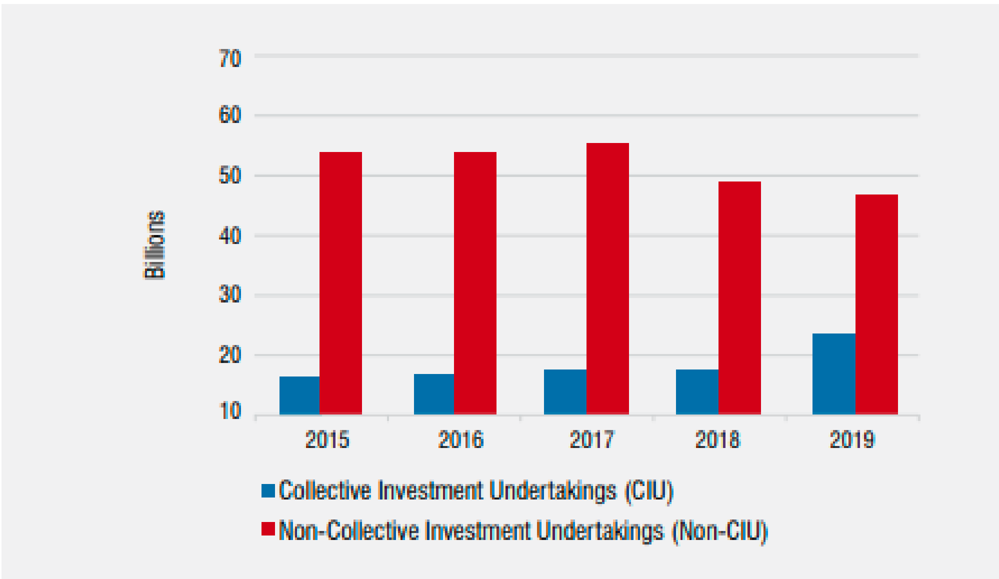
**Business Weekly & Review Newspaper**

**Article Feature**

**How protected is your money with asset managers?**

There are many ways of investing and one of the easiest ways in which a person can start their investment journey is through unit trusts which asset managers manage. Unit trusts are investment vehicles that pool together money from different investors and invest in different securities such as shares, bonds and fixed deposits to generate a return. Unit Trusts typically help investors with limited funds, through economies of scale, to gain access to capital markets and bear any transaction costs associated with investing. Investments in unit trusts have been growing in popularity in Botswana as depicted below:




**Source:** NBFIRA

As great and popular as it is investing through asset managers, it is not without its challenges. The Bernard Madoff scandal, exposed in 2008, is perhaps one of the most notable scandals to hit the investment management industry. The New York Times reports that over US$60bn, which translates to approximately BWP734bn, was lost by investors due to the scandal. Unfortunately, this was not the first or last scandal that has resulted in investors losing their hard-earned money through the misappropriation of assets.

As recent as 2021, Archegos (a US-based Hedge Fund) was in the headlines for its collapse. It is estimated that the Archegos Hedge Fund was valued at around US$30bn (approximately BWP367bn). The Wall Street Journal reported that Credit Suisse, one of the world's biggest financial institutions, lost US$4.7bn due to its investment in the fund. The publication further reported that Mitsubishi lost approximately US$2bn. The investment manager of Archegos, Mr Bill Hwang, has since been charged with securities fraud.

These are just two examples of the many losses suffered by investors, both individuals and institutions, due to the mismanagement of funds by the people entrusted with growing the client assets. This begs the question, should we really trust asset managers and/or investment professionals to protect and grow our assets? In this article, we will try to answer that question by looking at what measures have been put in place and what you can look out for to avoid evident red flags

The Non–Bank Financial Institutions Regulatory Authority Act, 2016 defines an asset manager as "a person who under an agreement with another person, applies assets of the other person by way of investment, whether the asset manager makes those investments in its own name or not." Simply put, an asset manager's role is to grow your assets through careful investment in securities that will help you achieve your financial goals in the long term. Portfolio management and construction is a complicated process through which an asset manager carefully selects securities that have potential to generate value. Therefore, there is a need to ensure that investors, both individuals and institutions, are protected. In Botswana, investors are protected by legislation and the Regulator for asset managers, the Non–Bank Financial Institutions Regulatory Authority ("NBFIRA") as well as institutions such as a Trustee and Custodian Bank, for safe keeping of assets.. Institutions, such as retirement funds also appoint asset managers to manage grow their assets. Similarly, eventhough retirement funds are regulated by NBFIRA, they are required to appoint custodians and utilise asset consultants to manage risk. The following section speaks to how each of the aforementioned bodies protect investors.

**1. The Regulator – NBFIRA**

The role of NBFIRA is to ensure financial stability of the capital markets through the enforcement of regulations that govern the sector. The Regulator's role is to protect the ordinary Motswana from an institution that acts in a predatory manner. Moreover, NBFIRA regularly releases guidance documents and enforces legislation that prescribes investment parameters. This is an attempt to ensure that managers do not take undue risk that could lead to significant losses in their search to generate returns for clients. It is important to ensure that before entering into any financial arrangement with a asset manager, one confirms that the entity is regulated by NBFIRA, and that it is in good standing. This can be achieved by visiting the NBFIRA website or calling the NBFIRA offices.

In the event that there may be suspected or actual fraud, theft or misappropriation by asset managers, the Regulator has the legal right to appoint a statutory manager to manage the affairs of the company. This ensures that the company's current management does not continue to exercise control over clients' asse and cause further harm. This has been seen in the local asset management industry where the Regulator has appointed statutory managers to protect clients where asset managers have been alleged to misuse client funds or assets. The regulatory authority has further taken legal action against accused individuals to recover lost client funds.

**2. The custodian**

The custodian occupies a very important role in protecting your investment. Custodians are regulated by NBFIRA and their main role is to ensure that your assets are safely kept and accurately recorded. All unit trusts are required to have custodians that are separate and independent from asset managers. These ensure that no assets are misused by any individual who has no legal ownership over them. The custodian ensures safe custody of client assets as they are traded and is able to flag transactions in instances where there are discrepancies or concerns around misappropriation, theft and loss.

**3. The trustee**

Trustees are responsible for the overall oversight of how the unit trusts are governed and managed. According to the Collective Investment Undertakings Act, 2022 all managers of unit trusts are required to appoint a trustee for each unit trust fund they manage..

**4. The asset consultant**

The asset consultant is usually appointed by institutional investors. Asset consultants are experts in investment consulting and offer institutions with services such as the development of an investment strategy, guidance on appointment of asset managers and ongoing monitoring of investment performance to mention but a few. Asset consultants are licensed and regulated by NBFIRA.

**5. The Asset Manager**

Asset managers hold a fiduciary responsibility towards their clients and stakeholders because of the role they play in the economy. To this end, asset managers have a duty of care and execute this by ensuring that they adhere to the industry code of ethics as well as implementing governance and oversight committees to ensure that client assets are managed prudently. These oversight committees include the Board of Directors which exercises control over the asset manager. In addition to the Board, key technical committees are also implemented to oversee the investment process and ensure no excessive risk is taken by the manager. Before appointing and selecting an asset manager, it is important to ensure that it has these key oversight bodies that ensure a robust governance of the manager and technical committees that oversee and ensure investing is done within the right levels of risk taking.

All the above bodies work together to ensure that investors'(including individuals) money is protected from unethical practises. They assist in ensuring that asset manager do not take undue risk that could result in permanent loss of investors hard-earned money. . However, it is worth noting that most securities are not generally risk-free and that asset managers cannot guarantee returns. Notwithstanding, there are other ways in which you can protect yourself from fraudulent investments. The following section highlights what investors can look out for to avoid reckless investing:

**If It is too good to be true**

If it is too good to be true, it probably is. The Eurex Trade investment scheme from 2012 is an example of an investment scam that promised Batswana very healthy returns only for their hard-earned money to disappear into thin air. It is important to be wary of investment schemes that promise to offer such high returns because they tend to be unregulated and often have no institutional investors such as banks and asset managers, which should be a red flag. They would typically also not have any of the oversight institutions already mentioned to protect investors.

**The investment scheme is not regulated**

It is crucial to check and verify that your chosen investment vehicle  is regulated and in good standing with the Regulator. This limits the chances of your money and assets disappearing without a trace.

NBFIRA and the Bank of Botswana (BoB) also release public notices on possible investment scams so as to ensure you remain protected.

In conclusion, unit trusts remain a very viable and important investment vehicle that all Batswana can invest in. They are a great way to start your investment portfolio and set you on a journey to achieve your investment goals. On average, they are a safe investment helped by the legal structures that are in place. Therefore, it is important to be cautious and ensure that any investment made is with a regulated asset manager, one that is in good standing with the Regulator and has a proven track record. Investments that are too good be true often are, therefore, exercise caution when dealing with such investments.

THE END-

**Prepared by Bofelo Lentswe, Risk & Compliance Officer- Botswana Insurance Fund Management (Bifm)**