



PULA 2016

The Pula Fund

Pillar 1: Legal

Legal framework, objectives, and coordination with macroeconomic policies

Principle 1

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

Botswana is among the founding members of the International Forum of Sovereign Wealth Fund (IFSFW) and was one of the architects of the Santiago Principles in 2008.

The Pula Fund was established in 1993 and the legal framework supporting the Fund was promulgated in 1996 when the Bank of Botswana Act was amended. The Pula Fund is managed in accordance with Section 35 of the Act stipulating the establishment and the management of long-term investment funds.

The management of the Pula Fund is entrusted to the Bank of Botswana to ensure the legal soundness of the Fund and its transactions. The Bank of Botswana assesses the needs for primary international reserves (invested in the Liquidity Portfolio) to accomplish its principal objectives. The assets in excess of what is needed for reserves adequacy are invested in the long-term (Pula Fund) in consultation with the Ministry of Finance and Development Planning (MFDP).

The Government of Botswana invests directly in the Pula Fund and its assets are accounted for in the Government Investment Account, which represents the government's ownership of the Pula Fund. The legal specifications for such activities are detailed in the Act.

Principle 2

The policy purpose of the SWF should be clearly defined and publicly disclosed.

While the Bank of Botswana Act does not explicitly specify the purpose of the Pula Fund directly, the major purpose of the Fund is to invest proceeds from non-renewable resources (minerals) for the benefit of future generations. The Government of Botswana also invests some of its assets in the Government Investment

Account to meet its policy objectives.

These objectives would include a short-term stabilisation objective and a long-term investment objective aimed at ensuring that assets are available for future generations in a situation where Botswana's vast natural resources (predominantly diamonds) are depleted.

Principle 3

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

By Act, the Bank of Botswana, after consultation with the MFDP, determines the policies, terms and conditions for any such long-term investment funds, including the selection of appropriate investments and the dividends payable to the Government Investment Account. The Pula Fund investments are all external to Botswana and thus the activities related to those investments do not have any significant direct domestic macroeconomic implications.

In practice, there are on-going consultations between the Bank of Botswana and the Ministry of Finance and Development Planning. The Government is also represented in the Bank of Botswana Board. The management of the Pula Fund is subject to recurring reviews and discussions between the Bank of Botswana and the MFDP due to the shared ownership structure of the long-term assets invested in the Pula Fund.

Government fiscal policy decisions that give rise to budget surpluses or deficits or monetary policy decisions that give rise to a balance of payments surplus or deficit can lead to increases or decreases in the level of Pula Fund investments.

Principle 4

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

The Pula Fund is a prudent and yield-maximising investment alternative until such time as opportunities to invest productively in the domestic economy arise and are incorporated in National Development Plans.

The management of the Pula Fund must also be considered in relation to the fiscal policy framework and the three-pronged strategy of spending for development, affording stabilisation and saving for future generations.

The Government cannot withdraw more than its share of the Pula Fund, represented by the Government Investment Account, to finance the budget, which has been approved by Parliament. The Pula Fund cannot be used in any quasi-fiscal/off-budget operation to finance investment or the purchase of goods and services outside the government budget framework.

If the need arises, to enable the Government to pursue agreed national development objectives, the Pula Fund could be drawn down as the Government draws down its Government Investment Account. That is if the Government believed the funds in the Pula Fund are needed to be put into productive investment in the country, then the Pula Fund could be drawn down.

The Government has opted for a qualitative approach where any withdrawals are discussed by the authorities and agreed in the context of prevailing fiscal conditions, rather than predefined numerical trigger points for withdrawals or deposits. However, such clear trigger points are established for intra-funds transfers (long-term and short-term funds). This approach has served the country well through different economic cycles.

Principle 5

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

The Botswana Financial Statistics is the Bank's monthly statistical bulletin. Information on the size of the Pula Fund and the government ownership is available in the publication.

See: <http://www.bankofbotswana.bw>

In addition, the monthly government gazette publishes details and level of the Pula Fund. The Annual Report provides the audited financial statements and comprehensive details about the Pula Fund.

Pillar 2: Institutional

Institutional Framework and Governance Structure.

Principle 6

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

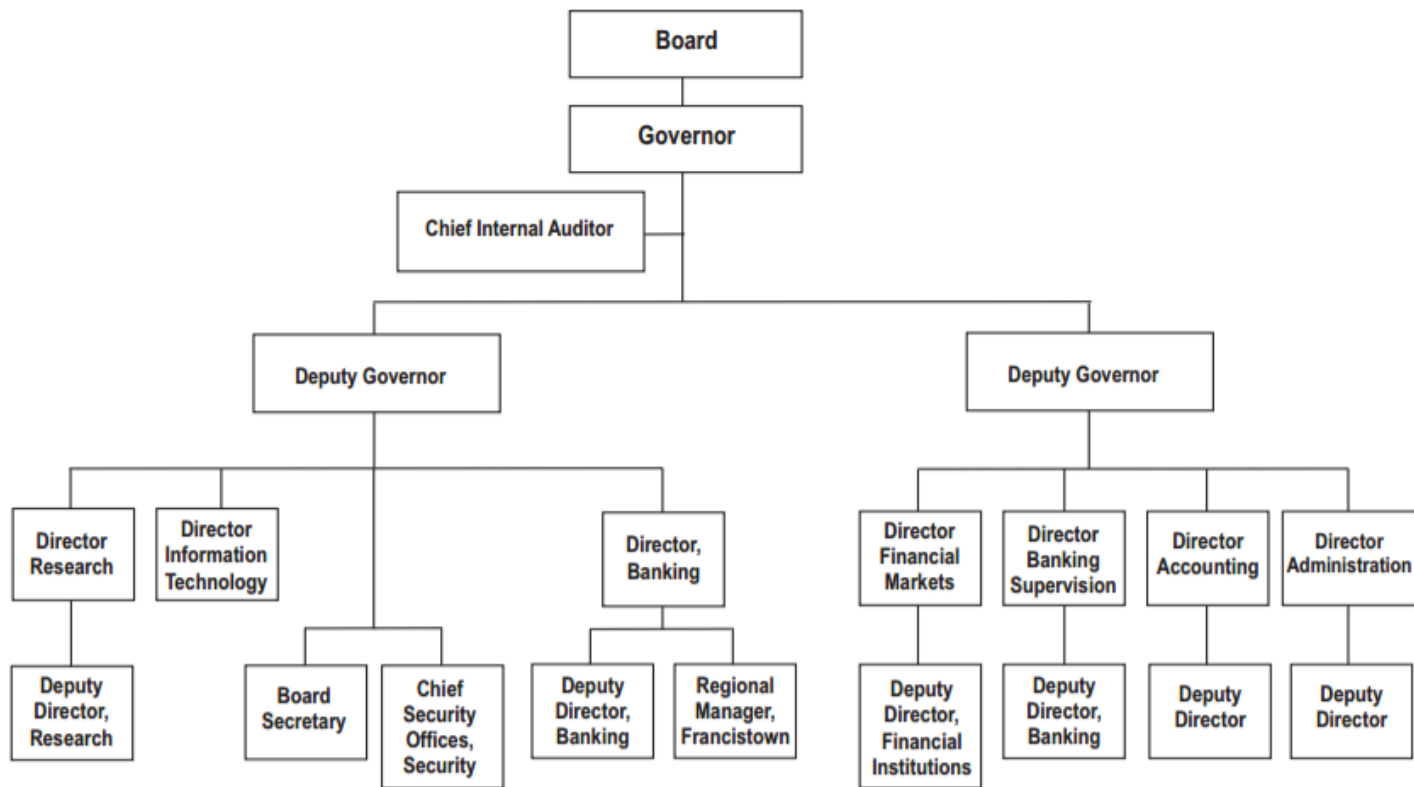
The governance structure is detailed in Part IV of the Bank of Botswana Act.

A three-tier structure is followed in terms of governance:

- a. the Board of the Bank of Botswana has overall responsibility for the management of the Pula Fund. The Board includes a member from the MFDP representing the government ownership of the Pula Fund. Other members of the Board include the Governor of the Bank of Botswana and 7 independent non-executive directors. The Board approves the investment policy and establishes the overall strategic asset allocation of the Pula Fund and defines discretionary ranges for tactical asset allocation.
- b. the Investment Committee decides on the execution of the investment strategy, including tactical deviations from the board-approved strategic asset allocation. The Investment Committee is chaired by the Governor and includes investment experts from the Financial Market Department. The performance of the internally managed Pula Fund is reviewed by a separate Department (Finance Department) with dedicated responsibility in this area over and above the monthly and quarterly performance reports prepared independently by the custodian.
- c. the Financial Markets Department executes the investment strategy and ensures that the desired asset allocation is attained in financial markets, using both internal management and external managers. All the activities of the Pula Fund are regularly reported to the Board to ensure operational compliance with the agreed investment strategy.
- d. the back office functions are performed by a separate Department (Payments and Settlement Department) in line with international best practice on segregation of duties.

The existing Bank organisation structure, as at April 2014, is illustrated in the figure below.

ORGANISATIONAL STRUCTURE OF BANK OF BOTSWANA



Principle 7

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

Botswana Government performs the ownership role of the Pula Fund via representation on the Board of the Bank of Botswana and through the periodic consultations between the Governor of the Bank of Botswana and the Minister of Finance and Development Planning and annual reporting to Parliament and Cabinet.

The management of the assets in the Pula Fund is subject to a regular review of the entire investment strategy, which is agreed between the Governor of the Bank of Botswana (representing the manager of the Pula Fund) and the Minister of Finance and Development Planning (representing the owner of the assets as in the Government's share of the Pula Fund and as the sole shareholder of the Bank of Botswana).

Principle 8

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

The Board of the Bank of Botswana executes its fiduciary role in full compliance with the Bank of Botswana Act. Its mandate is clear and its authority and independence are well-established, both in the Act and in

practice.

The Board consists of representatives from the Bank of Botswana, the MFDP and the independent directors with in-depth knowledge of the issues pertaining to the macroeconomic management, accounting, auditing and best practices in investment management.

Principle 9

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

The three-tier governance structure ensures that the Pula Fund is managed in an independent manner with clear separation of responsibilities. As such:

1. the Board approves the overall framework for investment management and establishes the investment policy and strategic asset allocation.
2. the Investment Committee decides on tactical deviations from the strategic asset allocation; and

The Financial Markets Department executes the investment strategy in financial markets using both internal and external fund managers.

Principle 10

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

The accountability framework is enshrined in Section 35 and Sections 66-68 of the [Bank of Botswana Act](#). In this regard, the Bank of Botswana maintains accounts and records in accordance with sound accounting principles and prepares an annual set of financial statements in accordance with the international financial reporting standards. These are audited by independent external auditors approved by the Minister of Finance and Development Planning and the Board of the Bank of Botswana.

The Board of the Bank of Botswana has – in accordance with the Act – an Audit Committee of the Board chaired by a non-executive Board member with vast experience in accounting and auditing.

The Audit Committee of the Board is responsible for the review of the financial statements of the Bank of Botswana, including the Government Investment Account. The external accountability is ensured by the legislation, as the Auditor General shall if so requested by the Minister of Finance and Development Planning, examine and report on the accounts of the Bank of Botswana or any aspects of its operations (including the management of the Pula Fund).

Principle 11

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

In accordance with the Act, the Bank of Botswana produces an annual report on its operations, together with audited financial statements. The report covers the calendar year and must be presented to the Minister of Finance and Development Planning by the end of March the following year. Thereafter, the Annual Report must be laid before the National Assembly within thirty days. This ensures parliamentary oversight over the management of the Pula Fund.

Beyond fulfilling a statutory requirement, the Annual Report is the principal means through which the Bank of Botswana reports on its operations, including the management of the Pula Fund.

Following publication, the Annual Report forms the basis of a series of economic briefings for stakeholders, including His Excellency the President of Botswana, the Cabinet, senior government officials, parliamentarians, the media, business leaders and the diplomatic corps. The Annual Report has been produced annually since 1976 and is available on:

<http://www.bankofbotswana.bw>

Principle 12

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

Under the [Bank of Botswana Act](#), the Bank of Botswana produces an annual report on its operations, together with audited financial statements. The Annual Report includes a discussion of the management of the Pula Fund (see above). The external auditor (currently KMPG) makes an annual attestation that the financial statements are produced in accordance with the International Financial Reporting Standards and the Bank of Botswana Act

Principle 13

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

The Bank of Botswana adheres to high ethical standards and manages the Pula Fund assets in accordance with sound ethical practices. Where applicable, the CFA code of conduct is highly recommended.

Principle 14

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

The investment policy and guidelines for the management of the Pula Fund are underpinned by the need to preserve purchasing power of assets, maintain liquidity at all times and to maximise return within acceptable risk parameters. Periodically, the entire investment strategy and strategic asset allocation is subjected to a comprehensive review. All investments, both internally and externally managed, are made in accordance with investment guidelines, where the only motivation is to meet the investment objectives of the Fund. Political and non-commercial reasons are not relevant for the management of the Pula Fund.

Principle 15

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

All investments are undertaken in full compliance with the applicable regulatory framework and disclosure requirements in the countries in which the investments are made. A global custodian is appointed to ensure that legal compliance is always in place on all investments held in the Pula Fund. Also, an international portfolio consultant is engaged to assure that best practice is adopted and followed at all times.

Principle 16

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

The Bank of Botswana in its role as investment manager is operationally independent from the owner represented by the Government Investment Account. The operational independence is enshrined in Section 35 of the [Bank of Botswana Act](#).

Principle 17

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

The Bank of Botswana publishes relevant information in its Annual Reports and in Botswana Financial Statistics.

Furthermore, the size of the Pula Fund in relation to the international markets in which it is invested poses no risks to financial stability in international financial markets. The information provided in the Annual Reports and Botswana Financial Statistics, along with the country's investment grade ratings by Standard and Poor's and Moody's Investors Service, enhances trust in recipient countries.

Pillar 3: Investment

Principle 18

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

The investment policy and guidelines for the management of the Pula Fund are underpinned by the objectives of preserving the purchasing power of assets, maintaining liquidity at all times and maximising return within acceptable risk parameters.

Periodically, the entire investment strategy and strategic asset allocation are subjected to a review and all investments, both internally and externally managed, are done in accordance with investment guidelines approved by the Board in consultation with the MFDP. This consultation process ensures that the owner's risk tolerance and investment objectives are reflected in the agreed investment strategy.

The investment strategy does not allow the use of leverage and places emphasis on the application of sound risk management practices.

The Pula Fund is invested using both internal and external managers with specific guidelines and precise benchmarks for the measurement and assessment of investment performance. The global custodian assists

with performance data, which are reconciled with external fund managers and subjected to performance attribution analysis. Furthermore, an external portfolio consultant assists in the monitoring of the externally managed funds.

On a quarterly basis, the performance report is submitted to the Board for monitoring and any remedial action that may be necessary.

The Bank's investment policy is guided by key objectives of safety, liquidity and return. The details are contained in the Annual Report.

Principle 19

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

The investment policy and guidelines for the management of the Pula Fund are underpinned by the objective of preserving purchasing power of assets, maintaining liquidity at all times and maximising return within acceptable risk parameters.

All investment activities are executed in line with the highest standards for sound asset management. The investment management framework is guided by a clear governance structure resting on separation of duties, impartiality and accountability in all investment decisions.

All investment decisions are taken on the basis on economic and financial necessity.

Principle 20

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

The managers of the Pula Fund do not trade on any privileged information and are in no way influenced by the broader government in its activities. As the Pula Fund consists of foreign assets only, accordingly, there is no risk of competing with private domestic entities.

Principle 21

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

The Pula Fund is invested in both fixed income securities and global equities. Ownership rights are exercised as part of the specific external fund management contract with the objective of maximising the risk-adjusted return on all investments. Proxies are voted with this objective in mind.

Principle 22

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

Principle 23

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

The investment performance of the Pula Fund is calculated by the global custodian on a monthly basis and all assets are marked-to-market on a daily basis to ensure compliance with guidelines.

The investment performance is presented both in absolute and relative terms vis-à-vis the established portfolio benchmarks. This information is available to the government – together with attribution analysis of the performance.

Principle 24

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

The voluntary endorsement of the Santiago Principles represented in this assessment of the 24 GAPPs is available on www.bankofbotswana.bw at any time to indicate the regular review on the implementation of the Santiago Principles.