



A GUIDE
TO LISTING
FUNDS OF
FUNDS
ON THE
BOTSWANA
STOCK
EXCHANGE

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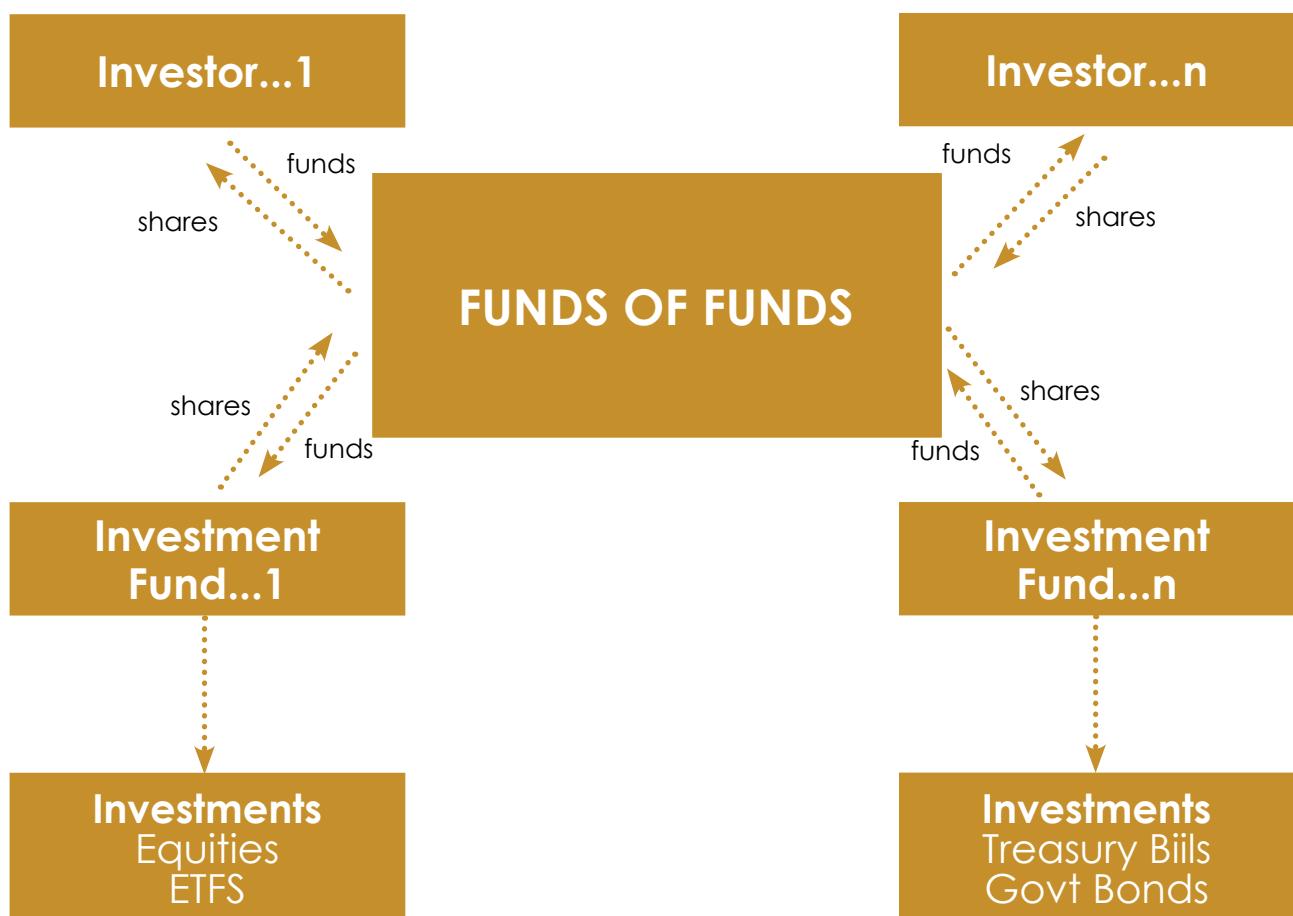
FUNDS OF FUNDS (FoF) OVERVIEW

A FoF also referred to as a multi-manager fund is an investment vehicle where a fund invests in a portfolio composed of shares of other funds rather than investing directly in stocks, bonds, or other securities. Investors' cash is pooled in a managed fund and a professional investment manager selects the fund's securities and invests it.

The strategy of investing in a fund of funds aims to achieve broad diversification and asset allocation where investors can get broader exposure with reduced risks compared to investing directly in individual securities.

Funds of funds are available to meet a range of investment styles and goals. FOF can be of different types depending on the investment objective behind the scheme. For instance, they can be structured like mutual funds, hedge funds, ETFs, investment trusts, or even private equity funds.

Structure of Funds of Funds



ADVANTAGES AND DISADVANTAGES OF FoF TO INVESTORS

Advantages

- FoF provide an opportunity to diversify a portfolio across asset classes, sectors and geographies that an investor would otherwise find difficult to access. For example, there are FoF that cover international shares, emerging markets, specific sectors, corporate bonds, government and semi-government bonds and commodities.
- Experienced professional investment managers actively manage the FoF portfolio with the aim of generating above market returns. Investing in FoF gives investors exposure to the wider range of styles and strategies used by professional managers – including investment capabilities from around the world.
- FoF can change in value as the underlying assets(funds) change in value. Depending on the type of fund and the investment objective of the manager, investors can earn returns through price growth and dividends/distributions.

Disadvantages

- Higher management and incentive fees. In addition to charging their own fees, FoFs tend to pass through fees from the underlying funds as well.
- Fund of Funds has a complex form of tax structure. They have to pay tax on the capital gains even if recovered in cash.
- Lower returns. In general, in exchange for more diversification, FOFs tend to offer more average returns.
- Lack of transparency. Due to limited visibility into the underlying investments of selected funds, it may be more difficult to monitor or keep track of the overall holdings of FOF

Like any investment, FoFs have risks investors need to understand. Investors should therefore seek independent advice from a professional adviser before investing.

LISTING OF FoFs ON THE BSE

FoFs fall within the scope of "Investment Entities" as defined by the BSE Equity Listings Requirements. Section 10.1 of the Requirements defines an investment entity as "**investment companies, private equity companies, active private equity funds, investment trusts and unit trusts whose principal activity is the investment in securities**"

FoF entities listing on the BSE will therefore be governed by BSE Equity Listings Requirements the same way as other listed companies. However, Issuers of FoFs must in particular ensure compliance with Section 10 of the Requirements which is specific to disclosure contents for investment entities.

Like other equity securities, FoFs listed will be traded on the BSE through a BSE Member Broker as governed by the BSE Equity Trading Rules.

CONDITIONS FOR LISTING FoFs ON THE BSE

The listing of FoFs is regulated by the BSE Equity Listing Requirements with specific provisions set out on section 10 of the Requirements. In evaluating a listing of an investment entity, the BSE will have regard to the following fundamental principles:

- a) the persons responsible for managing the investments must have adequate experience;
- b) there must be an adequate spread of portfolio risk; and
- c) the applicant must not, to a significant extent, speculate in securities

CRITERIA FOR LISTING

The BSE may admit to listing the securities of an applicant as an investment entity notwithstanding that such entities;

- a) do not comply with the listing criteria for the Venture Capital or Main Board in Chapter 2 of the Requirements
- b) the applicant's assets consist wholly or substantially of cash or short-dated securities.

- c) must satisfy the BSE that its managers have sufficient and satisfactory experience in the management of the types of investment in which the investment entity proposes to invest;
- d) must ensure that the policies and objectives of the investee conform to the principal objective(s) of the investment entity;
- e) the board of directors, or any equivalent body, of the investment entity must be able to demonstrate that it will act independently of any investment managers of the investment entity, and a majority must not be employees of or professional advisers to the investment managers or any other company in the same group as the investment entity
- f) the management company must, at all times, have an investment in the capital of the applicant equal to at least 10%, unless the BSE in its sole discretion, after taking account of the relevant experience of the management company, otherwise decides; and
- g) the applicant must disclose its portfolio to shareholders on a quarterly basis until such time as at least 50% of the portfolio has been established in investments other than cash or short dated securities.
- h) The investment policy must be stated in the pre-listing statement/prospectus and thereafter all material changes to such policy must be approved by shareholders in general meeting
- i) The constitution or equivalent documents of the investment entity must, except where the BSE otherwise agrees, prohibit the distribution as dividend of profits from associate companies unless and until distributed to the investment entity; and surpluses arising from the realisation of investments

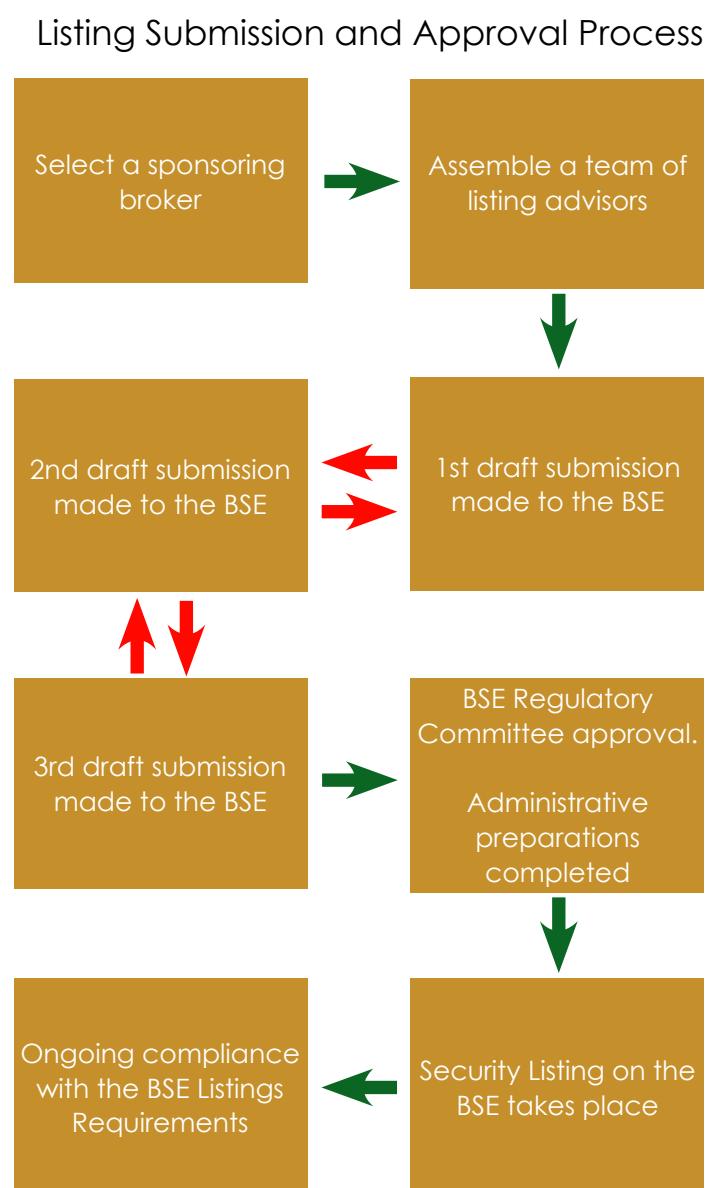
THE PROCESS OF LISTING FoFs ON THE BSE

The process of listing a company on the BSE begins with appointing a Sponsoring Broker from among the licensed brokers. All submissions and applications to the BSE for a listing are submitted through a Sponsoring Broker.

The Sponsoring Broker also assists the applicant with assembling a team of advisors who will be involved in the process of listing and these include:

- Lawyers;
- Reporting accountants;
- Corporate finance experts;
- Auditors.

A simplified depiction of the submission and approval process is illustrated below;



THE PROCESS OF LISTING FoFs ON THE BSE

Continued

Step 1

- Issuer meets with and appoints a Sponsoring Broker whose duty is to facilitate the listing process, acting as a conduit between the Issuer and the BSE.

Step 2

- Sponsoring Broker assists the issuer in appointing a team of advisors on the transaction being, lawyers, reporting accountants, auditors, corporate finance advisers etc.

Step 3

- Issuer makes the first submission to the BSE, through the Sponsoring Broker.
- BSE evaluates the submission and responds within 5 working days.

Step 4

- If there are amendments to be made to the first submission, the Issuer is required to re-submit the application with amendments. Again, the BSE responds within 5 working days from the date of each re-submission.
- If the Issuer applies for waivers in respect of the BSE Listing Requirements, the application and recommendation shall be made to the Regulatory Committee and a response from the BSE Regulatory Committee will be provided within an additional 5 working days.
- This submission and evaluation process is repeated until the submission is compliant with the BSE Listings Requirements.

Step 5

- Once the submission is fully compliant, the Issuer submits the final documents for formal consideration. BSE responds within 2 working days of the submission with a formal approval to list.
- BSE Regulatory Committee's provisional approval is obtained. A provisional listing approval is a "green light" for the applicant to commence the offer process while working towards satisfying conditional requirements, if any, in order to earn a permanent listing.
- After a provisional approval of listing has been granted, the applicant will have to undertake a series of events in order to issue the shares. The applicant is expected to adhere to the time table of events which are outlined in the BSE Equity Listings Requirements. A sample process for an equity listing is illustrated below.

Simultaneously, following provisional approval, the administrative processes are instituted in preparation for the listing. These include, but are not limited to, transfer secretary administration and internal BSE system administration to create the security and prepare for listing.

Step 6

- The listing takes place on the BSE and the security begins to trade on the effective listing date.

Step 7

- The Issuer is required to maintain compliance with the BSE Listings Requirements on an ongoing basis once listed.

CONTINUING OBLIGATIONS

BSE regards the timely disclosure of relevant information as of prime importance in the operation of an efficient market. There is a general requirement to disclose to the market any information that is material. A listed entity must immediately disseminate to the market via the BSE Exchange News Services (X-News) any information which it becomes aware of, which a reasonable person would expect to have material effect on the price or value of the entity's securities. This information might reasonably influence investment decisions.

Some of the required disclosures are as follows (list not exhaustive):

1. Cautionary Announcements- An issuer must publish, by way of a cautionary announcement as soon as possible after it is in possession of any price sensitive information
2. Dividend Declarations
3. Corporate Governance
4. Annual reports and Annual General Meeting details
5. Information on Transactions and Related Party Transactions
6. Disclosure of Periodic Financial statements
 - a. Interim Financial Statements
 - b. Audited Financial Statements
 - c. Preliminary Financial Statements (In the event a listed company has not published its Audited Financial Statements within the stipulated timeliness)

FEES

Fees related to initial listing, maintaining a listing and raising additional capital on the BSE are available on the BSE website (www.bse.co.bw) or you may contact the Listings & Trading Department via email on listings@bse.co.bw. These fees are subject to periodic review.

There are other costs associated with listing which include the fees charged by advisors and intermediaries and marketing costs that a company can encounter periodically.

For more information, contact the Botswana Stock Exchange at:

Botswana Stock Exchange

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BROKERS CONTACTS

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