

**focus on investing in Botswana**

**Track and Yield**

SEPTEMBER 2004

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# BIFM TURNS IN GOOD FINANCIAL RESULTS

## Boosts income despite pressure on fees

**B**ifm's financial results for the year to end-June 2004 were satisfactory, coming in marginally above budget for the review period.

That's according to Vikas Agarwal, Head of Finance at Bifm who says assets under management increased by P1.6-billion to P5.8-billion, an increase of 38% over the previous year. Current funds under management include life assurance, pension funds, medical aid funds and other corporate funds.

"Bifm's performance is impressive when one considers that the contractual savings industry in Botswana has grown from some P40-million in 1985 to over P14.5-billion today, with Bifm accounting for around 38% of that figure - and for some 60% of all non-

government contractual savings managed in Botswana.

"Even more impressive is the fact that Bifm has maintained its leadership in the industry during this rapid growth phase and in the face of increasing competition from some of the world's largest asset managers who have entered the Botswana market in recent years," he adds.

According to Vikas, Bifm welcomes the competition because it will ensure market participants adopt global best practice while offering the Botswana investing public greater choice.

However, competitive pressure is driving down asset management fees.

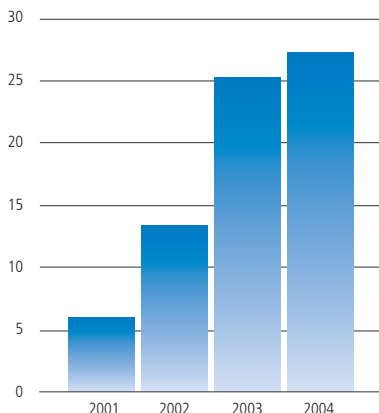
Despite this, Bifm's fee income grew during the review period because of the growth in

its asset base. Bifm also managed to show a marginal increase in its net profit after tax despite fee pressure and the fact that the company's expenses increased to accommodate its expansion.

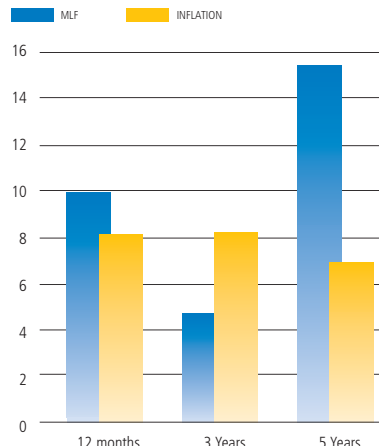
"Perhaps the most important aspect of our results is that despite increasing competition, Bifm did not lose a single client. Certainly, some clients have chosen to diversify and spread their investments among several companies – which is understandable and standard practice in most countries around the world.

"However, the fact that all our clients remain within the Bifm fold is a gratifying indication that our focus on continuous improvement, and our commitment – as a Botswana company – to meet the needs of our Botswana investors, is paying dividends," he concludes.

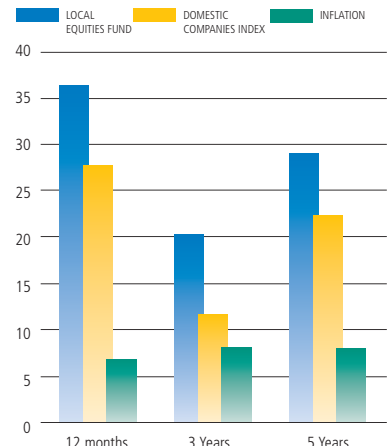
Group PBT from core business (Pm)



Market linked fund (%)



Local equities fund (%)



## MESSAGE FROM THE CEO

When we committed Bifm to a process of continuous improvement and corporate governance, this was not lip service. Much of what has occurred at Bifm during the year is evidence of this.

The incorporation of Bifm Employee Benefits into Glenrand M-I-B (Botswana) has allowed Bifm to become a far more focused operation dedicated to what has always been the core of our business – asset management. From a purely financial perspective, the move will have a positive impact on our bottom-line.

We are also benefiting from the corporate governance requirement of many pension funds for the clear separation of pension fund management and asset management. With the removal of perceived conflicts of interest of having asset management and employee benefits under one roof, Bifm has been able to attract new clients and retain those for whom this requirement was paramount.

At the same we are now able to increase our focus on making a tangible, sustainable contribution to the Botswana economy as a whole through active involvement in areas such as property management, venture capital and corporate finance.

What have these latter three areas of activity to do with an asset management company, you may ask.

By investing in property or new ventures, and by providing finance to local businesses, we are indirectly contributing towards growing investment opportunities for the people of Botswana – and ultimately for the assets we manage.

Certainly, Bifm is not the only asset management company in Botswana. There are others and the competition is good for us all. But Bifm is unique in that it is dedicated to managing assets of Botswana in Botswana as far as possible.

Everything Bifm does – from asset management to property management and development – is about dynamically growing the wealth of Botswana, and therefore the people of Botswana. That's why we say everything Bifm does is about you.

**Sanjeev Gupta**

# HUGE DEMAND FOR BONDS IN BOTSWANA

**T**he fact that the launch of the PDSF (Public Debt Service Fund) Bond in June – the most significant event in the domestic capital market this year - was oversubscribed by P222-million, is clear evidence of pent-up demand in Botswana for this type of investment vehicle. Most of the would-be subscribers to the PDSF Bond issue were pension funds and insurance companies. Yet the local bond market is still extremely limited in size: it has grown some P4.6-billion since its inauguration in 1997 while the equities market is worth P10.5-billion.

The result is that large investors and institutions have hitherto been generally forced to invest the 30% of their portfolios which has to be retained in Botswana, in cash, equities and property. In order to balance their portfolios so as to spread the risk to their clients, asset managers like Bifm are compelled to invest a significant portion of their portfolios offshore. Having said that though, Bifm proactively looks for investment opportunities in the domestic market.

It's not an ideal situation, particularly because of the currency mismatch. Effectively, it means much of the hard earned money of the Botswana population – money which is paid into pension funds and other long-term investments – is being used to boost the economies of other countries rather than our own. If the bond market in Botswana was larger and more vibrant, it would allow more Botswana money to be invested in Botswana. This is gradually changing for the better though, with the expectation of more bond issues in the future.

Leonard Siwawa, Bifm's Trading & Research Manager explains:

### Q. What is an investment bond?

A bond is an instrument through which money is borrowed. These borrowers can be governments, parastatals, corporates and so on.

For example, the main purpose of the PDSF Bond issue – which effectively securitised the PDSF loan book by way of public auction - was to realise much needed revenue for government as well as develop the local debt capital market.

### Q. Why does the government need to raise revenues through bonds?

In the past, the government didn't issue debt because it had built up huge surpluses. This is changing: there is increasing pressure on government spending and the revenue outlook for government is more uncertain than in previous years. The domestic economy is slowing down mainly as a result of stable diamond production while government has put the brakes on its spending in a deliberate move to ensure its budget does not run into a deficit, which in the long run would not be sustainable. Raising money through debt would enable ongoing spending without sending the budget into deficit.

### Q. Are bonds a safe investment?

Bonds are relatively safer than equities because over the longer term, they can be made to fit or match the future liabilities of a fund. This can result in growing money for pensions.

### Q. Why is the bond market growing?

Debt can be a relatively cheap form of funding as opposed to, for example, issuing shares. We are therefore likely to see increasing numbers of local corporates issuing debt in the local market.

At the same time, because of the deliberate moves by government to reduce funding to parastatals, these organisations are going to have to go to the capital markets to get funding. This means either going to the banks for a loan – or issuing debt (a bond). Remember, parastatals are government owned so they can't issue equity to public investors – but they can issue debt.

Finally, there's a great deal of liquidity in the market – the P222-million oversubscription for the PDSF Bond is testimony to this. This liquidity needs to find a home.

### Q. If corporates can issue bonds, why have they not done so in greater numbers?

One thing that has held back the bond market is that government previously didn't have a credit rating, and there was no yield curve against which other issuers of debt instruments could accurately price themselves. Government bonds are the least risky of all bonds. Now there is a government bond yield curve which means corporates are now able to benchmark their issues against government. This will encourage more corporates to issue debt.

## ARE YOU AN INVESTOR OR A SPECULATOR?



### FACTS ON BONDS

- Investment in bonds generally offers a secure income stream
- Bonds are safe investments though inflation volatility can change this
- The risk profile of bonds is generally between that of cash (safe) and equities (volatile)
- Corporate bonds have a higher profile risk than gilts
- Investors who wish to protect themselves against inflation volatility can buy index linked bonds
- A bond's price reflects both the expected rate of inflation and a risk premium for inflation uncertainty
- Bonds are identified by the issuer, the coupon and the maturity.
- The security of a bond refers to what actually backs the bond or what collateral is provided to reduce the risk of the loan.

In his book "The Intelligent Investor", Benjamin Graham – widely considered the father of value investing – addressed differences between investing and speculating.

He warned that one way in which speculating may be unintelligent is when you're speculating, but mistakenly believe you are investing.

While Graham was addressing differences between investing and speculating in the stock market, we at Bifm believe his comments apply to speculation on macro-economic factors such as interest rates and oil prices.

Martinus Seboni, Bifm's Chief Investment Officer points out that during the quarter ended June 2004, the financial media often asserted that stock prices rises or falls on a particular day were due to investor concerns over two things: interest rates and/or oil prices.

"These factors, along with fears surrounding such uncontrollable external events such as the transition of power in Iraq and terrorism, tend to overshadow positive global trends such as those recently experienced in employment, corporate profits and economic growth," he says.

Similarly, Bifm believes the recent fixation by some investors with the US Federal Reserve's precise timing on a widely anticipated first step towards tighter monetary policy and the presumed economic effect of such a move was overdone.

"Although the media's over-emphasis was a factor, we believe the real issue is investors' increasing focus on short-term investment returns. In fact, many market

participants seek to make short-term profits in stocks by trading on the potential influence of factors such as shifting interest rates, the price of oil or Alan Greenspan's disposition at a press conference.

"They are speculators. Bifm isn't," Martinus emphasises.

"We remain focused on analysing the relationship between the stock price and underlying value of the individual businesses in which we invest."

According to Martinus, Bifm's stock selection process is based on a commitment to long-term investing. Bifm expects to hold securities in its portfolio for up to five years or more.

"Thus, near-term forecasts are not as relevant to our analysis as is our assessment of a company's competitive situation in its global sector in conjunction with its long-term strategic plan. Specifically, we evaluate a company's quality of management, the earning power of its assets, and the strength of its balance sheet.

"That doesn't mean we don't read the financial media. We do because much of what is reported is interesting – but it's not particularly relevant to our core mission – because a lot of what is reported is speculation. We take note of comments or predictions regarding what action the US Federal Reserve might take at its next meeting, or what OPEC will announce tomorrow just as we are cognisant of current events and macro-economic developments.

"But then we focus on the fundamentals that are so important to long-term investing as opposed to speculation."

## FUND INVESTMENT PERFORMANCES

<i>Botswana Pula (BWP)</i>	12 Months to July 2004	Compounded 3 years to July 2004	Compounded 5 years to July 2004
Market-Linked Fund	14.15%	3.65%	9.07%
Offshore Equities Fund	14.22%	-5.66%	-1.74%
Offshore Bond Fund	1.30%	-0.23%	2.72%
Local Equities Fund	36.28%	17.61%	27.01%
Local Bond Fund	17.59%	14.95%	14.91%
Local Property Fund	12.93%	14.82%	14.55%
Fixed Interest Fund	11.66%	12.85%	12.87%
Private Equity Fund	22.72%	n/a	n/a
Offshore Money Market Fund	-2.73%	n/a	n/a

## FAIRGROUNDS OFFICE PARK IMPRESSES

*The first phase of Gaborone's – and Botswana's – first commercial office park, Fairgrounds Office Park, is nearing completion in the heart of the city's new Financial District.*

**B**ifm Holdings, which is developing Fairgrounds Office Park in line with its commitment to increasing its direct investment in Botswana, officially unveiled the project to a host of dignitaries and prospective clients earlier this month.

The consensus: Fairgrounds Office Park, which will eventually consist of seven buildings, has set a new benchmark in commercial accommodation.

Although the first tenants – including Bifm – will take occupation of the new offices only towards the end of the year, and despite the fact that the first two buildings in the Park still require their finishing touches, guests at the unveiling were enormously impressed.

“Office Park developments are becoming the most desirable locations for businesses around the world,” says Victor Senye, Head of Business Strategy and Development at Bifm Holdings.

“They offer a safe, aesthetically pleasing and convenient locale in which to work and research has shown that companies that are based in well located office parks are able to attract, and retain, quality staff who enjoy the many benefits of these developments.”

The Fairgrounds Office Park draws on the best of the very best in similar developments around the world. Firstly, it is ideally located – in the heart of Gaborone's new Financial District, and close to conference and educational facilities. For employees looking to make the most of their lunchtimes, there are two excellent shopping malls nearby – although Victor believes many will choose to relax in the Park's landscaped gardens, have a snack in the proposed onsite coffee shop or even a quick workout at the onsite gym.



However, what makes Fairgrounds Office Park truly unique is the quality of its design. Not only are the buildings ergonomically advanced and the calibre of office accommodation unprecedented in

Gaborone, they are sufficiently flexible to enable tenants to configure their space to their precise requirements.

With convenience the name of the game, the Park offers a massive amount of parking for employees and visitors – much of it under cover. And security is a major priority with entrance to the Office Park controlled through an elegant, manned gatehouse.

“The Fairgrounds Office Park is set to take pride of place in Bifm Holdings’ growing property portfolio. We anticipate it becoming the most sought-after address of discerning Gaborone-based businesses,” Victor concludes.



## BIFM TAKES CHARGE AT AFRITOURISM

*In line with its commitment to corporate governance and accountability, Bifm has stepped in to ensure the survival and growth of Afritourism Limited, which has a unique approach to tourism development in Botswana.*



**B**ifm, in its own right and through its shareholding in KYS, an investment company, effectively is the majority shareholder in Afritourism.

Following Afritourism's dismal results in the year to end-January 2004 – and its suspension from trading on the venture capital board of the Botswana Stock Exchange because of its failure to deliver on commitments made in its listing prospectus – Bifm, which had been working with Afritourism management throughout the year to try turn the business around, took action.

Bifm CEO Sanjeev Gupta has been appointed Chairman of Afritourism, replacing former executive chairman Glenn O'Leary while Victor Senye, also a member of Bifm's executive, has been appointed to Afritourism's Board.

And in what has been described as a 'masterful stroke', the reconstituted Board has appointed one of Botswana's most experienced and dynamic travel and hospitality industry experts to head the troubled company. Myra Sekgororoane took over from former chief executive, Peter Wright, in August.

"We take our role in bringing meaningful changes to poorly managed businesses in which we have invested seriously. We are



not reluctant to involve ourselves actively in order to ensure governance and delivery to the satisfaction of all stakeholders," explains Mothusi Lekalake, Head of Corporate Communications at Bifm.

Myra – a Moptswana with a Higher National Diploma in Hotel Management from Shannon College of Hotel Management, Ireland – understands the hospitality and tourism industry from top to bottom having gained hands-on experience in leading hospitality establishments in Switzerland and the United Kingdom.

On her return to Botswana in 1985, she held a series of progressively senior positions in the Cresta Hospitality Group – including General Manager of several of

the Group's hotels – before becoming Operations Director for Cresta Hospitality in Botswana and thereafter Group Operations Director for Cresta Hospitality. She was later appointed Managing Director of Marakanelo Hotels before becoming Managing Director of Zeus Tourism Association of Botswana. She is also a board member of the National Advisory Council for Tourism in Botswana and was a non-executive director of the Afritourism Board before her appointment as CEO.

"Myra has the energy, passion and vision not only to turn Afritourism around, but also to enable it to fulfil the vision we have for it," Mothusi says.

For Myra, the vision for Afritourism is simple: to provide the most innovative, affordable and exciting experience to adventure travellers from across Southern Africa and abroad – and to enable those travellers to experience the rich variety this region, and Botswana in particular, has to offer.

"Afritourism has a brave and viable vision. However, it has not been able to achieve this because of a basic flaw in its focus: it consisted of a cross-section of owner-managed businesses and never truly developed an holistic Afritourism offering.

"Our task will be to standardise the Afritourism experience and develop a true corporate identity for what is, after all, a unique value proposition. We can offer adventure travellers everything they need to experience Cape Town, the best of Botswana's wildlife, and the Victoria Falls. That's what most foreign tourists come to Southern Africa for – and what we believe needs to be made more accessible to our own people," she explains.

It will be a challenge, she says – and adds that she thrives on challenges, and getting results.

"I like action and actions speak louder than words."

With Myra at the helm, Afritourism is heading for a major turnaround.



## AFRITOURISM TRANSFORMATION UNDERWAY

The new Board of Directors at Afritourism – under the leadership of new CEO Myra Sekgororoane – has been quick to institute changes that will contribute to the company's turnaround.

For example, an overcapitalised lodge, the remote 24-bed Khutse Kalahari Lodge, is no longer part of the Afritourism portfolio. This lodge, located at the eastern gate of the Khutse Game Reserve and one of the last frontiers before entering the Kalahari Desert, was also logistically difficult to reach.

In addition, a decision by the community owners of the Makgadikgadi Camp in

the Makgadikgadi Pans not to grant Afritourism a lease of longer than six months at a time, compelled the company to bid farewell to this camp. "We could not justify the risk of investing in the Camp with a mere six months assured tenure," Myra explains.

Good news for Afritourism is that the company is set to gain unprecedented Southern African and international exposure when DaimlerCrysler launches its new Jeep Cherokee and Jeep Cherokee Renegade ranges at Afritourism's Elephant Valley Lodge later this year.



# THE WAY AHEAD IS ABOUT YOU

*“Everything Bifm does – from asset management to property management and development – is about dynamically growing the wealth of Botswana, and therefore the people of Botswana. That’s why we say everything Bifm does is about you.”*

Sanjeev Gupta, CEO, Bifm.

Last year’s launch of Bifm’s new corporate identity and ‘Dynamic Wealth Management’ positioning statement was symbolic of the company’s commitment to making a positive, tangible contribution to the future of Botswana.

“At the time, we said these changes represented the way ahead for Bifm,” says Mothusi Lekalake, Head: Corporate Communications at Bifm. “This ‘way ahead’ was underscored by our pledge of continuous improvement as reflected in the roll-out of new systems that have enabled us to improve our service to all our stakeholders. We have also taken steps – sometimes difficult ones – to ensure our adherence to the highest corporate governance standards is without blemish.

“Now, we are no longer pointing towards the way ahead: we are actively embracing the future we want for ourselves, our company and our country.”

To mark the start of this phase in its development, Bifm is launching a new advertising campaign.

The “It’s About You” campaign underscores the fact that everything Bifm does is

about dynamically growing the wealth of Botswana, and therefore the people of Botswana.

“The fact that Bifm manages the assets of my pension fund means that what Bifm does directly affects me. Similarly – when Bifm builds a new office complex, creating an investment opportunity for my pension fund – that affects me too,” Mothusi explains.

“Our new advertisements will feature the faces of people of all ages because what Bifm does affects people of all ages – those who work and are building their own future; those who are reaching retirement age (or already retired); and children who are the future of Botswana and who need companies like Bifm to make a tangible contribution to the growth of the country’s economy.

“Many people think that as the custodian of Botswana’s long-term savings, Bifm’s business is about money. They’re wrong. Our business is about people. It’s about you and me – and that’s what the soon-to-be launched advertising campaign will illustrate,” Mothusi concludes.

## INVESTMENT DIVISION GROWS

Bifm’s Investment Division has been strengthened with the appointments of **Glen Lekoma** as Client Liaison Manager, and **Primrose Moruti**, an Investment Analyst.



### Bifm Market Update

Tune in to Leonard Siwawa weekly on Tuesdays on **Gabz FM** at 07:15 and 16:40, and on **RB2** at 07:10 for the **Bifm Financial and Market Updates**

Track and Yield is published by Bifm Botswana Limited.

Bifm Botswana Limited is a wholly owned subsidiary of Bifm Holdings Limited.

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Company Registration No: Co 2000/5478.

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