DPF
DEBSWANA · PENSION · FUND

BUSINESS E-BRIEF

YOUR QUARTERLY FUND PERFORMANCE UPDATE
Quarter 4 | 2022

Member Centric   Credibility   Accountability   Agility   Self Driven & Motivated

DPF Q1 2023 E-Brief (Q4 Report Back)

Q4 was a positive quarter for investors across numerous asset classes despite a highly volatile 2022. Strong corporate earnings, declining inflation, increased expectations of pauses in central bank hikes, and China's easing of its zero Covid policy drove market optimism and performance. All these factors provided a much-needed tailwind for performance and resulted in Net Total Assets marginally increasing by 3.86 percent from BWP 9.211 billion in Q3 2022 to BWP 9.545 billion in Q4, 2022. Global and Emerging market equities and bonds rallied in the final quarter of 2022. Performance was underpinned by improved business confidence of a soft economic landing. However, December presented lower returns as markets sold off due to the United States Federal Reserve Bank remaining on course with its interest rate hiking strategy. Low liquidity levels during the holiday season exacerbated the market movements. The S&P 500 index generated positive returns of 7.6 percent in Q4 2022, but overall, the index ended the full calendar year with its worst performance since the 2008 Global Financial Crisis. Inflation, though levelling off, continued to be elevated in many Developed, Emerging, and Frontier markets. Inflation in the United States was 6.5 percent in 2022, 4.5 percentage points above the 2 percent target range set by the Federal Open Market Committee. Meanwhile, the annual inflation rate in the Euro Zone was 9.2 percent, against the European Central Bank's monetary policy target of 2 percent.

Europe continues to remain affected by the Russia-Ukraine War, which seems to have no diplomatic end in sight despite the ravishing economic and humanitarian impacts. China has pivoted from its zero Covid policy as a means of improving economic activity and investor sentiment. The United States dollar's strong rally waned in the quarter, curtailed by bullish market sentiments across multiple jurisdictions. The top performing asset class for the Fund was Botswana Equities, which increased 7.70 percent (in BWP). This performance was largely driven by the strong performance of the financial services counters, particularly commercial banks, which represent approximately 50 percent of the Domestic Companies Index. The next top performing asset class for Quarter 4 was Emerging Market Equities, which rose 6.54 percent, followed by Global Equities, which advanced 5.69 percent. China's recovery was evident in its 2.93 percent return for the quarter. Emerging Market Bonds, Global Property, Botswana Bonds, Botswana Cash and Global Bonds, all yielded muted returns for Quarter generating 1.40 percent, 1.10 percent, 0.82 percent, 0.78 percent and 0.45 percent, respectively. Africa Private Equity declined 0.38 percent while Botswana Property felled 0.28 percent. The worst performing Asset Class for the Quarter was Global Cash which declined by 4.47 percent.

The Fund's Market Channel increased 4.25 percent during the quarter, the Conservative Channel rose 3.65 percent while the Pensioner Channel improved 3.26 percent. During the period under review, returns remained consistent with Debswana Pension Fund's Life Stage Models investment strategy; whereby the most aggressive Market Channel outperformed the most while the least aggressive Pensioner 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 5.09 percent, while the Conservative Channel fell 3.35 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.

Portfolio performance as at 31st December2022

Asset Class Returns

	Q3 2022	Q4 2022
Asset Class	%Returns (Net)	%Returns (Net)
Botswana Bonds	1.46%	0.82%
Botswana Cash	0.44%	0.78%
Botswana Equities	1.79%	7.70%
Botswana Property	0.79%	-0.28%
African Equities	2.30%	1.76%
African Private Equity	3.36%	-0.38%
Global Bonds	0.93%	0.45%
Global Cash	8.16%	-4.47%
Global Property	-4.13%	1.10%
Global Equities	-0.77%	5.69%
Emerging Market Bonds	-0.82%	1.40%
Emerging Market Equities	3.47%	6.54%
China Funds	-12.15%	2.93%

Benchmark Asset Class Returns as at 31st December 2022

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Inflation

ASSET CLASS	Benchmark	1M (%)	QTR (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)
Local Equities	Botswana Domestic Companies Index	1.41 ▲	6.16 ▲	18.45 ▲	18.45 ▲	14.73 ▲	8.25 ▲	3.74 ▲
Bonds	Fleming Aggregate Bond Index (FABI)	0.58 ▲	1.13 ▲	5.72 ▲	5.72 ▲	2.78 ▲	2.40 ▲	3.56 ▲
Global Equities	MSCI World (BWP)	-4.98 ▼	5.15 ▲	-11.31 ▼	-11.31 ▼	8.49 ▲	11.68 ▲	11.81 ▲
Emerging Markets	MSCI EM	-2.16 ▼	5.09 ▲	-13.42 ▼	-13.42 ▼	-4.12 ▼	3.55 ▲	3.87 ▲
Global Property	FTSE EPRA/NAREIT Developed Rental Index - BWP	-3.54 ▼	2.58 ▲	-19.61 ▼	-19.61 ▼	6.71 ▲	2.30 ▲	6.38 ▲
Global Bonds	Bloomberg Barclays GABI - BWP	-0.23 ▼	0.15 ▲	-9.26 ▼	-9.26 ▼	-2.94 ▼	1.65 ▲	3.59 ▲
African Equities	FTSE/JSE African 30 (BWP)	2.39 ▲	4.49 ▲	-8.52 ▼	-8.52 ▼	5.41 ▲	3.14 ▲	4.51 ▲
Exchange Rate	USD/BWP	-0.76 ▼	-4.21 ▼	8.35 ▲	8.35 ▲	8.65 ▲	6.42 ▲	5.34 ▲

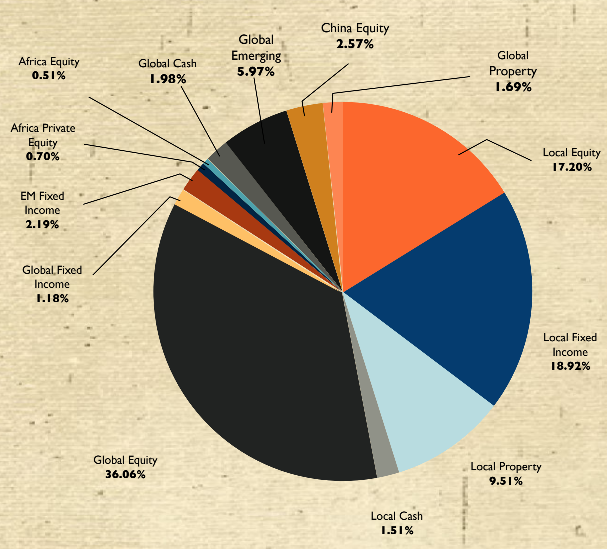
The annual inflation rate increased from 12.2 percent in November to 12.4 percent in December.

Interest Rates

At the meeting held on February 23, 2023, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to maintain the Bank Rate at 3.75 percent. At this point inflation remains above the Bank's medium-term objective range of 3 – 6 percent.

According to Bank of Botswana, Inflation is forecast to fall within the Bank's 3 – 6 percent objective range in the second quarter of 2024 driven mainly by the dissipating impact of the earlier increases in administered prices (base effects), recent decrease in domestic fuel prices, modest domestic demand, current monetary policy posture, expected decrease in global inflation and international commodity prices.

Asset Class Weights 31 December 2022



NB: Market performance results sourced from RISCURA

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Global Market Update – Quarter ended 31st December 2022

The last quarter of the year provided much-needed relief for investors during a difficult year that has been one of the worst on record. US equities rebounded in Quarter 4, particularly due to optimism that the Federal Reserve Bank would ease the pace of its future interest rate hikes. Furthermore, the U.S. GDP exceeded expectations, and most sectors had positive performances that resulted in strong corporate earnings. Global bonds underperformed compared to other asset classes. Global bonds posted positive performance for the quarter, but this was dampened by the hawkish tone provided by the Federal Reserve. During the calendar year 2022, the U.S. bond market saw the Treasury Yield Curve's 2 and 10-year spreads fall to their lowest level in four decades. Europe also experienced improved performance during the quarter, and similar to the United States, the performance was driven by similar themes of declining inflation and slower expected interest rate hikes. Sectors such as energy, industrials, financials, and consumer discretionary saw considerable gains. Bonds underperformed in parts of the world like Germany, where the 10-year yield on the government bond increased from 2.11 percent to 2.57 percent. Conversely, the United Kingdom's 10-year government bond yield decreased from 4.15 percent to 3.67 percent after the new prime minister, Rishi Sunak, overturned certain proposals by his predecessor, which were poorly received by markets. Japan also posted positive returns in Q4 despite a decline in December.

Japanese firms reported strong earnings, while business confidence was supported by the record level of share buy backs which were announced. Japan widened the target band for its 10-year bond yields, a move that was intended to reflect Japan's drift towards having a more sustainably positive inflation target range. Asia, excluding Japan, also had stellar performance for the quarter, with most jurisdictions posting positive performance for the quarter. China especially had strong growth due to the easing of its COVID-19 policy and engagements between the United States and China that signalled both countries commitment to improving relations.

Due to the foregoing, Debswana Pension Fund's Assets Under Management (AUM) increased from BWP 9.211 billion in Q3 2022 to BWP 9.545 billion in Q4 2022. The fund is well on its way to an upward trajectory towards its 2021 Assets Under Management record high of BWP 10.2 billion. The market outlook is much brighter than what was experienced in 2021, as inflation levels are projected to fall and central bank hikes are expected to eventually cease. The performance outlook for companies, especially in the United States, is positive due to strong underlying fundamentals. Lower growth, a possible near-term recession, elevated inflation, and geopolitical events are risks that the Fund continues to mitigate against.

Botswana Market Review – Quarter ended 31st December 2022

According to Statistics Botswana, the real Gross Domestic Product increased by 6.3 percent in Quarter 2, as opposed to an increase of 8.9 percent in the same quarter of 2021. The growth was attributed to real value added by Water & Electricity and Diamond Traders, which rose by 35.1 and 28.5 percent, respectively. On a quarter-to-quarter comparison, the GDP increased by 4.0 percent during the quarter under review, and the drivers of growth were Mining & Quarrying at 18.5 percent, followed by Public Administration & Defense at 16.3 percent, Wholesale & Retail at 10.8 percent, and Construction at 10.6 percent. The Bank of Botswana's Quarterly Business Expectations Survey states that firms were more optimistic about business conditions in the fourth quarter of 2022 compared to the previous quarter. Businesses were looking to explore various investment initiatives to take advantage of the suitable business environment that emanated from improved trading conditions post-pandemic and the implementation of various government programmes such as the Economic Recovery and Transformation Plan (ERTP).