KGORI CAPITAL

INVEST WITH PRIDE

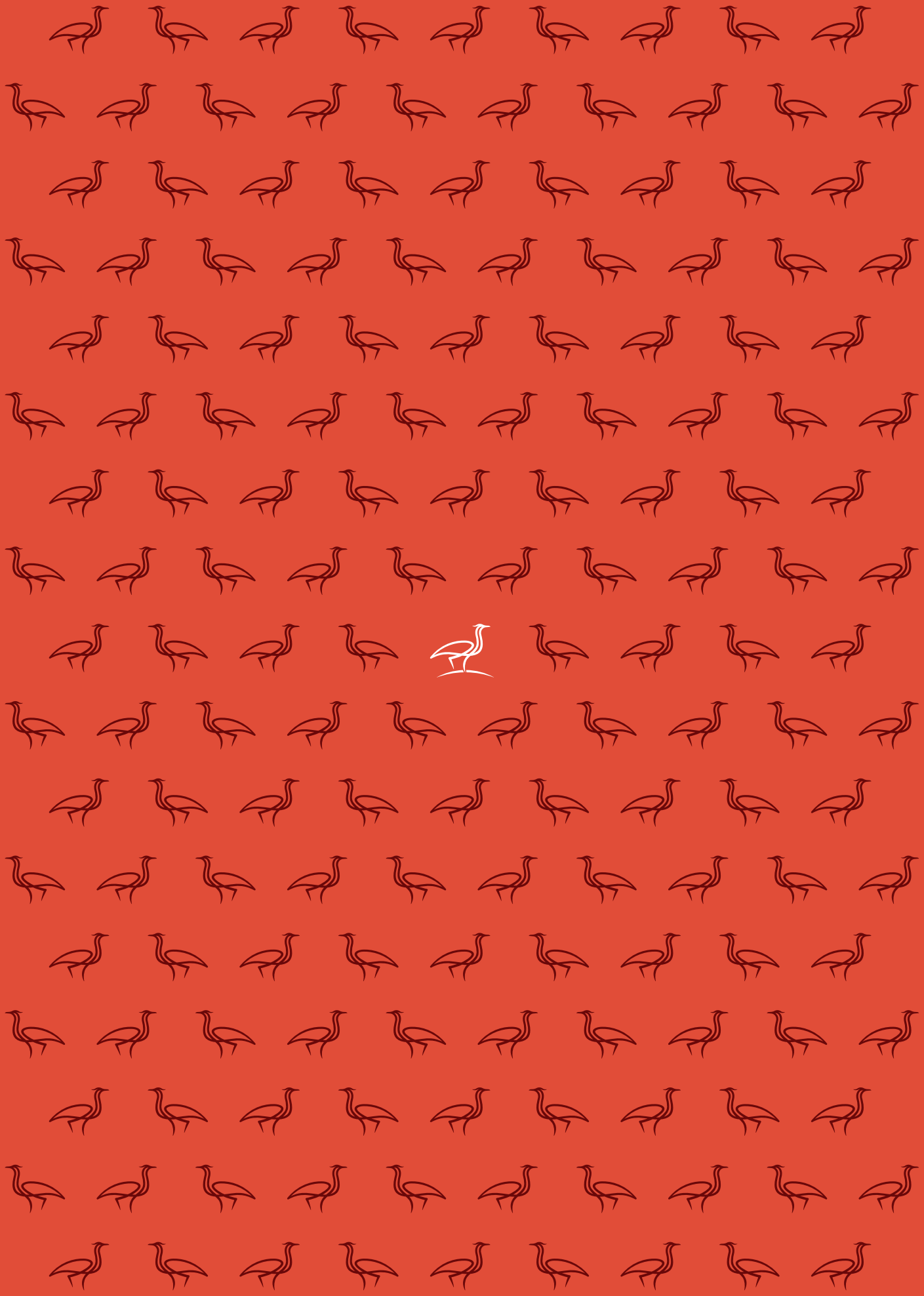
KGORI INSIGHTS

Quarter ended March

2019

Botswana's leading citizen owned and run Asset Management firm

INVEST WITH PRIDE 2019 KGORI CAPITAL



Presenting our 2019 Q1 Kgori Capital Insights

We launched our first instalment of Kgori Capital Insights in 2018 and I am proud to once again have the opportunity to share our 2019 First Quarter Kgori Capital Insights with all of our valued stakeholders.

Kgori Capital continues to make notable strides in driving unique insights and analysis on the market as well as further position our business as a leader in the Asset Management and the investment industry. I, for one, am proud to serve and be a part of these continuing efforts and of the legacy that we continue to build.

As we look forward to a busy and productive 2019 and beyond, I am excited to give an update on the latest developments at and for the Kgori Capital team. Key highlights include, but are not limited to:

- Redefining our Kgori **PRIDE** values and more firmly entrenching our brand narrative;
- Stakeholder engagements with the Kgori Press Club and client engagement with Mr. John Field;
- Award of several new client mandates to further grow our business;
- Driving innovation further with our online Unit Trust Dashboard;
- Speaking engagements with Africa Youth Entrepreneurship Summit and Investment Symposium 2019, Botswana Infrastructure & Asset Owners & Managers Forum, Stanford- Go-to-Market, Investment Symposium on Doing Business in Botswana, and a number of impactful radio discussions;
- Our Second Unit Trust (The Kgori Balanced Fund) launched; and
- Furthering our pursuit of Governance and Compliance Excellence.

Kgori Capital is proud to be a contributor to the development of our Nation's growth and the growth of her people. Botswana remains our destiny as we continue to serve our clients, partners and stakeholders. With this firm compass in hand, we sail forward, grateful as always for the many incredible people on board this literal and proverbial journey.

I hope you enjoy the latest edition of our Kgori Capital Insights, and we welcome any and all feedback you may have and any opportunity to engage further.

Thank you

Best,

Kennedy Melamu
Chairman

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Quarter ended March
2019

Kgori at a glance:

- Botswana's leading citizen owned and run Asset Management firm
- Botswana based investment management firm with global reach
- Employer of choice
- Sole business is Asset Management
- Unrivalled team skills
- Employee-owned and client-focused

The Kgori Brand:

- Invest with Pride – for Botswana
- Always on the lookout – Awareness
- Grounded, trustworthy
- Always learning… Growing

Building investment solutions for the real development needs of our country

INVEST WITH PRIDE

01

BUSINESS INSIGHTS

Alphonse Ndzinge
Managing Director

ALPHONSE NDZINGE
Managing Director

BUSINESS INSIGHTS

It has been a busy period within our team at Kgori Capital, as we embraced the start of the New Year as an opportunity to refocus and regroup, continuing to refine how we serve our clients and the general experience of our brand.

I am immensely proud of the work our staff have put into our recent exercise in re-crafting our core Values, enhancements of what was already in place. These are Values that define our fundamental beliefs as an organisation and which are at the heart of who we are as well as what we do. They are also significant in driving us to where we are going and how we will get there, and thus key, I believe, for us to share with you.

P – **PASSION:** At Kgori Capital, we pour our passion in everything we do! We love what we do. Our passion is demonstrated by our quality of work, and our investment in relationships we have built over the years with all our stakeholders.

R – **RELIABILITY:** We ask ourselves: Are we worthy of our stakeholders' trust? Are we dependable and authentic? Are our stakeholders confident in us every time they do business with Kgori Capital?

I – **INTEGRITY:** Integrity is very critical in any line of work or life. Principled behavior and sound business ethic are one of the most important qualities of great leadership and business, many will agree. Integrity means we always do the right thing even when no one is looking. We act honestly and are consistent with it.

D – **DYNAMISM:** In a constantly changing business environment, the ability to modify and implement new strategies is critical. Dynamism means Kgori Capital responds well to changes that presents new opportunities and those that have the potential to be a threat. We are agile, nuanced, and ever-evolving for the better!

E – **EXCELLENCE:** This means that we are a centre for excellence; only the highest standards of work, professionalism, compliance and governance are accepted and delivered. This is the Kgori Capital way!

01

Invest with PRIDE is the Kgori way of doing business, how we are seen to be and what we are seen to do. We invite you to always hold us accountable to these Values, as we deliver everything with PRIDE.

Above and beyond this, we have continued to build on our proven track record of since 2012 for industry leading investment outcomes, client service, operational efficiency, and corporate governance. Highlights for the Quarter included a Client Engagement for which we were all very fortunate to have with us our special guest speaker, Mr. John Field, Chairman of FedGroup, South Africa. John boasts a wealth of experience in the financial services industry, which includes licences for collective investment schemes, Asset Management, life insurance, employee benefits, trust administration and fund administration in South Africa. Also a renowned author, he published a book titled A Tiger by the Tail (2009). The book tells John's inspiring tale of fighting to safeguard one's integrity in the entrepreneurial world and how passion, purpose and resolve can set an incredible business leader apart from an average one.

John also joined us as the guest speaker for the Kgori Press Club event, a platform which was established in 2014 as a vehicle to bridge the gap between the worlds of media and business, as well as give more public insights to the business community that remains a key initiative in our calendar. The engagement was, I am pleased to note, a great success.

INVEST WITH PRIDE

02

MARKET INSIGHTS: GLOBAL MARKET REVIEW

Alphonse Ndzinge
Managing Director

ALPHONSE NDZINGE

Managing Director

MARKET INSIGHTS: GLOBAL MARKET REVIEW

Global equities

The best performing quarter for Global Equities since 2010.

Growth is continuing, trade tensions have begun to cool, and the Fed changed its mind, while US corporate earnings came in very positive.

GROWTH

Our short-term view is that growth is about to reaccelerate.

The start of 2019 has seen a new wave of optimism with risk assets, both equities and credit, rallying strongly across the globe.

That panic that spooked markets at the end of last year reflected a range of fears, among them a possible US-China trade war, the US Federal Reserve ("the Fed") tightening policy too quickly, and slowing global growth – not to mention worries that the extended global stock market rally was near its end. So the worst quarter since 2011 (Q4 2018) has been followed by the best quarter since 2010.

2019 has brought a very different assessment. Growth is continuing, trade tensions have begun to cool, and the Fed changed its mind, while US corporate earnings came in very positive.

Developed market equities led the rally with a 12.7% gain in Q1 2019, while emerging market equities trailed behind with a 9.9% gain. US equities rose 13.7%, followed by European equities gaining 13.3% and Japanese equities were up 6.8%. China's own fortunes were also strongly felt on global markets. After a tough 2018, the Shanghai Composite rose markedly in the first quarter, up 23.9%.

Global bond yields dipped over the period, with ten-year US Treasury yields falling 28 basis points to 2.4% as the Fed indicated that it did not expect to increase policy rates throughout 2019. A reduction in the longer-term yields led to some inversions in the 3 month-10 year part of the US Treasury yield curve. Ten-year German Bund yields fell into negative territory at -0.9% level.

In South Africa, Moody's released the much anticipated in-depth annual analysis on the South African sovereign rating. Following from the credit opinion released on the 2nd of April, the review emphasises that the key challenge is slow growth and its corollary, persistently high unemployment.

MARKET PERFORMANCE (LOCAL CURRENCY)

Market	3 Months to 31 Mar 2019	12 months to 31 Mar 2019
Global		
MSCI World	12.34%	3.17%
MSCI World (Dev mkts only)	12.66%	4.61%
MSCI Emerging mkts	9.94%	-7.08%
MSCI Dev. Ex US & Canada	10.17%	-3.18%
Citi World Government Bond Index	1.74%	-1.57%
South Africa		
SWIX	6.01%	0.46%
ALSI	7.97%	5.15%
CAPI	6.77%	3.59%
ALBI	3.76%	3.43%
Americas		
Dow Jones	11.81%	10.03%
S&P 500	13.65%	9.48%
NASDAQ	16.81%	10.66%
Mex IPC	4.23%	-4.08%
IBOVESPA	8.56%	11.77%
Europe		
Eurostoxx	12.29%	3.39%
Stoxx Europe 600	13.27%	5.90%
DAX	9.16%	-4.72%
FTSE 100	9.50%	7.64%
CAC 40	13.39%	6.85%
SMI	13.77%	11.96%
INEX 35	8.90%	0.28%
Asia		
NIKKEI	6.97%	0.89%
Shanghai Shenzen CSI300	28.66%	1.56%
Shanghai Stock Exchange Composite	23.94%	-0.08%
HANG SENG	12.84%	0.01%

- Source: Bloomberg

02

What does this point to?

At a forecasted rate of 3.3%, global economic activity is still fairly robust this year, but well off the 4.0% high recorded in 2017. There are numerous downside risks facing the global economy — not least of which are: significant disruptions to global supply chains if trade relations deteriorate or a hard landing in China, a no-deal Brexit and a sudden change in financial conditions on the back of a risk-off episode.

Composite PMIs	2017										2018												2019		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Japan	52.9	52.6	53.4	52.9	51.8	51.9	51.7	53.4	52.2	52.2	52.8	52.2	51.3	53.1	51.7	52.1	51.8	52.0	50.7	52.5	52.4	52.0	50.9	50.7	50.4
Germany	57.1	56.7	57.4	56.4	54.7	55.8	57.7	56.6	57.3	58.9	59.0	57.6	55.1	54.6	53.4	54.8	55.0	55.6	55.0	53.4	52.3	51.6	52.1	52.8	51.4
France	56.8	56.6	56.9	56.6	55.6	55.2	57.1	57.4	60.3	59.6	59.6	57.3	56.3	56.9	54.2	55.0	54.4	54.9	54.0	54.1	54.2	48.7	48.2	50.4	48.9
Eurozone	56.4	56.8	56.8	56.3	55.7	55.7	56.7	56.0	57.5	58.1	58.8	57.1	55.2	55.1	54.1	54.9	54.3	54.5	54.1	53.1	52.7	51.1	51.0	51.9	51.6
China (Caixin)	52.1	51.2	51.5	51.1	51.9	52.4	51.4	51.0	51.6	53.0	53.7	53.3	51.8	52.3	52.3	53.0	52.3	52.0	52.1	50.5	51.9	52.2	50.9	50.7	52.9
US	53.9	53.2	53.6	53.9	54.6	55.3	54.8	55.2	54.5	54.1	53.8	55.8	54.2	54.9	56.6	56.2	55.7	54.7	53.9	54.9	54.7	54.4	54.4	55.5	54.6

It is spring now in the Northern Hemisphere, and proverbial and literal green shoots are sprouting despite the continued decline in some fundamentals. Weakness is concentrated in manufacturing, particularly in Europe, as a delayed response to China's weakness last year. Globally, consumer- oriented businesses and services remain robust, even in Europe. Lower inflation and stronger wage growth are helping consumers. This puts a floor under how much growth can slow.

To put this another way, our short-term view is that growth is about to reaccelerate, with the Fed poised to change to targeting average inflation over the cycle and pushing out the next hiking cycle by as much as several years. Global equity market valuations are roughly at historic norms. In this environment, earnings growth will continue to drive future gains, and selectivity remains key in a healthy backdrop for active managers like Kgori Capital.

INVEST WITH PRIDE

03

MARKET INSIGHTS: LOCAL COMMENTARY - EQUITY

Kwabena Antwi
Portfolio Manager

KWABENA ANTWI
Portfolio Manager

MARKET INSIGHTS: LOCAL COMMENTARY- EQUITY

It was a very busy reporting season across the local bourse.

2018

A liquidity squeeze at the tail end of 2018 hurt banking earnings.

We expect equity market returns over the medium term to be driven by dividend returns and the upward re-rating in earnings multiples from current lows.

In Q1 2019, the DCI gained 0.4% and 1.1% on a price and total return basis. Top performers were FNBB, Sechaba, and PrimeTime, whereas StanChart, BTC, and Turnstar were the main laggards, albeit with marginal declines.

It was a very busy reporting season across the local bourse. Property company earnings were tepid with RDC Properties reporting an 8.0% decline in 2018 Profit After Tax ("PAT") attributable to a 36.0% decline in fair value gains on their properties. LLR reported a 24.0% decline in interim PAT also driven by lower fair value adjustments. Far Properties released its interim results which showed a 5.0% increase in PAT driven by a 4.0% increase in rental revenues caused by newly completed projects coming on line.

Rental escalations across the spectrum of listed property outfits are outpacing inflation. Location and tenant mix continue to be the main factors that determine the resilience of occupancies and achievable escalations. We expect that two notable changes introduced by the Transfer Duty Amendment Bill No. 32 of 2018 will increase property acquisition costs and further reduce property yields going forward. The major one being that share transfers in companies where beneficial ownership of a property changes will now attract transfer duty; previously these transactions did not attract any duty and were a preferred way of transferring properties in the market. The second change is the increase in duty payable by non-citizen companies (shareholding not wholly owned by a citizen) from 5% to 30%.

A liquidity squeeze at the tail end of 2018 hurt banking earnings. StanChart returned to a positive profit position with a P23mn PAT. However the annual profit figure is virtually equal to that reported in its interim results, indicating that the bank did not generate any profits in the second half of the year. The bank attributed this to tight liquidity conditions which were prevalent in the last quarter of the year. In a similar manner, BancABC released its maiden results following its IPO in Q4 2018.

The bank reported an 8.0% decline in annual PAT driven by high interest costs spurred by tight Q4 2018 liquidity conditions and increased operating expenses as the bank gears up for growth.

FNBB published its interim results and reported a 9.0% increase in PAT driven by a 3.0% growth in its loan book and a 10.0% rise in fee income. The bank's customers are increasingly utilising its mobile and Internet offerings resulting in growth in transactions executed on these channels leading to an increase in non-interest income.

Barclays Bank of Botswana announced its annual financial results, showing a 5.0% increase in PAT driven by a 10.0% increase in its loan book and a 6.0% increase in fee income. Double digit loan book growth only filtered through to 2.0% growth in net interest income due to a spike in funding costs at the back end of 2018 caused by tight liquidity conditions. The introduction and enhancement of the bank's mobile and internet channels has supported fee income as customers increase their use of these platforms.

Looking at the banking sector, we expect interest rates to remain at current levels for longer, with modest credit growth driven by corporate and selective household lending. Cost of funding is expected to remain elevated in the near-term given market liquidity dynamics and the planned move of special funds to the Central Bank. There is a substantial dispersion in wholesale deposit rates in the market at present; banks that have a deeper retail deposit base are less susceptible to engaging in the prevailing price war and are better placed to defend their margins. We expect customer acquisition and increased activity to underpin fee income growth; which will drive earnings going forward.

The BIHL Group released its annual results, showing a 6.0% growth in PAT which was driven by a 15.0% increase in investment income which was caused by a 3.0% growth in financial assets and overall profit on investments. Associate earnings were 28.0% lower due to a write-down in the value of Letshego Holdings Limited. The write-down is due to a change in valuation assumptions which the BIHL Group perceived to be currently too over optimistic.

Letshego Holdings Limited released a disappointing set of annual results with PAT declining 25.0% due to an increase in impairments and a spike in its effective tax rate to 50.0%. The increase in impairments was due to a loan book clean-up exercise on its Botswana book whilst the spike in tax was due to a partial write-down of deferred tax assets, higher withholding tax on dividends from subsidiaries and tax provisions in respect of two subsidiaries. Post the results announcement, the market was informed that the new Group CEO, appointed in September 2018, Smit Crouse, had tendered his resignation. This development continues the trend of high level executive departures. The previous Group CEO, Chris Low, left the company in August 2018 and its CFO, Colm Patterson, left in March 2019. Dumisani Ndebele, previously Group Company Secretary, has taken on the Interim Group CEO role until a substantive Group CEO is appointed.

CA Sales reported a commendable 6.0% increase in annual earnings despite operating in a sluggish economic environment and a write-down in goodwill for its Namibian subsidiary. The distributor continues to unlock pockets of growth with revenue growing 15.0% driven by continued product diversification and working closely with principals and retailers. CA Sales wrote-off a total of R27.0mn of goodwill from Expo Africa and SMC Namibia. Expo Africa's write-down was due to a cut back in promotional activities by principals and SMC Namibia's write-down was due to the continued contraction of the Namibian economy.

Cresta released its annual results showing a 9.0% increase in PAT. The hotelier had a stellar second half driven by buoyant tourism activity which resulted in increased guests visiting its Maun and Mowana hotels.

Engen reported a 16.0% decline in PAT driven by stagnant volumes and negative inventory gains which were caused by the steep decline in global oil prices which occurred in December 2018. The company had P430.0mn of trade receivables, of which the slate receivable amounted to P298.0mn as the industry continues to be in a state of fuel under recoveries. Sechaba reported impressive annual results, indicating a 97.0% growth in PAT driven by 5.2% volume growth and a refund of the alcohol levy charged on excise.

Choppies has still not released its June 2018 annual results as well as its December 2018 interim results. The retailer did release an update on the matters causing the delay of the issuance of its financial results. Audit-related issues raised by the company's auditors, PwC, have been substantially addressed and are expected to be closed by the end of April. A legal investigation has been initiated into certain transactions which will not have a financial impact but result in additional disclosures in its financial statements. The legal investigation is expected to be completed by April 2019. A forensic investigation into certain transactions the group was a party to has been initiated and no timeline for completion was given due the nature of the investigation. The group gave an indication of the expected financial impact of the audit queries. As a result of restatements, the

group expects 30 June 2017 equity to be reduced by P378.0mn and it expects 30 June 2018 results to be P389.0mn lower than that originally reported for the year ended 30 June 2017.

Afinitas released its 2018 annual results, showing a 44% increase in losses driven by increased operating costs as the group prepares its subsidiaries for revenue generation. Minergy released interim results which also show growth in losses due to a ramp up in plant construction, as the miner readies itself for production.

On the corporate actions front, African Wildlife Holdings Partnership (AWH), which currently holds 25.31% in Wilderness Holdings has made an offer to all shareholders to buy their shares (other than those already owned by AWH, the Rise Fund and Wilderness Holdings CEO, Keith Vincent) at P6.25 per share, and to delist Wilderness Holdings off the Botswana (BSE) and Johannesburg (JSE) Stock Exchanges. Wilderness Holdings noted this offer provides an opportunity for shareholders to realise their investment in Wilderness, especially considering that there is very limited tradability of the Wilderness shares.

Furnmart officially delisted from the BSE on 20th February 2019.

Looking ahead, the local market has become increasingly cheap relative to historical levels, currently trading at a PE of 12.6x versus a 20yr average of 14.1x. The trailing (historic) 12 months market dividend yield stands at 5.0% versus the historical average of 4.8%. This would normally reflect an early sign of a positive inflection point in forward looking local equity returns stock as corporate profitability (particularly for the banks) is now close to all-time highs.

CHART 1: DOMESTIC COMPANY INDEX: HISTORIC PRICE/EARNINGS RATIO (20 YEARS)

- Source: Kgori Analysis, Bloomberg

In summary, at these levels the local market is attractive and a number of counters now trade well below their fair value. We expect market performance over the next three years to be driven by dividend returns and the upward re-rating in market multiples from current lows.

INVEST WITH PRIDE

04

MARKET INSIGHTS: LOCAL COMMENTARY - FIXED INCOME AND MACRO

Kwabena Antwi
Portfolio Manager

KWABENA ANTWI
Portfolio Manager

MARKET INSIGHTS: LOCAL COMMENTARY FIXED INCOME AND MACROECONOMICS

*The Government Bond yield curve marginally steepened.

*We forecast

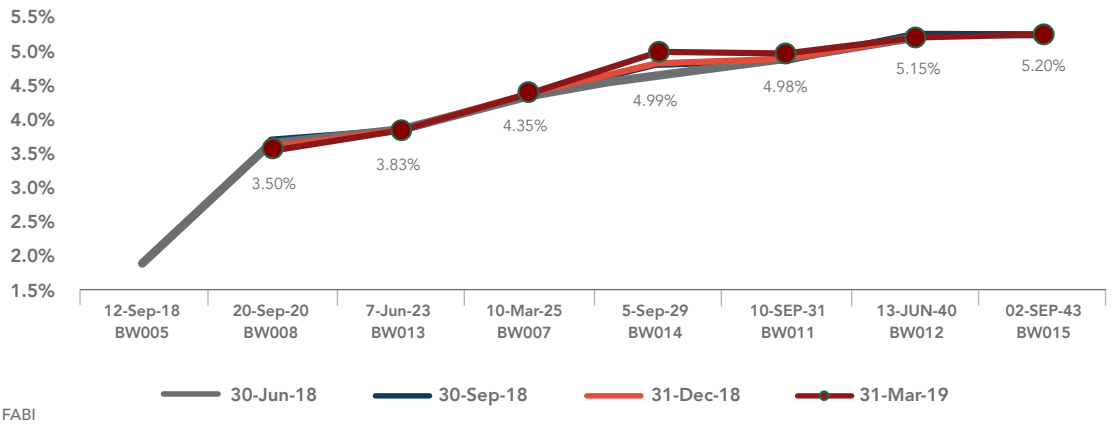
another year of moderate growth

for the Botswana economy in 2019.

*We forecast inflation to reach 3.2% by December 2019.

The local bond benchmark (FABI) returned 1.1% for the quarter as the Government Bond yield curve marginally steepened. The BW008 maturing in 2020 and the BW015 maturing in 2043 declined by 13bps and 3bps respectively whilst the yields on the BW013 maturing in 2023, the BW014 maturing in 2029 and the BW011 maturing in 2031 increased by 1bps, 15bps and 5bps respectively.

CHART 2: GOVERNMENT BOND YIELD CURVE CHANGES



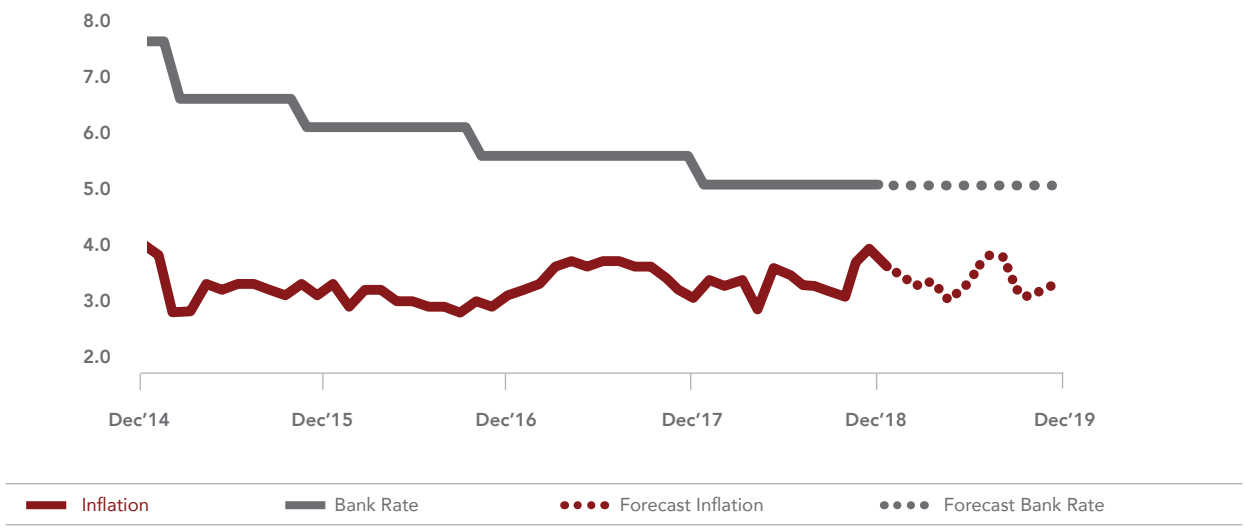
- Source: FABI

04

The March Government Bond and Treasury Bill Auction saw bids of P1,511mn lower than the P1,776mn of bids received in the November auction. The issuance was oversubscribed by P411mn. The most demanded instruments were T-Bills, oversubscribed by P198mn.

Inflation remains stuck at the bottom end of the Bank of Botswana's 3%-6% objective range as March inflation printed at 3.3% y/y. Inflation remains tepid due to a low food inflation driven by plummeting Bread & Cereals inflation. The main driver of inflation continues to be increases in administered prices. Excluding administered prices core inflation was at 1.6% in March.

CHART 3: BOTSWANA CPI (Y/Y %)



- Source: Statisitcs Botswana, Kgori Analysis

Going forward, we expect inflation to remain below the mid-point of the Bank of Botswana's 3%-6% objective range with risks balanced. The main upside risk relates to increases in administered prices such as fuel, water and electricity as well as resurgent food inflation driven by dry weather conditions. Global fuel prices have surged by around 30.0% in Q1 2019 which places the possibility of more fuel increments back on the table following the precipitous fall of global prices in December last year. The main risk to the downside emanates from continued lacklustre domestic demand.

The Monetary Policy Committee ("MPC") met once during the quarter on the 26th of February. The MPC kept the benchmark rate unchanged at 5.0% stating that the current state of the economy and the outlook for both domestic and external economic activity suggested that the prevailing monetary policy stance is consistent with maintaining inflation within the Banks 3%-6% objective range. The Bank still expects inflation to be within its 3%-6% objective range in the medium term due to subdued demand pressures and modest increases in foreign prices. The Bank also stated that its outlook is subject to upside risks emanating from administered prices and down side risk emanating from restrained global economic activity, technological progress and productivity improvement.

We do not expect the Bank of Botswana to reduce rates further unless inflation trends below its objective range. We do not expect this to be the case on account of increases in administered prices. We forecast inflation to reach 3.2% by December 2019. Inflation will remain in the lower half of the Bank of Botswana's objective range due to lower than expected rises in administered prices such as water and fuel, subdued domestic demand and low food inflation.

GDP statistics released indicated that the economy grew 4.5% in 2018 up from 2.9% in 2017. The acceleration in growth was due to a resurgence in mining activity which grew by 7.4% versus a contraction of 11.1% in 2017. All sectors positively contributed to GDP growth in 2018 with the main drivers being Mining +7.4%, Finance and Business Service +5.0% and Trade, Hotels & Restaurants +3.2%.

Total mining production grew 15.1% in 2018 driven by a resurgence diamond production, which grew by 15.4%. Copper was the main detractor, declining by 0.1% y/y. Trade statistics to January showed a P0.5bn trade deficit. Exports decreased by 42.1% m/m (P3.0bn) driven by a 43.5% m/m (P2.9bn) drop in Diamond exports. Imports increased by 0.9% m/m (P400mn) due to P430mn increase in Diamond imports. On a 12 month rolling basis the trade balance was marginally positive at a P90mn surplus.

Overall, we forecast another year of moderate growth for the Botswana economy in 2019. We expect the economy to expand by 4.5%, driven by increased Government spending. This is due to the upcoming National elections, stability in water and electricity supply and stable mining output.

INVEST WITH PRIDE

05

GOVERNANCE TRENDS AND BEST PRACTICE: ARE WE BEHIND THE CURVE IN BOTSWANA?

Brandon Hartney
Compliance Manager

BRANDON HARTNEY
Compliance Manager

GOVERNANCE TRENDS AND BEST PRACTICE: ARE WE BEHIND THE CURVE IN BOTSWANA

An effective governance framework generally ensures there are sustainable strategies in place across the organisation.

The Board sets the tone or the organisational culture and put in place structures to mitigate corporate governance risks.

We need to desist from following global cultural trends and revert to our own culture with regards ethical behaviour whilst adhering to

BEST PRACTICE

Kgori Capital is grounded by strict Values and Principles, and guided at all times by absolute transparency, best practice, and sound corporate governance. This is befitting the trust our clients and stakeholders place in us.

Similarly, Botswana's economic success is well documented and always attributed to good governance. Prior to gaining Independence in 1966, Botswana was ranked as the third poorest Nation in the world. Following the discovery of diamonds in 1967, Botswana quickly became Africa's foremost success story with an average growth rate of about 7.7% per year from 1967 to 1995. Our escape from the resource trap which is synonymous with other resource-rich countries and its phenomenal economic growth (the highest growth rate in the world at the time) was due mainly to good governance. Indeed, our good governance as Botswana saw us gain worldwide recognition as a country that prudently managed its resources, had a sound democracy, upheld the rule of law, had good economic and other policies and was ranked as one of the least corrupt countries in Africa. This historically prudent governance was a positive influence on private sector corporate governance and on Botswana's reputation. In fact, it has gained Botswana the trust of global financial markets.

Despite Botswana's historical success, recent events arguably raise questions regarding the current status of Botswana's governance structures in Government and in the private sector. The financial sector, specifically the non-banking sector, has borne the brunt of the corporate governance challenges over the last few years. The question of whether Botswana is behind the curve is therefore not easy to answer without statistical data or a model that measures corporate governance effectiveness. An evaluation of acquainted organisations therefore should provide a good indication of the effectiveness of corporate governance in Botswana.

First, let us fully appreciate how corporate governance functions. Corporate governance is essentially a framework of principles and practices that an oversite authority puts in place to ensure that there is accountability, ethical behaviour, alignment, clear communication and reporting lines and transparency with all its stakeholders. An effective governance framework generally ensures there are sustainable strategies in place across the organization. 'Sustainable' is a loaded word in this case, and this also includes practices outside of pure profit maximisation. If you are a corporate business, ask yourself this: *how much time does your Board allocate to corporate governance and its associated risks and how much time does your Board allocate to business development and profit margins?*

05

The Boards of Directors are the gatekeepers of governance and are the most important element in corporate structures. The Board sets the tone or the organisational culture and put in place structures to mitigate corporate governance risks. Therefore, it is important to have an effective Board with a good balance of skills that covers several critical functions and a good balance of independent Directors as this encourages Board effectiveness. *What is your Board's composition and how is the Board's effectiveness generally measured?*

Since poor corporate governance is an organisational risk, it should therefore follow a risk-based approach to manage risk. This allows for the clear identification, assessment, evaluation and monitoring of all governance risks. The corporate governance risk report is therefore the foundation of the governance framework. The governance framework clearly identifies the organisational structures, the committees, the duties and responsibilities of each committee, the reporting lines and the levels of approval and accountability within the organisation. *Has your organisation implemented a risk-based approach to governance or to the organisation in general?*

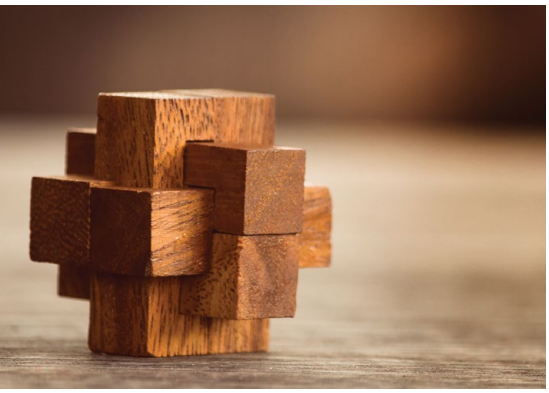
King IV replaced King III from the 1st of November 2016 and became effective for all organisations / institutions with financial years commencing 1st April 2017. King IV is internationally recognised as the most relevant and up to date benchmark for corporate governance and therefore outlines a very effective framework, an improvement on King III. *Does your organisation have a governance framework in place, and are you moving to adopt King IV?*

Beyond this, the true implementation of an effective framework is reliant on an effective compliance programme and internal audit to support and monitor adherence to the governance framework on behalf of the Board and other stakeholders. Often, both compliance and internal audit are not seen as a value add to the organisations (profit centre), but rather a cost centre. This is even though they ensure that good governance structures are in place and adhered to, to protect and maintain the organisation's reputation. *Does your organisation have a compliance and internal audit function in place to implement the corporate governance framework and monitor and report on the effectiveness of the framework?*

The Board and Senior Managements' understanding of how critical both the compliance and internal audit functions are to corporate governance and organisational sustainability should be the catalyst to hiring the most competent and experienced personnel for these critical functions. To be effective, these functions must have unrestricted access to all organisational information and must operate at a strategic decision-making level. This will ensure that these functions can quickly and effectively address any corporate governance and other breaches as well as being able to make recommendations on the required course of action decision makers can take. *Has your organisation hired experienced, competent personnel that are part of Senior Management in these functions, do they have a direct reporting line to the Board, and do they have unrestricted access to information up to and including at Board level?*

The compliance and internal audit functions' level of objectivity and independence are important in ensuring that the functions can maintain effective reporting procedures. Objectivity and independence assist in facilitating early warning systems within the organisation's structures which mitigate risk and in turn promote sustainability. Developed financial markets ensure that their regulations allow for outsourced compliance and internal audit functions to encourage objectivity and independence in corporate governance and other reporting. *Do local regulations allow for the outsourcing of both compliance and internal audit functions?*

Lastly, ethical behaviour is the key to good corporate governance, and without developing a culture of ethical behaviour, corporate governance is relegated to a box-ticking exercise. The organisation's culture sets the tone for how it balances its risks versus rewards. Sustainable organisational culture is based on strong cultural values, and practices. *What is the culture in your organisation?*



These questions should facilitate some self-analysis and therefore an awareness of where your organisation is relative to the curve. Hopefully this encourages the need to develop models that measure the effectiveness of corporate governance in Botswana with the aim of improving our governance structures relative to our market, our culture, and our ecosystems.

INVEST WITH PRIDE

06

TOP 10 FREQUENTLY ASKED QUESTIONS ABOUT UNIT TRUSTS

Sharifa Noor
Chief Operations Officer

06

SHARIFA NOOR
Chief Operations Officer

TOP 10 FREQUENTLY ASKED QUESTIONS ABOUT UNIT TRUSTS

We all want to save money, it's almost a given. I don't think anyone gets a kick out of wasting money, so that naturally means we are born savers, in my view. There is a psychological attachment to saving in the desire to be financially stable, even though we are often drawn to spend rather than save or invest. Logic dictates, however, that if we have more information, we are more empowered to invest in our financial health, right?

06

With that, let us cover some of the frequently asked questions on Unit Trusts, a key vehicle for investment. More importantly, let us try to create an educational guide around this platform.

You work hard and you expect your money to work even harder, but how so?

These questions may assist in making the right decisions:

1. What is a Unit Trust?

A Unit Trust is a financial vehicle that allows investors, including the general public, to pool their money in a trust fund managed by professional Fund Managers, who in turn invest the funds in various assets. This includes equities, bonds and other authorised investments.

2. What does investing in a Unit Trust mean?

Investing in a Unit Trust essentially means that you own units of the trust fund. When you own even just one unit of the trust fund, you become one of the collective owners of the investments managed by the Fund Manager.

3. Is it safe to invest in a Unit Trust?

Absolutely! Unit Trusts are regulated by the Collective Investment Undertakings Act and the Management Company is regulated by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). The Act provides guidelines and the regulatory framework to protect the interests of the investing public. NBFIRA reads and approves all fund prospectus' and annual reports; they may periodically audit the Unit Trust's records and generally make sure that the fund is in order. To safeguard the investments, a Trustee is appointed who in turn takes custody and control of the assets of the fund. They also ensure that the Fund Manager adheres to the requirements set out in the trust deed.

4. What are the pros and cons of Unit Trusts?

Pros:

- Access to professional Fund Manager – with knowledge and experience in the investment industry.
- The perfect investment vehicle for regular savers – both in the short term and long term.
- Diversification – a well-balanced investment consists of several asset classes.
- Liquidity – you can sell or buy units when the price is right at any time, there is no lock in period. For example, fixed deposit accounts have fixed period that may require a penalty to break it.
- Able to reinvest income which adds to income being compounded
- Transparency – fees and expenses are very transparent, you know upfront what the costs may be.
- Safety – regulated by NBFIRA and the appointed Trustee.

Cons:

- Affected by market volatility – ups and downs of share market.
- Management fees apply.

5. Do I need a lot of money to invest?

Investing in Unit Trust is generally affordable for most people. For example, the initial investment for the Kgori Balanced Fund starts from as low as a monthly debit order of P200.00. Look at a fund prospectus to get more information on its initial investments.

6. What rate of return can I expect?

The rate of return depends on the funds' performance. The fund may distribute income monthly or semi-annually depending on the type of fund you invest in. The Unit Trust investment return has both income and capital growth where:

- Income return is paid from dividends earned on shares as well as capital gains realised on the sale of shares. The distribution of income will be paid to investors or reinvested on the investor's behalf as per the distribution policy in the fund prospectus.The perfect investment vehicle for regular savers – both in the short term and long term.
- Capital growth arises as a result of an increase in the value of the shares in the portfolio. Investors who sell at a higher price than the initial purchase price will realise a profit and similarly investors will experience a loss if they sell at a lower price than the purchase price.

It is important to note that past performance, past earnings or distributions are neither a guarantee nor an indication of the fund's future performance. Get as much information and professional counsel in making your decision.

7. What should I consider before investing in a Unit Trust?

You should always consider your investment objectives, risk profile, investment time horizon and your affordability at any point in time. Again, it is also key to get as much information and professional counsel in making your decision.

8. Is income received by Unit Trust taxable?

Dividend income received by the fund is taxed at source and interest income will be taxed when distributed and the Management Company will issue a tax certificate for this deduction. A withholdings tax on interest of 10% is applied for residents and 15% for non-residents.

9. Will the fees and charges affect the funds' performance?

Fees and charges vary from fund to fund. The Management Company is allowed to charge fees such as the initial fee (if any), service fee and management fee. In addition certain fund expenses such as Trustee fees, brokerage fees, audit fees and admin fees are borne by the fund. Typically cash and bond funds have lower costs than equity funds; they also usually deliver, over the long term, less spectacular returns. The Total Expense Ratio (TER) of the fund should also be considered, the lower the TER, the more cost effective the fund is.

10. What are the various types of Unit Trust funds available and how would one determine which one to invest in?

Below are the various types and you should be guided by your savings objective and the time horizon:

UNIT TRUST	OBJECTIVE	TIME-HORIZON	SAVING / INVESTING
Money Market Fund	Capital preservation, maintain liquidity, generate income	30+ days	Saving (with high liquidity)
Bond Fund	Capital preservation, generate income	12 – 24 months	Saving or Investing
Balanced Fund	Long term capital growth, diversification across asset classes	3 years +	Investing
Equity Fund	Long term wealth creation, comfortable with market fluctuations, wish to retain asset- allocation decision	5 years +	Investing

In conclusion, look at investment platforms such as this and explore what works best for you. What is key to remember is that investments are not a quick-win or guarantee – you must be strategic, informed and open to understanding how it works. Indeed, create a culture of savings and investment in the long term, for this is the ultimate best practice.

INVEST WITH PRIDE

07

GROWING OUR FOUNDATION TOWARDS EXCELLENCE

07

At Kgori Capital, we believe we have a firm foundation of passion, skill and experience in the Asset Management industry. Our team comprises some of the very best in the sector, and we have had the privilege and honour to invest on behalf of some of the most incredible clients, many of whom we still work with today. It is a foundation that was built upon – from the very establishment of this business - a passion for Botswana's growth, and the development of her economy and her people. Today, that passion has not waned.

After over 7 years in the industry, and over 80 years of cumulative team experience, we are invested now in growing our foundation towards excellence. Excellence for our people, our clients, our stakeholders, our community and our Nation. This we do with great PRIDE, for we invest with PRIDE on behalf of our clients. In the grander scheme of things, we are committed to working, as a private sector institution aligned to Government's Vision 2036 and NDP 11, to help realise a truly sustainable, prosperous Botswana.

Why? Because we believe we truly and wholeheartedly have what it takes to make a difference in and for our country. We know this to be true because:

We are 100% Botswana citizen-owned and run, and proudly so.

Kgori Capital is a home-grown Asset Management company that has always strived to make an enduring difference. We set out to do better for our country, and this determination only grows stronger. It is our conviction that passion for growth and excellence, and our desire to invest with PRIDE for Batswana provides us a distinct advantage over others.

We are grounded by strong Values:

We are patriots and thus take the responsibility that has been bestowed upon us by so many entities extremely seriously. Our brand promise has always been to "Invest with PRIDE." Our Kgori icon remains grounded, symbolising a stable, trustworthy and reliable company. Like the Kori Bustard in our icon, we are always on the move, always learning and always growing. We continue to build on the foundation started with our establishment, with a future forward ambition for true excellence.

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We believe Batswana have the skills, depth of talent and potential to play in even a global playing field.

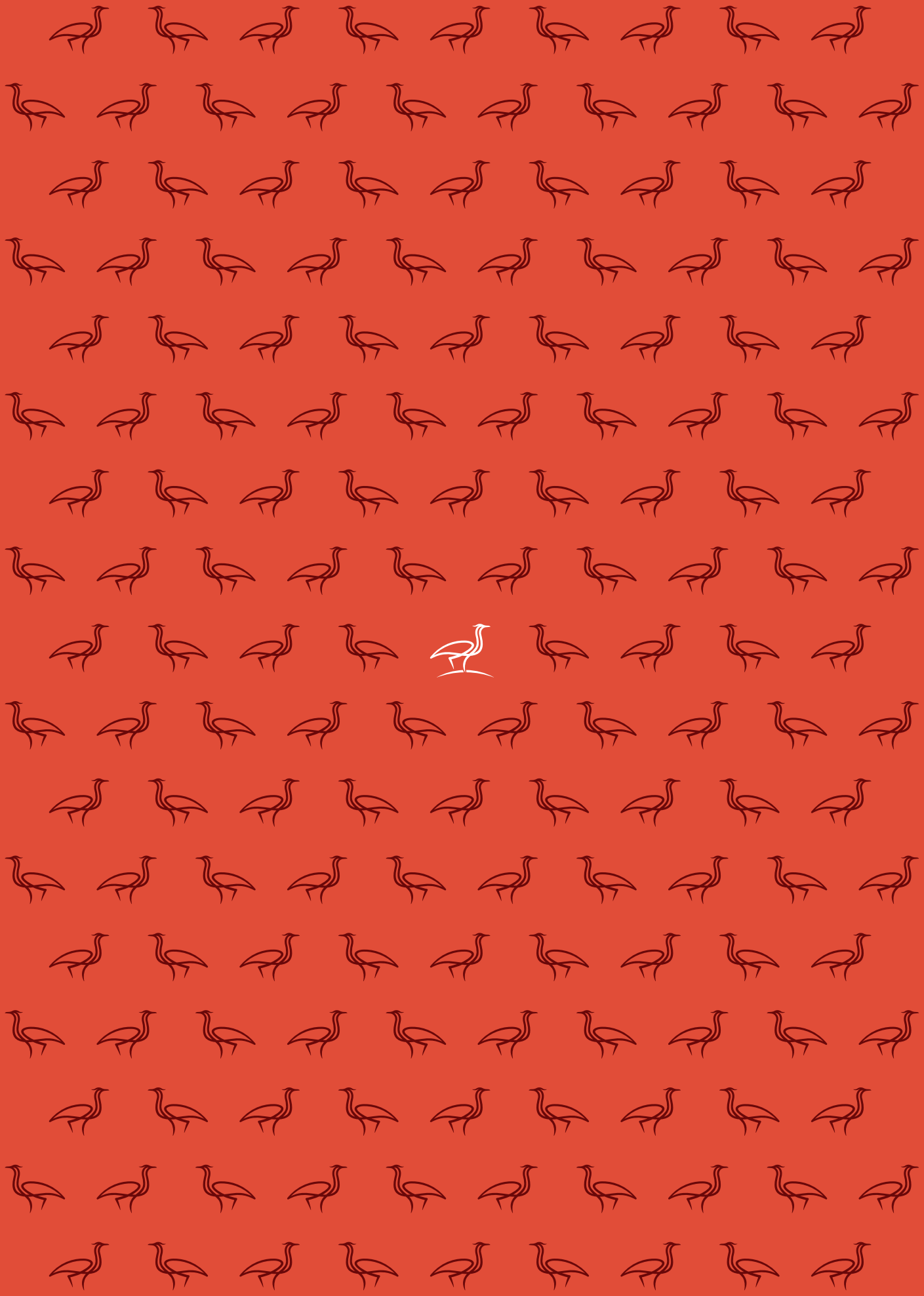
We are proud to employ 10 skilled, experienced and passionate members of our team, all of whom are shareholders in our business and all of whom are Batswana; in fact, they are also predominantly women. This is because we believe in diversity and inclusion, and we believe in having the very best team to be able to deliver excellence and PRIDE for our clients. In fact, our team is one of the most qualified, committed and able in the sector, and this has allowed us to show a steady growth curve over the years. We are a Botswana business that has always aimed high not in spite of our background, but because of it.

We are focused and determined for a sound future.

We are growing our foundation towards excellence, and channelling this excellence and PRIDE more widely to our network of clients and partners. We have ambitions to grow the firm in terms of Assets Under Management, number of clients, investment products and distribution channels, all the while working to help shape and grow our people, our sector, and our National economy.

We can confidently say that nobody else can deliver what Kgori Capital delivers, and even then, constantly invest in doing more and being more. We owe it to ourselves and our stakeholders, and this remains our unshakeable belief.

We are Kgori Capital and we are growing our foundation towards Excellence, investing with PRIDE for and with Batswana.



KGORI CAPITAL

INVEST WITH PRIDE

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Kgori Capital (Pty) Ltd is an authorised financial services provider.