
YOUR QUARTERLY FUND PERFORMANCE UPDATE

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## *Market Rally Back*

### Fund and Market Performance Review – as at 30 June 2019

The second quarter of 2019 presented a second consecutive quarterly positive investment performance by the Fund's assets. Performance for the quarter was characterized by satisfactory returns in the Market, Conservative, Pensioner and Contingency Channels. The Net Total Assets increased 2.07 percent from BWP 7.702 billion in Quarter 1 2019 to BWP 7.861 billion in Quarter 2. The positive returns were partially driven by the continued rally in international markets led by Developed Market equities.

The Fund experienced positive performance in the second quarter of the year, with the Market Channel increasing 1.93 percent, the Conservative Channel rising 2.15 percent and the Pensioner Channel returning 2.30 percent. On a twelve-month basis, the Fund generated positive returns net of investment fees, with the Market Channel reporting a return of 7.07 percent followed by the Pensioner Channel at 7.92 percent while the conservative channel returned 7.34 percent. Moderating global growth and increased expectations of lower inflation across developed markets have increased prospects for supportive monetary policy by major central banks, thereby underpinning global stocks and bonds. In addition, the local equity market contributed to the positive performance as the domestic listed equity managers posted a positive return.

### Portfolio performance as at 30 June 2019

| Fund | 3 months to June 2019 | Year to Date Apr - Jun 2019 | 12 months to Jun 2019 | 36 months to Jun 2019 | Since Inception (Aug 2004) |
|---|---|---|---|---|---|
| Market | 1.93% | 9.80% | 7.07% | 6.51% | 12.03% |
| Conservative | 2.15% | 8.12% | 7.34% | 5.30% | 11.00% |
| Pensioner | 2.34% | 8.57% | 7.92% | 4.69% | 11.47% |
| Contingency | 2.30% | 8.36% | 7.36% | 5.46% | 13.27% |

The top performing asset class for the Fund was property, which returned 6.19 percent (in BWP). The next top performing asset class for Quarter 2 was domestic equities which returned 2.4 percent, followed by global equities which returned 1.65 percent. Foreign equities extended their gains as the appetite for listed stocks surged, in anticipation of lower interest rates and higher corporate earnings underpinned by an economic environment conducive to capital market growth. Global Bonds returned 1.82 percent while the Domestic Companies Index decreased 1.35 percent on a total return basis. Emerging Market equities gained 1.53 percent.

### DPF 2019 Asset Class Returns (BWP)

| Asset Class | Q1 Returns (Net) | Q2 Returns (Net) |
|---|---|---|
| Botswana Bonds | 1.15% | 1.63% |
| Botswana Cash | 0.14% | 0.15% |
| Botswana Equities | 1.29% | 2.40% |
| Botswana Property | 4.44% | 6.19% |
| African Equities | 3.56% | -11.45% |
| African Private Equity | 1.95% | 0.34% |
| Global Bonds | 3.04% | 1.82% |
| Global Cash | 0.54% | -1.59% |
| Global Equities | 13.4% | 1.65% |
| Emerging Market Equities | 8.79% | 1.53% |

### Asset Class Returns as at 30 June 2019 (Benchmarks)(BWP)

| Asset Class | Benchmark | 1 month to June 2019 | 3 month to June 2019 | Year to Date to June 2019 | 12 months to June 2019 | 36 months to June 2019 |
|---|---|---|---|---|---|---|
| Botswana Cash | BOBc 91 day -1% | 0.05% | 0.16% | 0.29% | 0.52% | 0.71% |
| Botswana Bonds | Fleming Aggregate Bond Index (FABI) | 1.06% | 1.84% | 2.99% | 5.58% | 5.52% |
| Botswana Equities | Domestic Companies Index (DCI) Total Return | -1.31% | -1.35% | -0.32% | -4.25% | -3.97% |
| Global Bonds | BarCap GABI - BWP | -0.39% | 1.65% | 4.45% | 8.09% | 0.61% |
| Global Equities | MSCI World - BWP | 3.87% | 2.34% | 15.74% | 8.59% | 10.65% |
| Global EM Equities | MSCI EM - BWP | 3.53% | -1.00% | 9.42% | 3.36% | 9.55% |
| African Equities | FTSE/JSE Africa 30 - BWP | 0.72% | 1.13% | 7.15% | -4.61% | 6.25% |
| Global Property | FTSE EPRA/ NAREIT Developed Rental Index - BWP | 0.17% | 0.34% | 15.31% | 13.50% | 3.05% |
| China | 65% MSCI China A Index & 35% MSCI China Index | 4.58% | -4.82% | 21.58% | 3.45% | -1.14% |
| Exchange Rate | BWP / USD | -2.55% | -1.59% | -1.06% | 2.12% | -1.00% |

### Managers' Performance

In an environment of positive performances by global managers, American Century was the Fund's outperforming manager for Quarter 2 with a return of 5.07 percent. Veritas was the second best performing manager returning 2.47 percent. The least performing global manager was Southeastern, posting an underwhelming -1.87 percent. Local equities returned an above benchmark return. The Botswana Stock Exchange Domestic Company Index, which declined 1.35 percent over the quarter, underperformed Allan Gray which returned 2.68 percent and Investec which rose 1.25 percent. Of the two Local Bond managers, BIFM was the top performer, posting a return of 1.65 percent for the quarter, ahead of Investec's gain of 1.41 percent.

### Local Manager's Performance as at 30 June 2019

| Local Equity Managers-BWP | 1 month to June 2019 | 3 month to June 2019 | 12 months to June 2019 | 36 months to June 2019 | Year to Date |
|---|---|---|---|---|---|
| Allan Gray | 1.22% | 2.68% | 2.08% | N/A | 3.95% |
| Investec | -0.98% | 1.25% | 1.44% | N/A | 1.83% |
| **Local Bond Managers-BWP** | **1 month to June 2019** | **3 month to June 2019** | **12 months to June 2019** | **36 months to June 2019** | **Year to Date** |
| BIFM | 0.80% | 1.65% | 5.28% | N/A | 2.85% |
| Investec | 0.56% | 1.41% | 4.12% | N/A | 2.32% |

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Continue on page 1

# Business e-brief

Vol. 3 | June 2019

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## International Managers performance as at 30 June 2019

| International Managers -USD | 1 month to June 2019 | 3 months to June 2019 | 12 months to Jun 2019 | 36 months to Jun 2019 | Year To Date |
|---|---|---|---|---|---|
| American Century | 6.58% | 6.77% | 10.27% | N/A | 24.94% |
| Marathon | 6.27% | 4.03% | 8.17% | 11.34% | 15.61% |
| Orbis | 4.80% | 0.40% | -5.43% | 9.53% | 9.16% |
| Walter Scott | 7.18% | 3.33% | 12.75% | 13.81% | 19.03% |
| Veritas | 4.89% | 4.13% | 10.50% | N/A | 17.24% |
| Southeastern | 7.93% | -0.29% | -5.42% | N/A | 11.48% |
| Statestreet | 6.57% | 3.94% | 6.13% | N/A | 16.85% |
| **International Managers -BWP** | **1 month to June 2019** | **3 months to June 2019** | **12 months to Jun 2019** | **36 months to Jun 2019** | **Year To Date** |
| American Century | 3.86% | 5.07% | 12.61% | N/A | 23.62% |
| Marathon | 3.56% | 2.38% | 10.46% | 10.23% | 14.39% |
| Orbis | 2.13% | -1.20% | -3.43% | 8.43% | 8.00% |
| Walter Scott | 4.45% | 1.68% | 15.14% | 12.67% | 17.76% |
| Veritas | 2.22% | 2.47% | 12.85% | N/A | 15.99% |
| Southeastern | 5.18% | -1.87% | -3.42% | N/A | 10.29% |
| Statestreet | 3.85% | 2.29% | 8.38% | N/A | 15.61% |
| **Global Bond Manager** | **1 month to June 2019** | **3 months to June 2019** | **12 months to Jun 2019** | **36 months to Jun 2019** | **Year To Date** |
| PIMCO (BWP) | 0.48% | 1.69% | 7.32% | 1.67% | 4.66% |
| PIMCO (USD) | 2.12% | 3.33% | 5.08% | 2.70% | 5.78% |

## Botswana Market Review – Quarter ended 30th June, 2019

GDP increased by 4.3 percent in Quarter 1 2019, the strong performance was supported by the significant growth in real value added of Transport & Communications (5.9 percent), Trade, Hotels & Restaurants (5.7 percent) and Finance & Business Services (5.4 percent). Domestic output continues to be supported by the non-mining sector, which increased 4.4 percent while mining activity rose 3.3 percent over the quarter. Household consumption improved 1.6 percent in the first quarter of 2019 while government expenditure rose 2.6 percent. Gross capital formation increased 4.7 percent as business investment experienced a moderate pick up. Exports increased 8.6 percent in the second quarter of 2019 while imports rose 16.6 percent. Government expenditure rose 2.6 percent with markets anticipating increased government expenditure as national presidential elections loom. The Pula-US Dollar exchange rate was BWP10.71 at the end of March 2019 and BWP 10.62 on 30th June, 2019 indicating a marginal appreciation of the Pula against the US Dollar. The local equity market continued to under-perform its global listed equity peers, in part driven by historic low rates and economic weakness, characterized by high levels of unemployment.

### Inflation

The annual headline inflation rate in June 2019 was 2.8 percent.

### Interest Rates

During the second quarter of the year, the Monetary Policy Committee (MPC) of the Bank of Botswana has maintained the historically low Bank Rate of 5 percent.

## World Market Review – Quarter ended 30 June 2019

### United States

Consumer confidence declined in June as the household and business outlook of the US economic conditions decreased. The labour market remained resilient with the unemployment rate reported at 3.7% in June. The strong employment levels have supported retail activity and aggregate domestic consumption during the first half of the year.

Core inflation rose 2.1 percent in June while headline inflation advanced 1.6 percent. Since the beginning of the year, the Federal Reserve (Fed) has maintained the target rate for Fed Funds range between 2.25 and 2.50 percent. In addition, the Fed has indicated that it would consider lowering interest rates during the year to support domestic activity. Gross Domestic Product decreased from 3.1% to 2.1% in the second quarter. Asset price volatility spiked during the last quarter of 2018, when the Fed Chairman stated a higher path of interest rate hikes. However, since the beginning of the year the Fed Chairman has adopted a more dovish stance underpinned by monetary policy support. Against this background, a recovery in equity prices has occurred during the first half of the year driven by increased optimism on asset prices as a result of expected lower interest rates.

### Europe

The Euro-zone economy weakened in Quarter 2 2019, GDP increased a seasonally-adjusted 0.2 percent in Q1 against 1.1 percent the previous quarter. The Euro-zone remains affected by anemic household consumption, high levels of unemployment, trade wars and weak industrial activity. Although inflation increased to 1.3% in June, it remains well below the 2% inflation target. Christine Lagarde has been nominated to replace Mario Draghi as president of the European Central Bank. The nominee ECB president is expected to continue the current accommodative monetary policy.

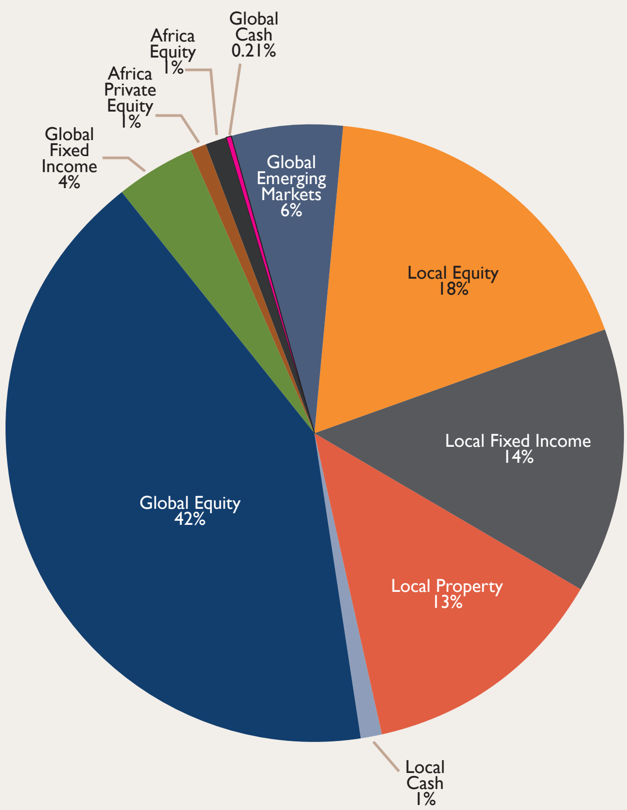
### China & Other Asia Markets

China's economy moderated to 6.2% in the second quarter of 2019 from 6.4% the previous quarter. The impact of the current US China trade dispute continues to undermine China's economic activity with a spillover effect to other Asian economies. In a bid to stimulate the economy, China's Central Bank has lowered the reserve requirement ratio.

### South Africa

South Africa's economy decreased 3.2% in the first quarter of 2019. Despite a weaker rand, exports of goods and services fell 26% in the first quarter. Weak levels of business investment, power outages and protracted strikes compounded by drought affecting the agricultural sector all contributed to weak growth. The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) cut the key policy rate by 25 basis points to 6.50%.

### Asset Class Weights as at 30 June 2019




**NB: Market Commentary and performance results sourced from RISCURA**

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Continue on page 2