DEBSWANA · PENSION · FUND

BUSINESS E-BRIEF

YOUR QUARTERLY FUND PERFORMANCE UPDATE
Quarter 3 | 2022

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

DPF Q3 2022 E-Brief

Global markets extended their protracted descent in quarter 3 spurred by the tightening global monetary policy action in the advent of mounting inflationary pressures. Due to the foregoing, net total assets marginally decreased by 0.1 percent from BWP 9.216 billion mark in Q2, 2022 to BWP 9.211 billion in Q3 2022. The Russia-Ukraine war has disrupted and exacerbated an ailing world economy and global financial markets in a war few predicted would occur near the borders of the European Union. Global markets have sold off significantly during the year amidst high levels of inflation underpinned by supply chain disruptions and commodity price increases arising from the war. The lingering effects of COVID-19 and elevated risks of de-globalization worsened the underperformance of financial markets. Russia and Ukraine play extremely important roles in supplying world commodities. Ukraine is a major supplier of wheat and corn while Russia is a major supplier of oil, gas and metals. Meanwhile, China's, "Zero Covid Strategy" which continues to implement very strict controls that include full or partial lockdowns where there are Covid-19 outbreaks has kept the world's second largest economy anemic.

Elevated inflation levels remain a global concern worldwide with major market central banks hiking interest rates in a bid to tame inflation. Higher interest rates amidst deteriorating global growth raised market concerns of monetary policy misalignment to global macroeconomic fundamentals. The threat of deteriorating levels of household wealth, compounded by the erosion of nominal incomes due to elevated inflation provided a headwind to markets during the quarter. The top performing asset class for the fund was a tactical asset allocation to USD Cash Funds, which increased 8.16 percent (in BWP). The next top performing asset class for the quarter was Emerging Market Hard Currency Bonds, which rose 3.47 percent, followed by African Private Equity, which advanced 3.36 percent. Botswana Equities, on a total return perspective continued to outperform Global Equities this year contributing 1.79 percent during the quarter. African Listed Equities posted positive returns for the quarter at 2.30 percent, outperforming the benchmark by almost 4 percent. Global and Emerging Market Equities declined 0.77 percent and 0.82 percent, respectively. The worst performing Asset Class for the quarter was China - A Shares which declined by 12.15 percent.

The Fund overall experienced a marginal increase in the third quarter of the year, with the Market Channel decreasing 0.10 percent, the Conservative Channel rising 0.22 percent and the Pensioner Channel improving 0.26 percent. During the period under review, returns remained consistent with Debswana Pension Fund's Life Stage Models investment strategy; whereby the most defensive Pensioner Channel outperformed the most while the more aggressive Market Channel registered relatively lower returns.

On a twelve-month basis, the Fund generated negative returns net of investment fees. During the 12-month period, the Market Channel declined 3.69 percent, while the Conservative Channel fell 2.31 percent and the Pensioner Channel contracted 2.44 percent. The Fund's negative performance has been driven by the weak performance of Developed Markets, in particular Global Equities. A major drag on performance over the past decade, Domestic Listed Equities, has been a major driver of performance.

Portfolio performance as at 30 September 2022

Asset Class	Q2 2022 %Returns (Net)	Q3 2022 %Returns (Net)
Botswana Bonds	1.74%	1.46%
Botswana Cash	0.31%	0.44%
Botswana Equities	-0.48%	1.79%
Botswana Property	-0.99%	0.79%
African Equities	-8.02%	2.30%
African Private Equity	2.73%	3.36%
Global Bonds	-1.65%	0.81%
Global Cash	8.28%	8.16%
Global Property	-11.18%	-4.13%
Global Equities	-7.49%	-0.77%
Emerging Market Bonds	-3.08%	3.47%
Emerging Market Equities	-10.65%	-0.82%
China Funds	9.66%	-12.15%

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Benchmark Asset Class Returns as at 30 September 2022

ASSET CLASS	Benchmark	1M (%)	QTR (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)
Local Equities	Botswana Domestic Companies Index	2.00 ▲	5.09 ▲	11.58 ▲	14.91 ▲	10.76 ▲	6.90 ▲	2.54 ▲
Bonds	Fleming Aggregate Bond Index (FABI)	0.51 ▲	1.42 ▲	4.54 ▲	6.51 ▲	0.97 ▲	2.43 ▲	3.67 ▲
Global Equities	MSCI World (BWP)	-5.98 ▼	0.68 ▲	-15.65 ▼	-5.52 ▼	8.91 ▲	11.22 ▲	10.84 ▲
Emerging Markets	MSCI EM	-8.49 ▼	-5.10 ▼	-17.61 ▼	-15.49 ▼	-1.33 ▼	4.17 ▲	3.36 ▲
Global Property	FTSE EPRA/NAREIT Developed Rental Index- BWP	-9.45 ▼	-5.00 ▼	-21.63 ▼	-8.84 ▼	8.19 ▲	0.47 ▲	5.61 ▲
Global Bonds	Bloomberg Barclays GABI	-1.67 ▼	-0.13 ▼	-9.39 ▼	-6.45 ▼	-4.96 ▼	0.27 ▲	2.82 ▲
African Equities	FTSE/JSE African 30 (BWP)	-1.76 ▼	-1.80 ▼	-12.45 ▼	-7.27 ▼	4.64 ▲	2.63 ▲	3.30 ▲
Exchange Rate	USD/BWP	3.66 ▲	7.34 ▲	13.11 ▲	17.56 ▲	7.04 ▲	6.37 ▲	5.26 ▲

Inflation

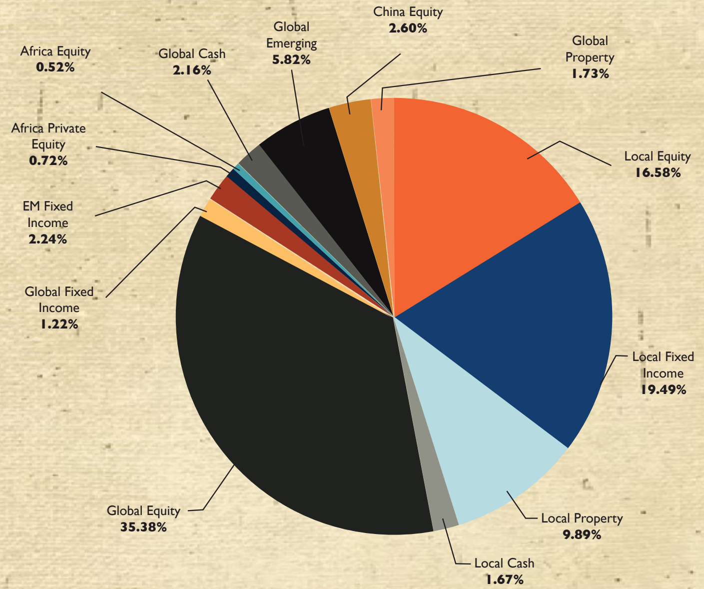
The annual inflation rate decreased from 13.8 percent in September to 13.1 percent in October 2022.

Interest Rates

At the meeting held on October 20, 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Monetary Policy Rate (MPR) at 2.65 percent. At this point inflation remains above the Bank's medium-term objective range of 3 – 6 percent.

The Bank of Botswana Monetary Policy Committee forecasts inflation to remain above the Bank's 3 – 6 percent objective range in the medium term and to fall within the objective range from the third quarter of 2024. Meanwhile, Bank of Botswana has recently adopted a tightening monetary policy stance in recognition of the debilitating impact of high inflation on Botswana's economy.

Asset Class Weights 30 September 2022



NB: Market performance results sourced from RISCURA Market Update

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Market Update

During the third quarter of 2022, global economic growth was curtailed by high levels of inflation and the normalization of global monetary policy through aggressive key interest policy rate hikes. Most major markets such as the United States, the Euro Zone, and Japan had negative performance for the quarter, as higher interest rates led to a downward repricing of global asset prices, in addition to concerns of lower business and household activity. In particular, the market experienced downward revisions of corporate earnings across the globe. This has led to a third consecutive quarter of anemic growth and mounting concerns of a global recession. During this period, Debswana Pension Fund's Assets Under Management (AUM) declined to BWP 9.211 billion in September 2022. A major theme globally was the elevated levels of inflation. Since the successful rollout of vaccines, Aggregate Supply (AS) has struggled to keep up with the surge in Aggregate Demand (AD), due to the rapid reopening of economies. Covid-19 has caused immense supply chains disruptions across the globe with the world's second largest economy, China, continuing to adopt a "Zero Covid-19 Policy". Disruptions to factories and port facilities, alongside a sharp labor shortage have all contributed to heightened levels of inflation. Markets such as the United States saw inflation climb to 39-Year Highs of 7.7 percent in the 3rd Quarter, a phenomenon experienced across many major markets. Heightened inflation has resulted in diminished monetary support and major markets are expected to hike interest rates in the coming quarters to cool off inflationary pressures. The market has priced in a certain number of interest rate hikes, but if there are more than expected this could result in increased volatility for markets. Central Banks across the globe will need to carefully manage monetary policy, ensuring that economies are not over heating but also making sure that they are not constraining economic growth. According to Economists and Business analysts, the effects of the pandemic should subside and Covid-19 remains a short to near term risk across major markets as the global supply chain continues to recover and adapt. Fiscal support globally has also started to diminish as governments have become more concerned about accumulated debt levels. Less Fiscal and Monetary support could result in headwinds for financial markets and ultimately the funds portfolio. The current market dynamics continues to warrant caution, prudence and a disciplined investment strategy, which will safeguard consistent and positive returns.

Botswana Market Review – Quarter ended 30th September 2022

The real Gross Domestic Product increased 5.6 percent in Q2 2022 against an increase of 37.1 percent in Q2 2021. The significant growth driver in the quarter was Diamond Trader which increased 128.0 percent and Water & Electricity which rose 94.7 percent. Decreased COVID-19 travel restrictions have provided a tailwind for the tourism. The Non-mining GDP increased by 5.6 percent in the second quarter of 2022 compared to the 19.0 percent increase registered in the same quarter of the previous year. Overall various sectors had positive growth for the quarter, Non-mining GDP increased 5.6 percent compared to 19.0 percent in Q2 2021. During the quarter under review, Mining & Quarrying became the major contributor to GDP by 16.7 percent, followed by Public Administration & Defence at 16.6 percent, and Wholesale & Retail at 11.2 percent and Construction at 11.1 percent.

Botswana's economy has continued to recover and growth has been in an upward trajectory in quarter 3. Economic activity is expected to rebound as corner stones of the economy, namely diamonds and tourism, continue to see improved performance due to reduced travel restrictions and the sectors fully re-opening particularly tourism and hospitality. Business confidence has improved and companies are bullish about earnings. Banks which form a major constituent of the Botswana Stock Exchange have reported an increased earnings outlook as interest rate increases have improved earnings margins. Domestic demand has shown strong improvements, further confirming the broad economic recovery. Bank of Botswana forecasts inflation to remain above the Bank's medium-term objective range of 3 – 6 percent till the third quarter of 2024.