value of your benefit will reduce. **The Fund's investment performance is the single most important factor determining the growth of your retirement benefit.** That is why the Fund's investment philosophy and strategy is constantly under discussion and review by the Trustees.*

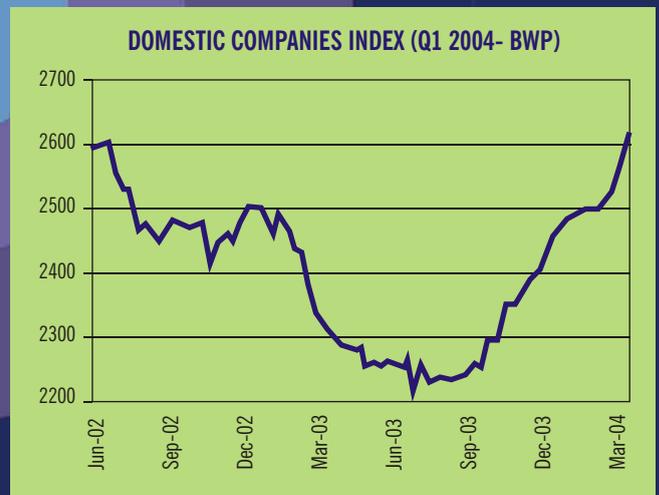
### Why Invest offshore?

You will note that a substantial portion of the Fund's assets (55%) is invested offshore. The reason for investing offshore is that there are limited investment opportunities in Botswana and to diversify the Fund's investments to ensure that your assets are not all invested in one basket.

### How have the markets been performing?

In the last Trustees' report, the Trustees had the unenviable task of discussing the poor investment returns earned by the Fund, which resulted in the Fund declaring a negative 14.75% return. We also reminded you that it was important to look at investment returns over the long run and not just over one year.

The year ended 31 March 2004 was excellent for investors who remained true to their long-term investment strategy. The graph below shows the performance of the Botswana Stock Exchange for this period. You will note that there was a remarkable performance by local shares, especially during the first quarter of 2004! When you take dividends into account, the return earned by the local share market was 23.4% during the year ended 31 March 2004.



Overseas investments also delivered phenomenal returns over the year in US Dollar terms. The MSCI World Equity Index (which measures performance of stock markets around the world) delivered a return of 44.55% in US Dollar terms. However, as a result of the continued strength of the Pula against major world currencies, this return translated to 30.4% in Pula terms.

The following table shows returns earned by different assets classes for various periods ended 31 March 2004:

Asset Classes	Quarter 1 2004 (Actual)	12 Months	3 Years (average annual)
Local Equities (DCI)	9.2%	26.4%	23.4%
BOBC	3.1%	13.8%	13.5%
Offshore Equities (MSCI)	7.6%	30.4%	-4.5%
Bonds (Citigroup WGBI)	6.7%	2.4%	5.6%
Inflation	2.4%	6.9%	7.9%

**\* Important Note!**

*Remember that pension fund returns are not taxed.*

## THE FUND'S PERFORMANCE

You will note in the table above that both local and offshore equities performed very well during the 12-month period ended 31 March 2004 and as a result, the value of your assets in the Fund has increased.

Despite the excellent returns earned during the year ended 31 March 2004, the Trustees would once again like to caution you that they expect years when investment returns will be poor, or even negative. Your pension fund investments are, however, in good hands and it is necessary to take on risk to achieve reward. Also, it is important to remember that wealth is created over time, not in timing investments.

### Declared Interest Rate for 2003/2004

The Fund's actuary valued the Fund as at 31 March 2004. The Fund was found to be in a sound financial position. The results of the financial review of the Fund are noted below.

On the back of exceptional performance by the Fund's investments, the Trustees are pleased to have been able to declare a final return of 17.1% for the year ended 31 March 2004.

### Interim Interest Rate for 2004/2005

The Fund's investment returns cannot be accurately determined until after the Fund's next financial year end (31 March 2005). As a result, when a member leaves the Fund in the interim period, the Trustees must estimate the Fund's investment returns, taking into account the views that the various investment managers have on the future.

The Trustees set an interim interest rate that applies to benefit calculations of all members who leave the Fund after 1 April 2004. The Trustees, with the help of the Fund's actuary, will accurately determine the Fund's actual investment returns after 31 March 2005 and will then decide on a final, or declared, interest rate for that financial year.

The Trustees must be conservative when setting the interim interest rate so that the Fund does not pay out more to members who leave than it earns over the period. The interim interest rate for the period commencing 1 April 2004 has, therefore, been set at 4% per annum.

The Trustees wish to stress that this interim rate will only apply to members who leave the Fund from now until the next Financial Review has been concluded. The Trustees may also revise the interim rate if they believe that a change of the interim rate is in the best interests of all members of the Fund.

## HOW TO READ YOUR BENEFIT STATEMENT

Each year, you receive a benefit statement telling you how much the Employer has contributed to the Fund on your behalf and what your withdrawal, death, disability and retirement benefits amount to at the date of the statement.

### New Benefit Statement's format:

In the past, you received Benefit Statements based on a interim rate. The Trustees have agreed that statements should be issued on a final rate rather than an interim rate.

The Trustees of the Fund have changed the format of the Benefit Statements to make it more understandable and to address a number of queries raised by members in the past e.g.

1. The Benefit Statements will be issued in sealed envelopes as the information contained in them is sensitive and confidential.
2. The Statement will have a "closing balance" that will tie up with the "opening balance" in the next Benefit Statement you will receive (for April 2005).

The Trustees believe the new Benefit Statement's format will be more easily understood and will communicate information more accurately than the previous layout.

### Tips to help you monitor the growth of your retirement:

Open a file for your annual benefit statements so that you know exactly how much you have contributed. If you keep all your statements it will be a lot easier to get an overall picture of the history of your contributions. If you resign from your Employer you can reasonably estimate the withdrawal benefit payable to you.

## SAVING FOR YOUR RETIREMENT: ADVICE FROM THE EXPERTS

The question is often asked: "How much money is required to ensure a reasonable retirement income?"

In answer to this question, most investment experts will advise you to aim, when you retire, to have a lump sum that will allow you to buy a monthly pension of 75% of your pre-retirement salary and allow for annual increases in that pension. You may ask: "Why 75% and not 100%?" and the answer lies in the fact that by the time most people retire, at least some of their expenses have reduced.

For example:

- Most people should have paid off the bond on their house and other debts.
- Their children will no longer be dependent on them financially.
- They will no longer be setting money aside for their retirement years.
- They will no longer have the daily expenses of travelling to work.

***But do remember... your medical expenses could increase after retirement...***

However, when looking at replacing 75% of your pre-retirement salary when you retire, we need to multiply this by the following, to see what you actually need at retirement:

- An annuity factor; and
- Your pre-retirement salary.

The annuity factor is a key issue, since this must allow for:

- Your life expectancy (or longevity);
- Provision for your spouse, including their life expectancy;
- Your retirement age;
- The investment returns that your investments in the Fund will have earned;
- Future pension increases; and
- Whether a capital amount needs to be paid out at the end of your and your spouse's life.

Depending on these assumptions, the required annuity factor can vary from 10.5 to 33. This means that you can need anything from 8 times salary at retirement to 24 times salary at retirement, simply in order to replace 75% of salary!

**However, the harsh reality is that, except for the very wealthy, most people will not be able to save more than 11 - 12 times salary for their retirement.**

### 11/12

To be reasonably confident of pension increases in line with inflation, a better target will be "11/12" times salary, to get to a pension of 75% at retirement:

- If you are retiring at age 60, you need 11 times salary.
- If you are retiring at age 55, you need 12 times salary.

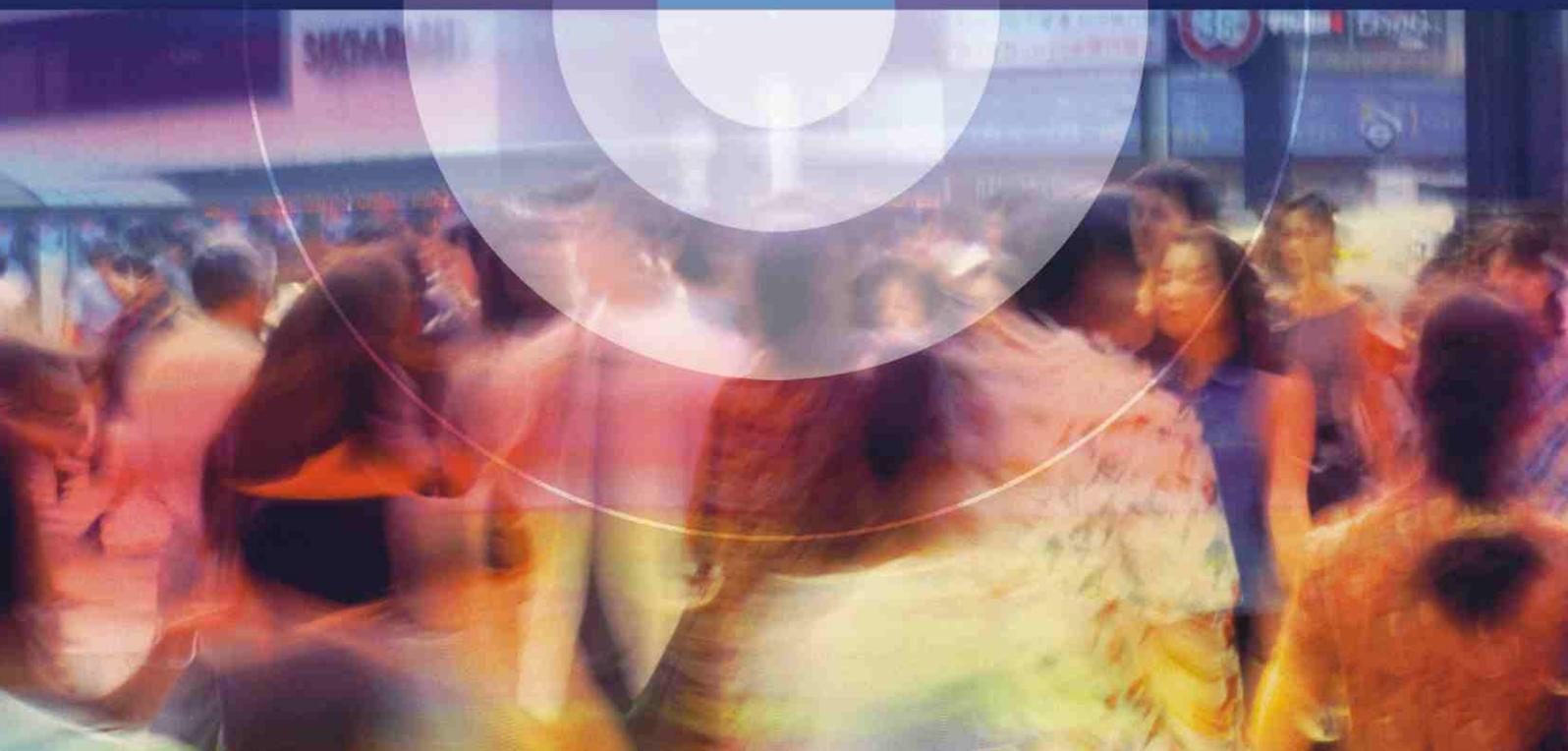
Many people realise they are unlikely to even get to this position. This is often due to having not preserved previous withdrawal benefits, or having reduced their contributions to their fund. It cannot be emphasised strongly enough: if you should change jobs and therefore leave your retirement fund, resist the temptation to take the 25% of your withdrawal benefit that you are allowed to take in cash. Instead, make sure that you preserve your entire withdrawal benefit.

### Inflation

*This measures how prices of a basket of everyday goods and services increase or decrease on a yearly basis and includes the changes in interest rates.*

### Remember:

*The advice on how much to save to retire comfortably assumes that if you change jobs during your working lifetime, you will save your retirement benefit each time and not spend it.*



## FREQUENTLY ASKED QUESTIONS

### When I die...

**Q: Do my dependants need to meet with the Fund's consultants (Alexander Forbes) when I die?**

A: Yes, your dependants need to meet with the Fund's consultants (Alexander Forbes) in order to determine what they want to do with their benefit entitlement with regard to the options available to them, as per the rules of the Fund.

**Q: What documents/information do my dependants need to provide my employer with when I die?**

A: An original certified copy of the death certificate, a copy of your Omang/identity card, copies of the beneficiaries/dependants identity documents (e.g., birth certificate, Omang) and contact details of all the beneficiaries/dependants.

**Q: What pension benefits do my dependants get and where do they collect them when I die?**

A: If you die as a member, while in service, your Fund credit at the date of death shall be payable from the Fund as a lump sum benefit. If such benefit exceeds four times your Fund salary at the date of your death then the balance of the benefit shall be used to purchase a pension(s) payable to the person(s) entitled to such benefit from a registered insurance company.

**Q: What happens to my children's benefits if they are still minors?**

A: Benefits for minors are placed in a Trust where the money will be preserved until such a time that the children reach the age of 21 and only then will they have the capacity to receive their claim.

**Q: With whom do my beneficiaries follow up on the progress of their benefit claim?**

A: Follow-ups by beneficiaries should be directed to the former employer of the deceased.

### When I retire...

**Q: Do I need to meet with the Fund's consultants (Alexander Forbes) when I retire from my employer?**

A: Yes, the consultants will educate you on the available pension options and also help you decide on the best possible pension to choose.

**Q: What documents/information do I need to provide my employer when I retire?**

A: A completed retirement notification form, an original certified copy of Omang/identity document, a copy of the marriage certificate or proof of customary union, if the member is married, a copy of the spouse's Omang/identity document, and member's contact details (i.e., telephone, address).

**Q: How much cash do I get, and where do I collect it when I retire?**

A: You are entitled to a maximum of one-third of your final updated Fund credit as a cash lump sum net of any outstanding tax. The cheque can then be collected at the employer's office.

**Q: What happens to my two-thirds?**

A: Your two-thirds will be used to purchase an annuity/pension from an insurance company registered in Botswana. A pension is treated as taxable income and will be paid to you on a monthly basis for the rest of your life. This amount depends on the amount of the two-thirds as well as the rate used by the registered insurance company.

## CONTACT DETAILS

Members are entitled to view the Fund's Rules, Financial Statements and Financial Reviews. If you have any questions regarding the benefits payable by the Fund, or its other activities, please contact your Head of Department, Supervisor, Employing Authority or one of the Trustees. The Trustees may be contacted at the following numbers:

Trustee	Area	Contact Number
Mr Mokgethi	Independent	71307854
Mr Magola	BCSA	3912 341/3913 055
Mr Peke	BDF	3662 885
Mr Nkele	BDF	3662 443
Mr Tlale	BOFESETE	5777 287
Ms Kentsitshwe	BULGASA/BOTASA	5889 221
Mr Reetsang	DLSGM	3951 370/3904 874
Ms Pelaelo	DPSM	3958 740
Ms Masuku	DPSM	3958 738
Ms Y Galeage	DPSM	3958 743
Mr E Letebele	MFDP	364 4101
Mrs Mapitse	MFDP	3950 100
Mrs Mathe	Pensioner	3952 836
Mr Gaobakwe	Pensioner	3956 495
Mr Duha	Police	3951 161 ext. 2104
Mr Bagopi	Police	3951 161 ext. 2104
Mr Messe	Prisons	TBA
Ms Seitiketso	Prisons	3905 910/361 1703
Mr Mutheto	Tonota College of Education	2484295
Mrs Rathedi	Tribal Admin	3974 986
Mr Bantsi	TSM	365 7374/5
TBA	TSM	TBA

## FUND DETAILS

**Fund Name:** Botswana Public Officers Pension Fund  
**Contact Address:** Directorate of Public Service Management  
 P/Bag 0011  
 Gaborone  
 Botswana

In the event of any conflict between the information provided in this document and the official Rules of the Fund, the provisions of the Rules shall prevail.