DEBSWANA · PENSION · FUND

BUSINESS E-BRIEF

YOUR QUARTERLY FUND PERFORMANCE UPDATE
Quarter 2 | 2022

Member Centric — Credibility — Accountability — Agility — Self Driven & Motivated

DPF Q2, 2022 E-Brief

Q2, 2022 continued to be a highly volatile quarter for global markets spurred by elevated inflation, additional interest rate hikes, geopolitical concerns and increased risks of a global recession. The Net Total Assets decreased by 3.36 percent from BWP 9.565 billion mark in Q1, 2022 to BWP 9.216 billion in Q2 2022. Investor pessimism seeped into markets driving both equities and bonds to fall further thereby providing investors with limited opportunities for growth in the quarter. Due to the foregoing, the Standard and Poor's 500 Index suffered its worst first half for more than 50 years. Inflation in Developed Markets such as the United States and the Euro-zone was above 8 percent prompting central banks to take a hawkish monetary policy stance thereby raising interest rates accordingly.

Initially, central banks were forecast to gradually tighten monetary policy but the unusual mix of exogenous supply shocks caused by the Covid-19 pandemic and geopolitical events such as the Russia-Ukraine War have generated multi-decade high inflation. This in turn has put pressure on central banks to tighten monetary policy swiftly. The Russia-Ukraine War has resulted in rising commodity and energy prices that are leading to multi decade high levels of inflation. China's lifting of lockdowns in some major cities provided a much-needed tailwind for markets in the quarter. The dollar extended its rally in the quarter, underpinned by demand for safe-haven assets as markets have underperformed. The top performing asset class for the Fund was China Equities, which increased 9.66 percent (in BWP).

This is a welcome development for the Fund which follows months of underperformance by the China asset class as legislative changes impacted the technology sector while debt pressures on large property companies raised concerns of major defaults amidst the pressure on demand and supply promulgated by China's Zero Covid policy. The next top performing asset class for Quarter 2 was Global Cash (USD), which rose 8.28 percent, followed by Africa Private Equity, which advanced 2.73 percent. Botswana Bonds and Botswana Cash and were the only other positive performing asset class for the quarter yielding 1.74 percent and 0.31 percent, respectively.

The following asset classes all had negative performance for the quarter, Botswana Equities (-0.48 percent), Botswana Property (-0.99 percent), African Equities (-8.02 percent), Emerging Market Bonds(-2.86 percent), Global Bonds(-1.65 percent), Global Equities (-7.49 percent), Emerging Market Bonds(-3.08 percent) and Emerging Market Equities (-10.65 percent). The worst performing Asset Class for the Quarter was Global Property which declined by 11.18 percent.

The Fund experienced a second consecutive quarter of negative performance with the Market Channel declining by 3.79 percent, the Conservative Channel falling by 2.92 percent and the Pensioner Channel also dropping 2.73 percent. During the period under review, returns remained consistent with Debswana Pension Fund's Life Stage Model; whereby the most aggressive Market Channel declined the most while the more defensive Channels registered the least decline.

On a twelve-month basis, the Fund generated negative returns net of investment fees. In the 12 months to June 2022, the Composite Fund declined 2.81 percent. During the 12-month period, the Market Channel declined 2.92 percent, while the Conservative Channel dropped 2.28 percent and the Pensioner Channel decreased 2.77 percent. The Fund has generally performed well over the last 12 months but since the beginning of the year, performance has been substantially impacted by elevated levels of inflation coupled with exogenous risk events which have led to monetary policy tightening.

Portfolio performance as at 30 June 2022

Asset Class Returns

Q1 2021		Q2 2022
Asset Class	**%Returns (Net)**	**%Returns (Net)**
Botswana Bonds	1.67%	1.74%
Botswana Cash	0.31%	0.31%
Botswana Equities	4.34%	-0.48%
Botswana Property	-0.72%	-0.99%
African Equities	-3.79%	-8.02%
African Private Equity	2.25%	2.73%
Global Bonds	-8.32%	-1.65%
Global Cash	-2.74%	8.28%
Global Property	-8.38%	-11.18%
Global Equities	-8.80%	-7.49%
Emerging Market Bonds	-7.39%	-3.08%
Emerging Market Equities	-14.24%	-10.65%
China Equity Funds	-21.46%	9.66%

BUSINESS E-BRIEF

YOUR QUARTERLY FUND PERFORMANCE UPDATE
Quarter 2 | 2022

Member Centric | Credibility | Accountability | Agility | Self Driven & Motivated

Benchmark Asset Class Returns as at 30th June 2022

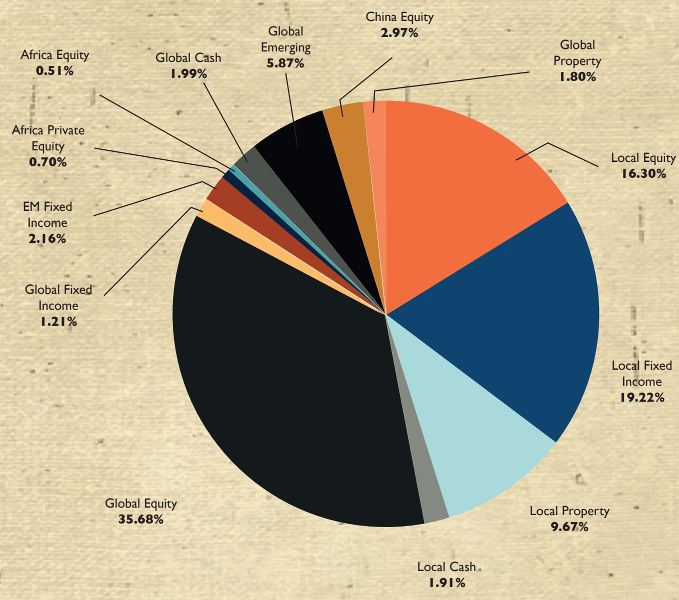
ASSET CLASS	Benchmark	1M (%)	QTR (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)
Local Equities	Botswana Domestic Companies Index	-0.71 ▼	1.81 ▲	6.18 ▲	18.70 ▲	7.42 ▲	4.78 ▲	1.17 ▲
Bonds	Fleming Aggregate Bond Index (FABI)	0.51 ▲	1.51 ▲	3.08 ▲	2.83 ▲	0.79 ▲	2.39 ▲	3.66 ▲
Global Equities	MSCI World (BWP)	-5.72 ▼	-9.28 ▼	-16.22 ▼	-2.71 ▼	11.84 ▲	12.68 ▲	11.82 ▲
Emerging Markets	MSCI EM	-3.64 ▼	-4.15 ▼	-13.18 ▼	-15.14 ▼	5.15 ▲	5.91 ▲	6.12 ▲
Global Property	FTSE EPRA/NAREIT Developed Rental Index- BWP	-6.17 ▼	-11.48 ▼	-17.51 ▼	-0.84 ▼	11.57 ▲	5.67 ▲	7.12 ▲
Global Bonds	Bloomberg Barclays GABI	-0.09 ▼	-0.70 ▼	-9.27 ▼	-3.74 ▼	-4.42 ▼	1.93 ▲	3.28 ▲
African Equities	FTSE/JSE African 30 (BWP)	-1.68 ▼	-0.40 ▼	-10.84 ▼	2.16 ▲	8.63 ▲	4.72 ▲	4.55 ▲
Exchange Rate	USD/BWP	3.22 ▲	8.25 ▲	5.39 ▲	13.58 ▲	2.48 ▲	5.31 ▲	3.86 ▲
Inflation	Botswana CPI	1.30 ▲	7.03 ▲	9.96 ▲	12.64 ▲	10.40 ▲	7.13 ▲	5.43 ▲

Inflation

The annual inflation rate increased from 11.9 percent in May to 12.7 percent in June 2022. At the meeting held on June 16, 2022, the Monetary Policy Committee (MPC) of Bank of Botswana decided to increase the Monetary Policy Rate (MoPR) by 50 basis points. The Bank has continued its hawkish monetary policy stance as inflation has continued to surpass the Bank's medium-term objective range of 3 - 6 percent. The Bank stated that the current high levels of inflation are mainly driven by supply-side factors which contribute about 6.1 percentage points to the prevailing inflation rate. The MPC projects that inflation will, in the short term, remain above the objective range but continue to trend downward. Against this background, inflation is forecast to revert to within the objective range from the third quarter of 2023. The projected decrease in inflation in the medium-term is attributed to the dissipating impact of earlier increase in administered prices.

The Monetary Policy Committee has warned that there are numerous risks that could result in protracted elevated levels of inflation. From a global perspective, the MPC highlights that inflation could be caused by increases in commodity prices, particularly food and energy, due to the ongoing Russia Ukraine War. Supply side bottlenecks caused by Covid-19 and further adjustments to administered prices could result in upward inflationary pressures. Domestically the MPC highlights that inflation could be generated by further administered price adjustments in addition to the short-term unintended consequences of import restrictions and increases in domestic fuel prices.

Asset Class Weights 30th June 2022



NB: Market performance results sourced from RISCURA Market Update

DEBSWANA · PENSION · FUND

BUSINESS E-BRIEF

YOUR QUARTERLY FUND PERFORMANCE UPDATE

Quarter 2 | 2022

Member Centric · Credibility · Accountability · Agility · Self Driven & Motivated

Market Update

During the second quarter of 2022, global markets extended the weakness from the first quarter of the year. Most major markets, namely United States, the Euro-zone and Japan, experienced negative performance for the quarter, tightening policy responses from central banks aimed at stemming high inflation. The Russia-Ukraine War, inflation, and supply chain bottlenecks continued to undermine the earnings outlook for many companies. In the United States, equities extended their sell off with the Standard and Poor's 500 Index dropping 16.1 percent. Global fixed income markets also declined raising concerns over their defensiveness during equity sell offs. Despite the poor market performance, the United States economy has seemed resilient post the pandemic with broadening signs that the economy is cooling off. The US Composite Purchasing Managers' index (PMI), a measure of economic activity, eased from 53.6 in May to 51.2 in June. A PMI reading of 50 or greater highlights that the sector is expanding. European stocks were down for a second consecutive quarter and the share price declines were steep, mainly due to Europe's direct impact from the Russia-Ukraine war. The main concern in Europe were potential gas shortages, and investor sentiment was further dwindled by elevated inflation levels and pending interest rate hikes from the European Central Bank. Most of Asia experienced the same challenge other markets faced. Chinese markets were a positive shoot for investors in the past quarter. The easing of Covid-19 lockdown restrictions and improved economic data provided a much-needed tailwind to China's equity markets. Emerging Markets struggled similarly to other regions. Despite faring much better than Developed Market Equities, a major headwind for Emerging Market Equities was the rally of the US dollar, a safe haven asset for global investors during heightened volatile periods. Emerging Markets face numerous challenges and uncertainty including concerns over a possible looming global recession. Global bonds also struggled and sold off significantly. Global bond yields rose due to higher inflation and key policy rates increases amongst many global central banks. Due to the foregoing, Debswana Pension Fund's Assets Under Management (AUM) decreased from BWP 9.565 billion in March 2022 to BWP 9.216 billion in Q2 2022.

Botswana Market Review – Quarter ended 30th June 2022

The Gross Domestic Product increased 7.0 percent in Q1 2022 from 1.0 percent in Q1 2021. The significant growth driver in the quarter under review is attributed to Mining and Quarrying which rose 23.2 percent and Manufacturing which increased 10.3 percent. Agriculture and Forestry rose 3.5 percent while Water and Electricity increased 6.9 percent. The Botswana Power Corporation has reported improved power generation which could lead to power exports to neighbouring countries.

Business sentiment continues to be dampened by a less favourable trading environment mainly due to high inflation and the challenges emanating from the Russia-Ukraine war. Bank of Botswana's Quarter Business Expectations Survey states that firms are less optimistic about business conditions than they were in the previous survey. Overall, businesses expect lower sales, inventories and profit, as well as reduced capacity utilisation, compared to the December 2021 survey. The Bank cautioned that businesses anticipate tighter access to credit, increased cost pressures, declining business confidence and waning domestic economic activity.