


Quarter 2 | 2023

Business E-Brief

Your quarterly Fund Performance update



**Tech-Driven Surge: Global
Markets Soar in Q2 Amidst
AI Optimism and Economic
Confidence**

DPF Q2 2023

E-Brief

Q2 Report Back

“ Debswana Pension Fund’s Net Total Assets increased by 4.52 percent from BWP 10.2 billion in Q1,2023 to BWP 10.527 billion. ”

Markets continued their upward trajectory in the second quarter of the year, posting positive returns across most asset classes. Global Equities led the surge spurred by strong corporate earnings, moderating inflation, improved labour markets, increased investor confidence, and a positive economic outlook. Technology counters were the major driver of growth in the quarter, fuelled by rising interest and optimism in Artificial Intelligence (AI).

Global Fixed income assets underperformed during the quarter due to declining volatility, geo-political concerns, and rising interest rates. Emerging Markets continued to lag behind Developed Markets due to rising interest rates, geopolitical uncertainty, and China’s sluggish economic recovery. Debswana Pension Fund’s Net Total Assets increased by 4.52 percent from BWP 10.2 billion in Q1,2023 to BWP 10.527 billion. Global Equities, Emerging Market Bonds, Emerging Market Equities and African Equities rallied in the quarter. African Equities had a stellar performance for the quarter driven by increasing demand, strong commodity prices, and robust economic growth. African Equities continue to deliver improved returns after a prolonged period of significant underperformance, thereby becoming a strong diversifier for the Fund’s portfolio. Global Investor optimism remained high as markets continued with the positive momentum from the previous consecutive quarters.

The S&P 500 index generated 8.7 percent in the second quarter of the year underpinned by resilient corporate earnings, soaring technology stocks, moderating inflation, and a positive economic outlook. Inflation continued its downward trajectory in both Developed and Frontier Markets. Inflation declined due to moderating energy prices, strengthening currencies, and numerous government interventions aimed at curbing the cost of goods and services. Inflation in the United States

was 3 percent in June 2023, nearing the Fed Reserve’s 2 percent target. Emerging market (EM) bond performance was driven by easing inflationary pressures, reduced volatility, stronger Emerging Markets (EM) currencies, an improved economic outlook, and attractive valuations. China and Chinese capital markets continued to struggle in the second quarter of the year. China’s economic recovery remains weak, subsequently dampening investor sentiment. Overall, the United States dollar remained resilient in Q2 strengthened by rising interest rates, an improved economic outlook when compared to its trading partners, and geopolitical tensions.

The top performing asset class for the Fund was African Equities, which increased 10.06 percent (in BWP). The next top performing asset class for Quarter 2 was Global Equities, which rose 7.99 percent, followed by Emerging Market bonds, which advanced 6.52 percent. Emerging Market Equities, Global Property and Global Cash, delivered strong performance in the quarter, generating 5.31 percent, 2.49 percent, 2.29 percent, respectively.

Domestic assets similarly generated positive results for the quarter. Botswana Property, Botswana Equities and Botswana Bonds

contributed positively, yielding 2.22 percent, 4.45 percent, and 1.97 percent, respectively. Botswana Cash was muted for the quarter, returning 0.26 percent.

The worst performing Asset Class for the quarter was China which declined by 7.63 percent.

The Fund’s Market Channel increased 4.76 percent during the quarter, the Conservative Channel rising 4.32 percent and the Pensioner Channel improved 4.17 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 16.38 percent, while the Conservative Channel rose 14.87 percent and the Pensioner Channel generated 14.19 percent. The Fund has steadily recovered from previous negative yielding quarters.

Portfolio performance as at 30th June 2023

Life Stage Channel Returns

Fund	3 Months to June 23	6 Months to June 23	12 Months to June 23	36 Months to June 23	60 Months to June 23	Since Inception (Aug 04)
Market	4.76	11.52	16.38	9.26	8.59	11.43
Conservative	4.32	10.34	14.87	8.10	7.86	10.53
Pensioner	4.17	10.03	14.19	7.63	7.79	10.85
Contingency	4.27	10.36	14.50	7.44	7.63	12.24

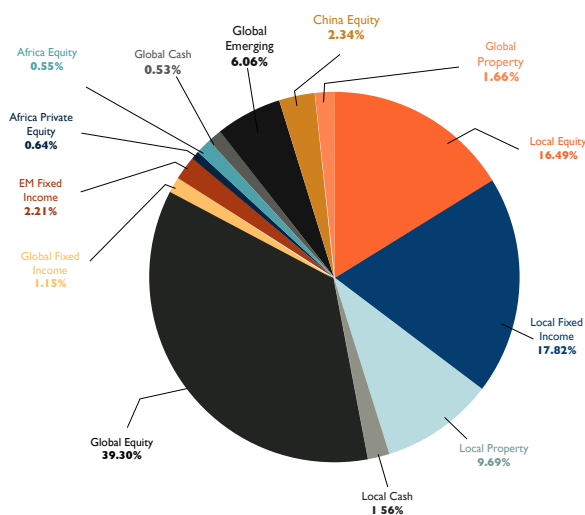
Asset Class Returns

Asset Class	Q1 2023	Q2 2023
	%Returns (Net)	%Returns (Net)
Botswana Bonds	0.61%	1.97%
Botswana Cash	2.07%	0.26%
Botswana Equity	2.25%	4.45%
Botswana Property	-0.07%	2.22%
Africa Equities	9.46%	10.06%
Africa Private Equity	-7.94%	-0.71%
Global Bonds	6.29%	0.84%
Global Cash	3.16%	2.29%
Global Property	5.47%	2.49%
Global Equity	12.73%	7.99%
Emerging Market Bonds	4.70%	6.52%
Emerging Market Equity	6.79%	5.31%
China Equity	9.28%	-7.63%

Benchmark Asset Class Returns as at 30th June 2023

Asset Class	Benchmark	1M (%)	QTR (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)
Local Equities	Botswana Domestic Companies Index	0.86 ▲	5.23 ▲	9.38 ▲	22.02 ▲	20.35 ▲	12.08 ▲	6.09 ▲
Bonds	Fleming Aggregate Bond Index	0.58 ▲	1.66 ▲	3.62 ▲	6.27 ▲	4.53 ▲	2.59 ▲	3.79 ▲
Global Equities	MSCI World (BWP)	3.83 ▲	10.95 ▲	22.09 ▲	29.25 ▲	12.14 ▲	17.37 ▲	14.96 ▲
Emerging Markets	MSCI EM (BWP)	1.62 ▲	4.79 ▲	11.27 ▲	10.97 ▲	-2.96 ▼	7.05 ▲	6.38 ▲
Global Property	FTSE EPRA/NAREIT Developed Rental Index - (BWP)	1.20 ▲	4.53 ▲	7.85 ▲	5.11 ▲	2.09 ▲	9.37 ▲	6.60 ▲
Global Bonds	Bloomberg Barclays GABI - (BWP)	-2.10 ▼	2.27 ▲	7.60 ▲	7.62 ▲	1.78 ▲	-0.57 ▼	4.26 ▲
African Equities	FTSE/JSE African 30 (BWP)	-12.29 ▼	-4.77 ▼	-4.50 ▼	-2.02 ▼	0.05 ▲	4.96 ▲	1.43 ▲
Exchange Rate	USD/BWP	-2.10 ▼	3.85 ▲	6.09 ▲	9.06 ▼	11.30 ▲	4.63 ▲	5.40 ▲

Asset Class Weights 30th June 2023



NB: Market performance results sourced from RISCURA



Inflation

The annual inflation rate decreased from 5.7 percent in May to 4.6 percent in June and to 1.5 percent in July.

Interest Rates

At the meeting held on August 24th the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 2.65 Percent. Inflation remains below the Bank's medium-term objective range of 3 – 6 percent.

According to Bank of Botswana, the sharp decline in inflation was mainly due to the dissipating impact of the earlier increase in domestic fuel prices in the corresponding period in 2022 (base effects).

The Bank forecasts inflation to remain below the lower bound of the objective range temporarily and revert to within the objective range from the first quarter of 2024 into the medium term. The Bank stated that the projected low inflation is due to subdued domestic demand and the downward revision in recent forecasts of international food prices and trading partner countries' inflation.

Global Market Update

Quarter ended 30th June 2023

Markets remained in bullish territory in the second quarter of the year, as asset prices continued to rise. Technology stocks, particularly stocks related to Artificial Intelligence (AI), were the dominant theme in the quarter. The strong performance of AI stocks in Q2, demonstrates the growing importance of AI to the global economy and society. AI is a disruptive technology with the potential to revolutionise many industries and solve some of the world's most pressing problems, if utilised responsibly.

Nvidia, a chip-processing firm, has benefited tremendously from the demand in its products that help facilitate AI technology. NVIDIA has grown by approximately 101 percent in the last year and by approximately 366 percent in the last 3 years. AI has powered the growth of cloud computing businesses of major technology firms such as Amazon, Alphabet and Microsoft, thereby providing a much-needed tailwind for stock performance. There are concerns amongst investors that the current rally of AI fuelled technology stocks could be a bubble, similar to the dot-com bubble of 2001. Against this background, investors should proceed with caution to ensure prudent investing.

U.S. equities had positive growth for

the quarter; moderating inflation and a resilient economy were tailwinds for stock performance. The Top performing sectors in the US market were Technology, Consumer Discretionary, and Communication Services. The least performing sectors were Energy and Utilities. The Federal Reserve raised interest rates once in the quarter. The Federal Reserve is deemed to be implementing what economists have dubbed a "hawkish pause". Overall, Global Bonds struggled in the quarter. Global high yield bonds outperformed global investment grades as recessionary fears declined. The US 10-year benchmark bond yield rose from 3.47 percent to 3.81 percent, with the two-year yield rising from 4.03 percent to 4.87 percent.

The Bloomberg Barclays Global Aggregate Bond Index returned 2.27 percent for the quarter. Europe had improved performance for the quarter. The Euro-zone economy grew by 0.2 percent in Quarter 2 due to improved domestic demand, increasing exports, and declining inflation. European equities performance was driven by the information technology and financial services sectors, while detractors were the energy and communication sectors. The Russia-Ukraine war continues to negatively impact the energy sector.

Japan experienced positive returns in Q2 spurred by cheap valuations, a positive earnings outlook, rising inflation and a weakening of the Japanese currency the Yen. The 10-year Japanese government bond yield was 0.43 percent at the end of the quarter. Asia, ex Japan, struggled in the quarter with most jurisdictions posting negative performance for the quarter. Emerging Markets had positive performance for the quarter underpinned by stronger economic growth, positive earnings outlook, declining inflation and a weakening dollar. Against this background, Debswana Pension Fund's Assets Under Management (AUM) increased from BWP 10.2 billion in Q1, 2023 to BWP 10.527 billion. The Fund reached a new record high in the quarter. The Fund continues to monitor key risks as it moves into the second half of the year comprising of fragile global growth, persistent inflation, hawkish central banks, geo political tensions, and supply chain disruptions. 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 June 2023

According to Statistics Botswana, the real Gross Domestic Product (GDP) increased by 5.4 percent in Q1 2023, as opposed to an increase of 5.8 percent growth registered in the same quarter of the previous year. Most of the sectors in the country had positive growth. The major contributors to GDP were Mining & Quarrying at 19.6 percent, Public Administration & Defense at 15.5 percent, Wholesale & Retail at 11.1 percent and Construction at 10.6 percent.

The Bank of Botswana's Quarter Business Expectations Survey states that firms are less optimistic about business conditions in the second quarter compared to the previous survey (first quarter of 2023). Companies expect tight access to credit in all markets and hawkish central banks to be the biggest challenges to their performance in the future. However, businesses are optimistic due to lower anticipated cost pressures, declining inflation, and a positive economic outlook driven by the Mining and Quarrying; Manufacturing; and Finance, Professional and Administrative Activities sectors.

