Quarter 2 | 2023

Business E-Brief

Your quarterly Fund Performance update

Global Markets Soar in Q1 Despite Banking Sector Turmoil; Debswana Pension Fund's Assets Surge.

DPF Q2 2023 E-Brief

Q1 Report Back

> "Despite the quarter end market risks, financial markets overall generated positive returns. Debswana Pension Fund's Net Total Assets increased by 6.10 percent from BWP 9,545 billion in Q4 2022 to BWP 10,2 billion in Q1,2023."

2023 started off on a high note as global financial markets generated a strong positive performance in Q1, despite numerous market risks materializing. Dwindling recession concerns, strong corporate earnings, declining inflation, and increased expectations of pauses in central bank hikes, contributed to positive market performance for the quarter. Global Equities rallied, growth stocks topped value stocks, and government fixed income instruments outperformed corporate debt in the quarter. Towards the end of quarter there was significant volatility emanating mainly from the US banking sector as Silicon Valley Bank (SVB), a mid-cap technology focused regional bank, collapsed. Its collapse resulted in mild contagion as other US regional banks, namely First Republic Bank and PacWest, collapsed or were on the brink of collapse. Concerns about the stability of the banking system spread from the United States to Europe, as Swiss Bank Credit Suisse also collapsed before its competitor, Union Bank of Switzerland (UBS) bought it out in order to stabilize the banking sector. Despite the quarter end market risks, financial markets overall generated positive returns. Debswana Pension Fund's Net Total Assets increased by 6.10 percent from BWP 9,545 billion in Q4 2022 to BWP 10,2 billion in Q1,2023. Global, African, and Chinese equities rallied in the first quarter of 2023. Global Investor optimism was high due to improved market conditions, providing a tail for financial markets in the quarter. The S&P 500 index generated positive returns of 7.5 percent, underpinned by the strong recovery in technology, internet commerce, and growth shares. Inflation continued its downward trajectory in both Developed and Frontier markets. Inflation in the United States eased to 5 percent in March, its lowest level in nearly two years. Africa Equities performance was driven by strong performance from the telecommunication, brewery, and energy sectors. Global investors bet on China's growth trajectory post the relaxing of its Zero-COVID-19 policy. Beijing also introduced enabling property market initiatives and softened its regulatory crackdown on the Chinese technology sector. The improved and enabling business environment in China resulted in a tailwind for performance in China-A shares. The United States dollar was relatively flat in the quarter versus G10 nations, underpinned by expectations of a more dovish Federal Reserve spurred by declining inflation.

The top performing asset class for the Fund was Global Equities, which increased 12.73 percent (in BWP). The next top performing asset class for Quarter1 was African Equities, which rose 9.46 percent, followed by Chinese Equities, which advanced 9.29 percent.

Emerging Market Equites, Emerging Market Bonds, Global Property, Global Bonds, and Global cash delivered strong performance in the quarter; generating 6.79 percent, 4.70 percent, 5.47 percent, 6.29 percent and 3.16 percent respectively.

Domestic assets provided tepid results for the quarter. Botswana Equities and Botswana Cash contributed positively, yielding 2.25 percent and 2.07 percent respectively. Botswana Bonds were muted for the quarter returning 0.61 percent, while Botswana Property was negative yielding declining by -0.07 percent.

The worst-performing Asset Class for the quarter was Africa Private Equity which declined by -7.94 percent.

The Fund's Market Channel increased 6.44 percent during the quarter, the Conservative Channel rising 5.77 percent and the Pensioner Channel improving 5.62 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 positive returns net of investment fees. During the 12-month period, the Market Channel delivered 6.81 percent, while the Conservative Channel rose 6.83 percent and the Pensioner Channel generated 6.54 percent. The Fund has steadily recovered from previous negative yielding quarters.

Portfolio performance as at 31st March 2023

Asset Class Returns

	Q4 2022	Q1 2023
Asset Class	**%Returns (Net)**	**%Returns (Net)**
Botswana Bonds	0.82%	0.61%
Botswana Cash	0.78%	2.07%
Botswana Equity	7.70%	2.25%
Botswana Property	-0.28%	-0.07%
Africa Equities	1.76%	9.46%
Africa Private Equity	-0.38%	-7.94%
Global Bonds	0.45%	6.29%
Global Cash	-4.47%	3.16%
Global Property	1.10%	5.47%
Global Equity	5.69%	12.73%
Emerging Market Bonds	1.40%	4.70%
Emerging Market Equity	6.54%	6.79%
China Equity	2.93%	9.28%

Benchmark Asset Class Returns as at 31st March 2023

Asset Class	Benchmark	1M (%)	QTR (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)
Local Equities	Botswana Domestic Companies Index	2.15 ▲	3.95 ▲	3.95 ▲	18.07 ▲	19.64 ▲	9.45 ▲	4.95 ▲
Bonds	Fleming Aggregate Bond Index	0.63 ▲	1.93 ▲	1.93 ▲	6.12 ▲	3.93 ▲	2.59 ▲	3.69 ▲
Global Equities	MSCI World (BWP)	1.08 ▲	10.05 ▲	10.05 ▲	5.69 ▲	9.99 ▲	19.86 ▲	14.90 ▲
Emerging Markets	MSCI EM (BWP)	1.02 ▲	6.19 ▲	6.19 ▲	1.51 ▲	-3.29 ▼	11.03 ▲	5.43 ▲
Global Property	FTSE EPRA/NAREIT Developed Rental Index - (BWP)	-5.23 ▼	3.18 ▲	3.18 ▲	-10.99 ▼	4.35 ▲	11.05 ▲	8.76 ▲
Global Bonds	Bloomberg Barclays GABI - (BWP)	1.15 ▲	5.22 ▲	5.22 ▲	4.50 ▲	0.83 ▲	-0.56 ▼	4.94 ▲
African Equities	FTSE/JSE African 30 (BWP)	-6.60 ▼	0.28 ▲	0.28 ▲	2.47 ▲	4.93 ▲	10.72 ▲	2.79 ▲
Exchange Rate	USD/BWP	-1.95 ▼	2.15 ▲	2.15 ▲	13.67 ▼	8.70 ▲	2.97 ▲	6.36 ▲

Inflation

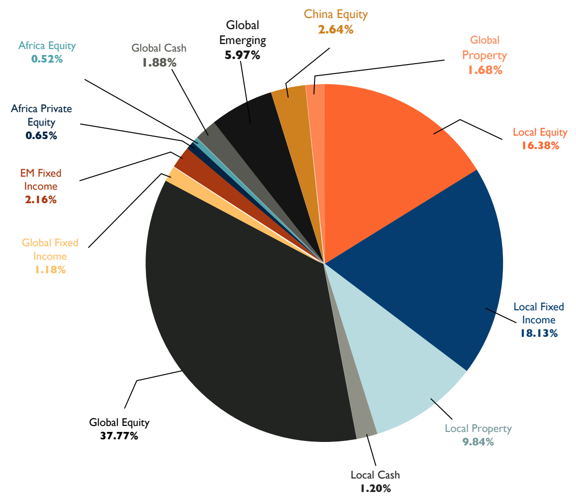
The annual inflation rate decreased from 9.9 percent in March to 7.9 percent in April.

Interest Rates

At the meeting held on April 27 and 28, 2023, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 2.65 Percent. Inflation still 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. The Bank states that, the projected decrease in inflation in the medium term is due to the dissipating impact of the earlier increases in administered prices (base effects); lower fuel prices; modest domestic demand; current monetary policy posture; increase in interest rates and constrained supply of credit globally (tightening financial conditions); expected decrease in global inflation and international commodity prices; as well as the projected appreciation of the Pula against the South African rand.

Asset Class Weights 31st March 2023



NB: Market performance results sourced from RISCURA

Global Market Update

Quarter ended 31st March 2023

The first quarter of the year provided positive results for investors as financial markets continued the steady recovery trajectory that has been the theme for the past few quarters. US equities rallied in the quarter, despite the emergence of the SVB collapse that caused a banking sector selloff and resulted in overall market volatility. The Federal Reserve was able to step in and provided USD 25 billion in aid to stabilize the banking sector and to avoid bank panic. All bank deposits at SVB were guaranteed even above the insured cap of USD 250 000, but there was no bail out for investors and shareholders. The Federal Reserve raised interest rates twice in the quarter and inflation is deemed to be declining. Market sentiment is the Federal Reserve is turning dovish, rate hikes are expected to reduce or cease, as the Fed has approached its predicted terminal rate. Healthcare and energy sectors had the worst performance in the quarter while technology counters experienced the most considerable gains in the quarter. Global bonds had stellar performance for the quarter driven by optimistic growth outlook and declining inflation and interest rate hikes by the Federal Reserve. Investment grade bonds benefited from the emergence of the SVB banking crisis as investor fled to safety and abandoned risky debt instruments, which resulted in high yielding bonds generating negative returns. The US 10-year yield fell from 3.92 percent to 3.47 percent, with

Global Market Update

Continued

the two-year going from 4.82 percent to 4.03 percent. The Bloomberg Barclays Global Aggregate Bond Index returned 6.26 percent for the quarter. Europe followed suit with positive performance for the quarter. The Euro zone economy grew by 0.1 percent in Quarter1 due to rising employment and a sharp increase in exports. European Equities performance was derived from the communication, information technology and consumer discretionary sectors, while detractors were the real estate and energy sectors. Germany's 10-year yield decreased from 2.65 percent to 2.29 percent. The UK 10-year yield fell from 3.71 percent to 3.49 percent and the two-year decreased from 4.07 percent to 3.44 percent. Japan also posted exceptional returns in Q1 spurred by cheap valuations, rising inflation (after experiencing significant periods of disinflation), and a weakening of the Japanese currency the Yen. The 10-year Japanese government bond yield has hovered at around 0.4 percent. Asia, ex Japan, also had stellar performance for the quarter with most jurisdictions posting positive performance for the quarter. China continues to benefit from easing of its Covid-19 policy coupled with Beijing's recent efforts to create a business and investor-enabling environment. Emerging markets followed suit with positive performance for the quarter underpinned by the reopening of China's economy and volatility stemming from the US and European banking sectors. Against this background, Debswana Pension Fund's Assets Under Management (AUM) increased from BWP 9,545 billion in Q4 to BWP 10,2 billion in Q1, 2023. The Fund has returned to its 2021 Assets Under Management record high of BWP 10,2 billion. Despite strong performance in Q1 there is cautious optimism in financial markets due to sticky inflation, possible central bank tightening, reduction in earnings growth, and potential for a mild U.S recession. 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 31st December 2022

According to Statistics Botswana, the real Gross Domestic Product increased by 5.9 percent during the period under review, as opposed to an increase of 6.0 percent growth registered in the same quarter of the previous year. The growth was attributed to real value added by Water & Electricity, Diamond Traders and Mining industries, which rose by 74.1, 24.4 and 10.1 percent respectively. On a quarter-to-quarter comparison the real GDP decreased by 2.3 percent during the quarter under review. In terms of contributions to GDP by economic activities during the quarter under review, Mining & Quarrying was the largest contributor to GDP by 19.6 percent, followed by Public Administration & Defense at 15.4 percent, Wholesale & Retail at 10.7 percent and Construction at 10.6 percent

Bank of Botswana's Quarter Business Expectations Survey states that firms' level of optimism about business conditions is the same as in the previous survey (fourth quarter of 2022). In Q1 firms anticipated tight access to credit across all markets, subdued cost pressures and expected inflation to decline. The Bank additionally states that anticipated improvement in Mining and Quarrying; Manufacturing; and Retail Accommodation, and Transport and Communications sectors is expected to have a positive impact on domestic economic performance.