

# Business

## e-brief

Vol. 4 | September 2019



YOUR QUARTERLY FUND PERFORMANCE UPDATE

### DPF Investments recover, reaches the BWP8 billion mark

The third quarter of 2019 presented a third 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 2.96 percent from BWP 7.861 billion in Quarter 2 2019 to BWP 8.103 billion in Quarter 3. 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 third quarter of the year, with the Market Channel increasing 3.02 percent, the Conservative Channel rising 2.79 percent and the Pensioner Channel returning 2.92 percent. On a twelve-month basis, the Fund generated positive returns net of investment fees, the Market Channel reporting a return of 6.43 percent followed by the Pensioner Channel at 7.64 percent while the Conservative Channel returned 7.20 percent. Decelerating global growth and lower inflation forecasts across developed markets have resulted in key interest rate cuts and supportive monetary policy by major central banks, which has underpinned global stocks and bonds. In addition, the local equity market marginally contributed to the positive performance as the domestic listed equity managers posted flat returns.

### Portfolio Performance as at September 2019

Fund	3 months to Sep 2019	Year To Date Jan – Sep 2019	12 months to Sep 2019	36 months to Sep 2019	Since Inception (Aug 2004)
Market	3.02%	13.11%	6.43%	7.55%	12.09%
Conservative	2.79%	11.13%	7.20%	6.18%	11.20%
Pensioner	2.92%	11.73%	7.64%	5.75%	11.59%
Contingency	2.82%	11.42%	7.20%	6.42%	13.34%

The top performing asset class for the Fund was property, which returned 6.31 percent (in BWP). The next top performing asset class for Quarter 3 was private equity, which returned 6.03 percent, followed by global bonds, which returned 4.14 percent. Foreign equities extended their gains as the appetite for listed stocks surged, in anticipation of further interest rate cuts and elevated corporate earnings in certain sectors of the economy. Global equities returned 4.10 percent while the Domestic Companies Index decreased 1.03 percent on a total return basis. Emerging Market equities gained 1.70 percent.

### DPF Asset Class Return

Asset Class	Q3 Returns	Q2 Returns
Botswana Bonds	1.32%	1.63%
Botswana Cash	0.20%	0.15%
Botswana Equities	0.04%	2.40%
Botswana Property	6.31%	6.19%
African Equities	-0.08%	-11.45%
African Private Equity	6.03%	0.7%
Global Bonds	4.14%	1.82%
Global Cash	3.97%	-1.59%
Global Equities	4.10%	1.65%
Emerging Market Equities	1.70%	1.53%



### Asset Class Returns as at September 2019 (Benchmarks)(BWP)

Asset Class	Benchmark	1 month to Sept 2019	3 month to Sept 2019	Year to Date to Sept 2019	12 months to Sept 2019	36 months to Sept 2019
Botswana Cash	BOBc 91 day	0.06%	0.20%	0.49%	0.61%	0.39%
Botswana Bonds	Fleming Aggregate Bond Index (FABI)	0.49%	1.30%	4.33%	5.67%	5.20%
Botswana Equities	Domestic Companies Index (DCI) Total Return	1.29%	-1.03%	-1.34%	-0.19%	-3.78%
Global Bonds	BarCap GABI - BWP	-1.56%	4.72%	9.37%	12.11%	3.71%
Global Equities	MSCI World - BWP	1.56%	4.53%	20.98%	6.10%	12.51%
Global EM Equities	MSCI EM - BWP	1.35%	-0.44%	8.94%	2.09%	8.19%
African Equities	FTSE/JSE Africa 30 - BWP	1.59%	4.95%	12.24%	7.52%	7.41%
Global Property	FTSE EPRA/NAREIT Developed Rental Index - BWP	2.54%	10.54%	25.89%	20.09%	8.69%
China	65% MSCI China A Index & 35% MSCI China Index	-0.08%	0.36%	22.01%	9.71%	-4.72%
FM Debt	FTSE Emerging Markets Government Bond Index	-0.10%	2.68%	6.65%	11.14%	5.40%
Exchange Rate	BWP / USD	-0.55%	3.97%	2.87%	4.19%	2.09%

### Managers' Performance

In an environment of positive performances by global equity managers, Veritas was the Fund's outperforming manager for Quarter 3 with a return of 5.27 percent. Marathon was the second best performing manager returning 4.81 percent. The least performing global equity manager was Southeastern, posting a modest 0.55 percent. Local equities returned an above benchmark return. The Botswana Stock Exchange Domestic Company Index, which declined 1.03 percent over the quarter, underperformed Allan Gray which returned -0.16 percent and Investec which remained flat at 0.01 percent. Of the two Local Bond managers, BIFM was the top performer, posting a return of 1.39 percent for the quarter, ahead of Investec's gain of 1.00 percent.

### Local Manager's Performance as at September 2019

Local Equity Managers-BWP	Rumor line on Choppies Holdings	1 month to Sept 2019	3 month to Sept 2019	12 months to Sept 2019	36 months to Sept 2019	Year to Date
Allan Gray	4 069 553	0.87%	-0.16%	2.60%	N/A	3.78%
Investec	1 337 400	0.78%	0.01%	1.75%	N/A	1.85%
Morula	-	2.26%	N/A	N/A	N/A	N/A
African Alliance	2 718 816	N/A	N/A	N/A	N/A	N/A

Local Bond Managers-BWP	1 month to Sept 2019	3 month to Sept 2019	12 months to Sept 2019	36 months to Sept 2019	Year to Date
BIFM	0.51%	1.39%	5.39%	N/A	4.2%
Investec	0.23%	1.00%	4.32%	N/A	3.3%

### DPF Values

- Customer Focused
- Trust & Integrity
- Innovation
- Agility
- Self driven & Motivated
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### International Managers performance as at September 2019

International Managers -USD	1 month to Sept 2019	3 months to Sept 2019	12 months to Sept 2019	36 months to Sept 2019	Year To Date
American Century	-0.64%	0.27%	8.39%	N/A	25.29%
Marathon	2.35%	0.80%	5.40%	9.95%	16.54%
Orbis	2.20%	-0.14%	-7.48%	6.16%	9.00%
Walter Scott	1.21%	0.27%	4.81%	12.69%	19.35%
Veritas	0.39%	1.25%	4.42%	N/A	18.70%
Southeastern	1.70%	-3.30%	-9.87%	N/A	7.80%
Statestreet	2.12%	0.51%	1.63%	N/A	17.44%

International Managers -BWP	1 month to Sept 2019	3 months to Sept 2019	12 months to Sept 2019	36 months to Sept 2019	Year To Date
American Century	-1.19%	4.26%	12.93%	N/A	28.88%
Marathon	1.79%	4.81%	9.82%	12.25%	19.89%
Orbis	1.64%	3.83%	-3.59%	8.38%	12.13%
Walter Scott	0.65%	4.26%	9.20%	15.05%	22.78%
Veritas	-0.17%	5.27%	8.80%	N/A	22.11%
Southeastern	1.14%	0.55%	-6.09%	6.09%	10.89%
Statestreet	1.56%	4.50%	5.89%	N/A	20.81%

Global Bond Manager	1 month to Sept 2019	3 months to Sept 2019	12 months to Sept 2019	36 months to Sept 2019	Year To Date
PIMCO (BWP)	-1.65%	4.14%	10.46%	4.20%	8.99%
PIMCO (USD)	-1.10%	0.16%	6.02%	2.07%	5.95%

### Botswana Market Review – Quarter ended September, 2019

GDP increased by 3.1 percent in Quarter 2 2019. Performance was supported by the growth in real value added of Transport & Communications (5.5 percent), Trade, Hotels & Restaurants (5.7 percent) and Finance & Business Services (5.8 percent). Domestic output continues to be supported by the non-mining sector, which increased 4.5 percent while mining activity fell 7.9 percent over the quarter.

Household consumption improved 4.4 percent in the second quarter of 2019 while government expenditure rose 4.2 percent. Gross capital formation increased 5.8 percent as business investment continued to pick up. Exports decreased 11.8 percent in the second quarter of 2019 while imports rose 4.2 percent. The Pula-US Dollar exchange rate was BWP10.62 at the end of June 2019 and BWP 10.95 on 30th September, 2019 indicating a marginal depreciation of the Pula against the US Dollar. The local equity market continued to underperform 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 3.0 percent.

#### Interest Rates

During the second quarter of the year, the Monetary Policy Committee (MPC) of the Bank of Botswana lowered the Bank Rate from 5 percent to 4.75 percent.

### World Market Review – Quarter ended September 2019

#### United States

Consumer confidence declined in September as the household and business outlook of the US economic conditions decreased as concerns about the Trade War escalated. The labour market remained resilient with the unemployment rate falling to a 50 year low of 3.5% in September. The strong employment levels have continued to drive retail activity and aggregate domestic consumption during the first three quarters of the year.

Core inflation moderated to 0.1 percent in September while headline inflation advanced 1.7 percent. The Federal Reserve (Fed) cut the Fed Funds range by 25 basis points to between 1.75 and 2.00 percent. The market forecast additional interest rates cuts by the Fed during the year to support domestic activity. Gross Domestic Product increased 1.9% in the third quarter against a previous increase of 2.0% 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.

Over the past 9 months, the Federal Reserve Bank has adopted a more dovish stance to support the macro economy. Against this background, a recovery in equity prices has

continued during the first three quarters of the year, driven by improved optimism on asset prices as a result of expected lower interest rates.

#### Europe

The Euro-zone economy increased a seasonally-adjusted 0.2 percent in Q2 against 0.2 percent the previous quarter. The Euro-zone remains affected by anemic household consumption, high levels of unemployment, trade wars and weak industrial activity. The Euro-zone's largest economy, Germany, has demonstrated signs of economic weakness. Although inflation decreased to 0.8% in September, it remains well below the 2% inflation target. The United Kingdom will be heading into elections in December 2019, which will eventually determine the shape and form of the separation of UK's separation from the European Union (EU).

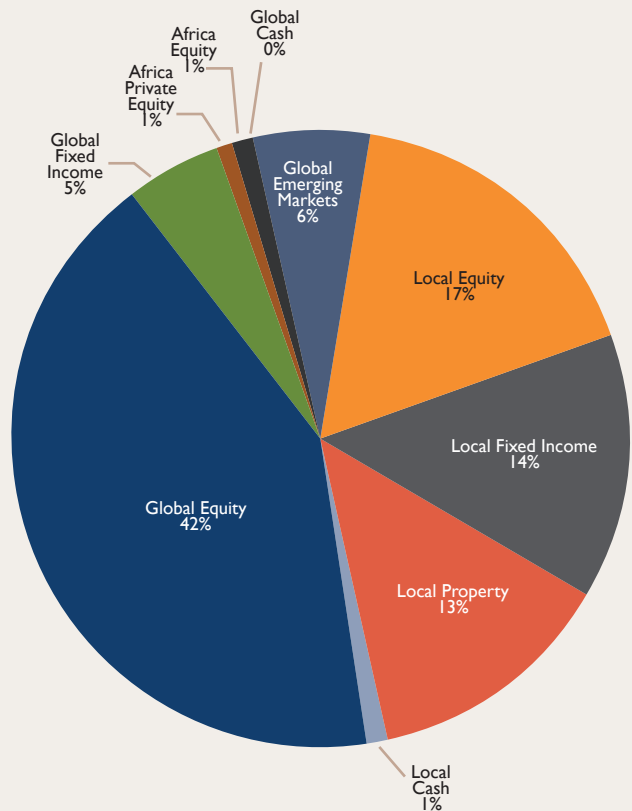
#### China & Other Asia Markets

China's economy moderated to 6.0% in the third quarter of 2019 from 6.2% 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 continued to support the local economy by lowering the reserve requirement ratio.

#### South Africa

South Africa's economy decreased 0.6% in the third quarter of 2019 against a previous increase of 3.1% in the second quarter. Despite a weaker rand, mining activity dropped by 4% while agriculture also declined by 4%. Weak levels of business investment, power outages and protracted strikes compounded by drought affecting the agricultural sector all contributed to weak growth.

### Asset Class Weights as at September 2019



NB: Performance results sourced from RISCURA

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