



PULA 2025

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.

Section 35 of the Bank of Botswana (BoB) Act provides for the establishment of the long-term fund (Pula Fund), subject to the adequacy of the Primary International Reserve. Under the Act, the Bank of Botswana, after consultation with the Ministry of Finance (MoF), 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 (GIA), which represents the government's share in the investment portfolios.

Principle 2

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

The long-term investment fund is primarily established to invest the assets in excess of those needed for the Primary International Reserve, with the aim of preserving the fund for future generations.

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.

Investments in the Pula Fund are all in foreign markets and, consequently, do not have any direct domestic macroeconomic implications. However, these external balances provide a buffer and support to the country's crawling peg exchange rate system. If the need arises, the Bank of Botswana will consult with the Ministry of Finance for the transfer of funds to the Primary International Reserve.

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.

In practice, and in line with the intention of the Act, the Pula Fund acts as a residual fund through which excess funds in the international primary reserve are invested. Similarly, when funds in the primary international reserve fall below what is deemed adequate, funds are transferred from the Pula Fund.

The Government cannot withdraw more than its share of the Pula Fund, represented by the Government Investment Account, to finance the budget.

If the need arises, to enable the Government to pursue agreed national development objectives, the Government can withdraw from the Government Investment Account, which represents its share of the Pula Fund. That is, if the Government believed the funds in the Pula Fund are required for productive investment in the country, then the Pula Fund can be utilized. Rules for deposit and withdrawals are clearly defined and approved by the MoF. These are based on the adequacy of the primary reserve (Liquidity Portfolio) and expressed in terms of months of import cover. The rules are shared with the public through presentations and media.

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 Bank of 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 outlined in Part VI of the Bank of Botswana Act. Based on this, 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 an official from the MoF representing the government ownership of the Pula Fund. Other members of the Board include the Governor of the Bank of Botswana and seven independent non-executive directors. The Board approves the investment policy and the strategic allocation while responsibility of developing, and implementation of the investment guidelines has been devolved to the Investment Committee (IC) chaired by the Governor.

(b) The Investment Committee decides on the execution of the investment strategy, including tactical deviations from the board-approved strategic asset allocation.

(c) The Financial Markets Department (FMD) is responsible for executing and implementing the investment decisions of the IC. Regular reporting of all the activities of the Pula Fund to the Board is utilised to ensure compliance with the agreed investment strategy.

Within the FMD, there are various Units with responsibilities as follows):

(i) The International Dealing and Strategy Unit within FMD executes trades for the internally managed portfolio.

(ii) The Risk Management Unit carries out risk management and compliance with the investment guidelines.

(iii) The Verifications and Compliance Unit undertakes reconciliation, cash management, correspondent banking and Know Your Customer (KYC) processes.

(d) Banking, Currency and Settlement Department executes the back-office functions of the investment process.

(e) The Finance Department executes the accounting, performance and valuation functions of the investment process.

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.

The Government appointed Board oversees the Bank of Botswana, which manages the Pula Fund. The Board is tasked with overall oversight and authority of the investment activities of the fund.

Over and above being a residual account, the Pula Fund is held in support of a range of objectives, including:

(a) Capital preservation

(b) Generating positive real returns

(c) Providing liquidity.

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.

Bank of Botswana Board determines the investment strategies and policies of the Pula Fund including approval of allowing asset classes. The Pula Fund is included in the assets of the Bank of Botswana and accordingly recorded as part of the Bank's balance sheet. The Government's investment in the Pula Fund is recorded in the GIA in the Bank's balance sheet. The MoF has representation in the board while the majority are independent non-executive members

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 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 members with in-depth knowledge of the issues pertaining to macroeconomic management, accounting, auditing and best practices in investment management.

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 (IFRS). These are audited by independent external auditors approved by the Board of the Bank of Botswana.

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

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.

The BoB Annual Report provides the audited financial statements and comprehensive details about the Pula Fund, on an annual basis following both the BoB Act as well as the International Financial Reporting Standards (IFRS). The BoB ensures that it consistently publishes the annual report timeously every year

without fail.

In accordance with the Act, the Bank of Botswana produces an annual report on its operations, containing audited financial statements. The report covers the calendar year and must be presented to the Minister of Finance within three months following year end. 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 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.

The annual audit of the Pula Fund accounts is conducted in accordance with the International Standards on Auditing (ISAs). The external auditor (currently Ernst & Young) makes 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 aims to foster fosters a culture of professionalism, good conduct, transparency, staff discipline and adherence to institutional values across all functions of the Bank, which are also enshrined in the Bank of Botswana Act. The Board also has the Governance and Ethics Committee, which is responsible for overseeing the Management's efforts to foster a culture of high ethical standards and good governance within the Bank and advise the Board accordingly. Therefore, this ensures that the Pula Fund is managed under sound ethical practices.

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 Bank employs external fund managers, a global custodian and an investment consultant to assist in the management and operations of Pula Fund. These are guided by the investment policy and guidelines as well as the Investment Management Agreements (IMAs), which are subject to regular reviews. The investment policy and guidelines for the management of the Pula Fund are underpinned by the need to preserve purchasing power of assets, maximise return within acceptable risk parameters and maintain liquidity. 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.

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 ensure 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.

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 ensure that best practice is adopted and followed at all times.

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 Report 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 Report 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

Investment and Risk Management Framework.

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 Bank of Botswana manages the Pula Fund in accordance with the Board's approved Investment Policies and the Investment Committee approved Investment Guidelines underpinned by the key objectives of safety, liquidity and return within well-defined risk parameters.

In addition to internal fund management, the Bank uses selected international fund managers to manage about 50 percent of the Pula Fund and also employs the service of a reputable global custodian to safeguard the reserve assets. In addition, the Bank benefits from assistance from the portfolio consultant who advises the Bank on asset allocation, portfolio distribution and fund manager search, selection and performance review.

Periodically, the investment strategy and strategic asset allocations 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 MoF. 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 reporting, which is reconciled with external fund managers and internal systems.

The description of the investment policy and key objectives are included in the annual reports, which are publicly available.

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 and maximising return within acceptable risk parameters.

All investment activities are driven by the desire to gain the highest risk-adjusted market returns. 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 of economic and financial considerations.

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.

The investment strategy and strategic asset allocation is subject to a comprehensive review and all investments, both internally and externally managed, are subjected to a thorough and disciplined risk-management framework. A specialist risk- management function at the Bank of Botswana is responsible for the assessment of the overall portfolio risk to ensure that this is consistent with the specified level of risk tolerance and in compliance with the Board approved investment guidelines. The Deputy Governor responsible for the Financial Markets Department (front office) is not responsible for the middle- office function which is assigned to the other Deputy Governor. This is to ensure a clear separation of functional responsibility.

The non-financial risk is subject to mechanisms for addressing the operational risks, including business continuity planning, separation of the front, middle and back-office function and the independent audit of both performance and actual returns on the portfolio.

The governance structure details are presented in the Annual Report of the Bank of Botswana as well as the risk management framework.

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 monthly and all assets are marked-to-market daily to ensure compliance with guidelines. The Finance Department also measures performance, which is then reconciled with the global custodian. 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 a regular review on the implementation of the Santiago Principles.