

Business

e-brief

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YOUR QUARTERLY FUND PERFORMANCE UPDATE



Fund and Market Performance Review- 31 December 2018

The fourth quarter of 2018 presented a challenging development when the Fund assets declined after a continued spell of positive performance. Performance for the quarter was characterized by disappointing returns with Market channel performing worse off than all the other channels. The Net Total Assets decreased 5.22 percent from BWP 7.519 billion in Quarter 3 to BWP 7.141 billion in Quarter 4. The poor negative returns were due to weak performance in international and domestic markets.

The Fund experienced negative performance in the final quarter of the year with the Market Channel declining 6.02 percent, the Conservative Channel falling 3.78 percent and the Pensioner Channel decreasing 4.13 percent. On a twelve-month basis, the Fund generated positive returns net of investment fees with some Channels reporting negative returns after considering all administration expenses. Rising concerns of interest rate increases in major markets, monetary policy misalignment to economic fundamentals, and worries about a global economic slowdown hurt global stocks and bonds. The local equity market also contributed to the negative performance as the Domestic Company Index continued its sell off.

Portfolio performance as at 31 Dec 2018

Fund	3 months to Dec 2018	Year to Date Jan - Dec 2018	12 months to Dec 2018	36 months to Dec 2018	Since Inception (Aug 2004)
Market	-6.02%	0.50%	0.50%	3.52%	11.76%
Conservative	-3.78%	1.53%	1.53%	2.79%	9.79%
Pensioner	-4.13%	1.43%	1.43%	2.37%	10.96%
Contingency	-4.25%	1.28%	1.28%	3.35%	13.19%

The top performing asset class for the Fund was African Private Equity, which increased 10.08 percent (in BWP). The next top performing asset class for Quarter 4 was Botswana property, which returned 1.84 percent. Property is considered a defensive asset class due to its bond like characteristics and ability to provide a constant dividend in the form of rental income. Global Bonds returned 1.35 percent while Local Bonds returned 1.17 percent. The worst performing asset class for the Fund was Global Stocks, which fell 11.96 percent.

DPF Asset Class Returns (BWP)

Asset Class (BWP)	Q3 Returns (Net)	Q4 Returns (Net)
Botswana Bonds	1.02%	1.17%
Botswana Cash	0.00%	-0.24%
Botswana Equities	-0.41%	-0.67%
Botswana Property	1.50%	1.84%
African Equities	-4.37%	-2.90%
African Private Equity	2.08%	10.08%
Global Bonds	1.17%	1.35%
Global Cash	1.91%	1.29%
Global Equities	6.93%	-11.96%
Emerging Market Equities	-1.36%	-4.86%

Asset Class Returns as at 31 Dec 2018 (Benchmarks) (BWP)

Asset Class	Benchmark	1 month to Dec 2018	3 month to Dec 2018	Year to Date to Dec 2018	12 months to Dec 2018	36 months to Dec 2018
Botswana Bonds	Fleming Aggregate Bond Index (FABI)	0.58%	1.28%	4.88%	4.88%	5.56%
Botswana Cash	BOBc 91 day -1	-0.08%	-0.24%	0.37%	0.37%	0.62%
Botswana Equities	Domestic Companies Index (DCI) Price Return	-0.88%	0.21%	-6.54%	-11.36%	-9.52%
	Domestic Companies Index (DCI) Total Return	-0.88%	1.17%	-3.95%	-6.10%	N/A
Global Bonds	BarCap GABI - BWP	4.32%	2.50%	7.39%	7.39%	1.13%
Global Equities	MSCI World - BWP	-5.52%	-12.30%	-0.78%	-0.78%	4.68%
Global Emerging Markets Equities	MSCI EM - BWP	-0.47%	-6.28%	-7.15%	-7.15%	7.54%
African Equities	FTSE/JSE Africa 30-BWP	-0.07%	-4.17%	-1.53%	-1.53%	0.36%
Exchange Rate	BWP/USD	2.25%	1.29%	8.69%	8.69%	-1.56%

Managers' Performance

In an environment of negative performances by global managers, Marathon Asset Management LLP was the Fund's better performing manager for Quarter 4 with a return of -8.39 percent. Southeastern Asset Management was the least performing manager returning -15.32 percent. Local equities returned -0.67 percent, the Fund underperformed the Botswana Stock Exchange Domestic Company Index, which increased 0.21 percent. Over the quarter, of the two Local Equity managers, Investec was the top performing manager returning -0.09 percent versus Allan Gray, which posted a return of -1.14 percent. Of the two Local Bond managers, BIFM was the top performer, posting a return of 1.07 percent for the quarter, ahead of Investec's gain of 0.95 percent.

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Local Manager's Performance as at 31 December 2018

Local Equity Managers-BWP	1 month to Dec 2018	3 month to Dec 2018	12 months to Dec 2018	36 months to Dec 2018	Year to Date
Allan Gray	-0.25%	-1.14%	-1.99%	N/A	-1.99%
Investec	-0.62%	-0.09%	-3.04%	N/A	-3.04%

Local Bond Managers-BWP	1 month to Dec 2018	3 month to Dec 2018	12 months to Dec 2018	36 months to Dec 2018	Year to Date
BIFM	0.47%	1.07%	4.95%	N/A	4.95%
Investec	0.44%	0.95%	3.92%	N/A	3.92%

International Manager's Performance as at 31 December 2018 (BWP)

international Managers-BWP	1 month to Dec 2018	3 month to Dec 2018	12 months to Dec 2018	36 months to Dec 2018	Year to Date
American Century	-5.04%	-12.30%	0.58%	N/A	0.58%
Marathon	-3.92%	-8.39%	0.65%	5.35%	0.65%
Orbis	-4.50%	-14.02%	-9.57%	6.11%	-9.57%
Walter Scott	-4.57%	-11.06%	6.46%	7.00%	6.46%
Veritas	-6.37%	-10.89%	3.11%	N/A	3.11%
Southeastern	-6.93%	-15.32%	-8.72%	N/A	-8.72%
Statstreet	-5.54%	-12.35%	-0.85%	N/A	-0.85%

Global Bond Manager	1 month to Dec 2018	3 month to Dec 2018	12 months to Dec 2018	36 months to Dec 2018	Year to Date
Debswana PIMCO (BWP)	3.72%	1.35%	6.72%	2.02%	6.72%
Debswana PIMCO (USD)	1.43%	0.06%	-1.81%	3.58%	-1.81%

Botswana Market Review – Quarter ended 31st December 2018

GDP increased by 4.2 percent in Quarter 3 2018, the strong growth was supported by the significant growth in real value added of Water & Electricity (42.6 percent), Trade, Hotels (6.9percent) & Restaurants and Transport & Communications (5.8 percent). All other industries recorded positive growth of more than 2.5 percent, with the exception of mining which decreased by 2.7 percent.

The Pula-US Dollar exchange rate was BWPI0.59 at the end of September and BWPI0.73 in December 2018 indicating a depreciation of the Pula against the Dollar. The local equity market continued to struggle

which was led by weak financial services, in particular banks. This was partially due to historic low rates and economic weakness, characterized by high levels of unemployment.

Inflation

The annual headline inflation rate in December 2018 was 3.5 percent, down from November's 3.8 percent.

Interest Rates

At the meeting held on December 4th, 2018, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the historically low Bank Rate of 5%.

World Market Review – Quarter ended 31 Dec 2018

United States

Consumer confidence improved in December as the household and business outlook of the US economic conditions improved. The labour market remained resilient with the unemployment rate marginally increasing to 3.9 percent in December. The strong employment levels have underpinned retail activity thereby pointing to improved domestic activity.

Core inflation dropped from 2.2 percent in November to 1.9 percent in December. Inflation remains a notch below the, FOMC objective. The Federal Reserve (Fed) raised the target rate for Fed Funds by 0.25 basis points to 2.25 percent at the December meeting. However, the Fed indicated a lower interest rate increase trajectory for 2019.

Gross Domestic Product decreased from 4.2 percent to 3.5 percent in the third quarter. Asset price volatility spiked during the quarter when the Fed Chairman stated a higher path of interest rate hikes. Equity prices fell sharply in the final quarter of the year. However, since the beginning of 2019 a recovery in equity prices has occurred partially driven by an improved outlook of the global economy.

Europe

The Eurozone economy further weakened in Quarter 3 2018, GDP increased a seasonally-adjusted 0.2 percent in Q3 against 0.4 percent the previous quarter. Household consumption remained weak with the unemployment rate of 7.9 percent hurting confidence.

Forward looking indices such as the Composite Purchasing Manager's Index declined to 51.3 further pointing to weak business activity. Annual headline inflation dropped from 1.9 percent in November to 1.6 percent in December. The European Central Bank (ECB) ended its quantitative easing program in December 2018 and kept interest rates unchanged.

China & Other Asia Markets

China's economy grew 6.6 percent in the third quarter of 2018 slightly lower than Q2 (6.7 percent) but in line with expectations. The impact of the current US China trade dispute continues to undermine China's

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economic activity with a spillover effect to other Asian economies. The Chinese Central Bank has lowered the reserve requirement ratio in a bid to stimulate the economy.

Asian equities experienced a selloff in the fourth quarter of 2018 characterized by significant equity outflows as investor concerns of growth and trade tensions increased.

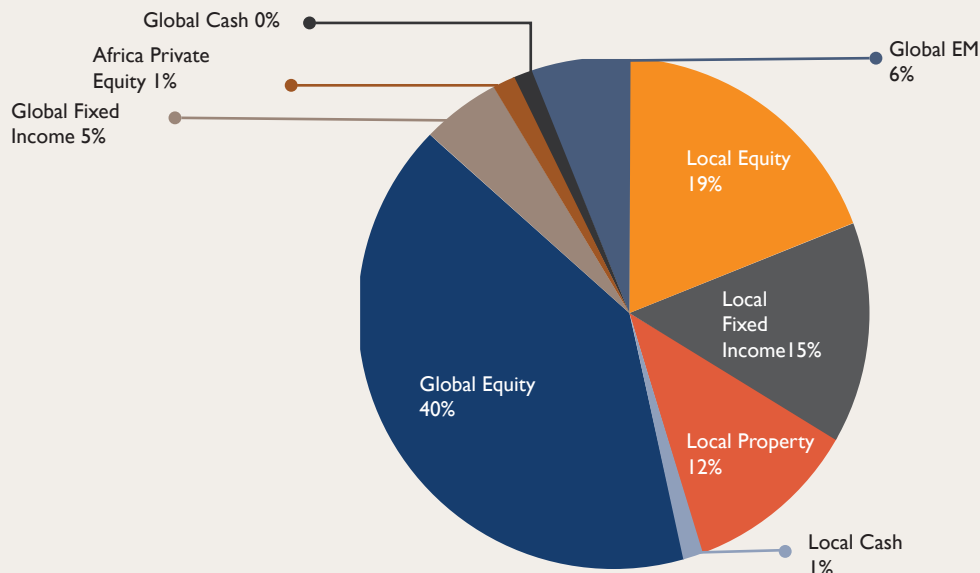
South Africa

South Africa's economy increased 2.2 percent in the third quarter of 2018, thereby emerging from the technical recession. Manufacturing, finance and business services including transport were the main contributors to growth.

The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) raised the key policy rate from 6.5 percent to 6.75 percent in November. The annual inflation rate in South Africa decreased from 4.6 percent to 4.5 percent in December. During the review period, the rand appreciated against major currencies on expectations of lower global inflation and higher interest rates.



Asset Class Weights as at 31 Dec 2018



NB: Market Commentary and performance results sourced from RISCURA

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