Quarter 4 | 2023

Business E-Brief

Your quarterly Fund Performance update

Six of the seven Magnificent 7 counters (Microsoft, Apple, Nvidia, Amazon, Alphabet, Meta) were top contributors to the S&P 500 earnings growth in Q4 2023.

DPF Q4 2023 E-Brief

Q4 Report Back

“Debswana Pension Fund’s Net Total Assets increased by 5.19 percent from BWP 10,483 billion to BWP 10,927.”

Markets rebounded and posted strong positive gains in the fourth quarter in what has been a highly volatile year for Global Investors. Positive returns were recorded across a majority of the asset classes. Global Equities led the surge driven by shifting interest rate expectations, sector rotation, lower inflation levels, improved economic data, and positive market sentiment. Mega-cap growth stocks regained their footing after losing some steam in the previous quarter, and generated significant performance.

Six of the seven Magnificent 7 counters (Microsoft, Apple, Nvidia, Amazon, Alphabet, Meta) were top contributors to the S&P 500 earnings growth in Q4 2023. Tesla was the only detractor of performance for the Magnificent 7 due to, production hurdles, slowing growth, increased competition, decreasing profit margins, and macro-economic factors. Global Fixed Income rebounded and generated tremendous positive performance in the quarter. Strong performance of Global Bonds was primarily due to the shifting interest rate expectations.

As anticipation of future rate hikes softened, and the Federal Reserve Bank indicating it will potentially cut interest rates in the short to medium term, bond yields declined noticeably, leading to a broader credit market rally that resulted in the outperformance of government fixed income instruments. Similarly, positive market optimism also impacted Emerging Markets resulting in commensurate returns for Global Investors.

Debswana Pension Fund’s Net Total Assets increased by 5.19 percent from BWP 10,483 billion to BWP 10,927. Positive performance for the quarter was driven by Offshore Assets namely, Global property, Global Equities, Global Bonds, Emerging Market Bonds and Emerging Market Equities. Global investor sentiment and performance in the fourth quarter was largely driven by dovish monetary signals taken by Global Central Banks such as the US Federal Reserve. During the quarter investors pivoted towards growth stocks and the anticipated accommodative monetary policy provided a tremendous tailwind for financial markets.

The S&P 500 index rose by 11.7 percent in the fourth quarter underpinned by a rally in large cap stocks. US markets were bullish in the quarter due to improved economic data, strong labour market, increased consumer confidence and spending in addition to robust corporate earnings. Inflation in the United States was 3.4 percent in December 2023, 0.3 percent lower than September 2023 and moving towards the Federal Reserve Bank's 2 percent target. Global bonds experienced phenomenal performance in the quarter. The Bloomberg Global Aggregate Index generated 8.1 percent, propelled by increasing expectations of loosening monetary policy.

Similarly, Emerging Markets (EM) equities and bonds were showing tentative signs of improvement in the quarter driven by improved economic conditions and positive sentiment around accommodative monetary policy in the United States. The People’s Republic of China’s struggles continued in the quarter. China’s economic recovery continues to lag post its relaxation of its Zero-Covid policy, furthermore the country seems to have limited fiscal and monetary measures to help drive economic growth.

The U.S. Dollar Index (DXY) closed out the quarter at its lowest levels in 5 months declining by 4.56 percent. The greenback faced pressures in the quarter as the Federal Reserve Bank signaled its pivot towards a dovish monetary policy stance. The Domestic Market witnessed positive shoots from Botswana Equities and Botswana Bonds. Local Equities had stellar performance for the quarter driven by the property, financials, consumer staples, agriculture sectors. The Domestic Bond Market similarly generated positive results spurred by increased government auctions and a rise in the yield curve.

The top performing asset class for the Fund was Global Property, which increased 15.70 percent (in BWP). The next top performing asset class for Quarter 4 was Global Equities which rose 8.32% followed by Global Bonds, which advanced by 6.51 percent. Emerging Market Bonds, Emerging Market Equities, Botswana Bonds and Botswana Equities additionally provided positive performance in the quarter advancing by 6.37 %, 5.24%, 4.48 %, and 4.01 percent respectively. Botswana property and cash were seemingly flat for the quarter.

African Equites, African Private Equity, Global Cash, and China were all in negative territory for the quarter declining; 3.09 percent, 2.87 percent, 1.74 percent and 4.66 percent respectively. The worst performing Asset Class for the quarter was China which fell by 4.66 percent. The Fund’s Market Channel increased by 5.44 percent during the quarter, the Conservative Channel rising 4.98 percent and the Pensioner Channel improving by 4.84 percent.

On a twelve-month basis, the Fund generated positive returns net of investment fees. During the 12-month period, the Market Channel delivered 18.20 percent, while the Conservative Channel rose 16.74 percent and the Pensioner Channel generated 15.89 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.

Portfolio performance as at 31st December 2023

Life Stage Channel Returns

Fund	3 Months to December 23	6 Months to December 23	12 Months to December 23	36 Months to December 23	60 Months to December 23	Since Inception December 23
Market	5.33	6.00	18.20	8.68	10.39	11.45
Conservative	4.88	5.80	16.74	7.94	9.21	10.57
Pensioner	4.74	5.33	15.89	7.32	9.00	10.84
Contingency	4.88	5.57	16.51	7.37	8.98	12.22

Asset Class Returns

	Q3 2023	Q4 2023
Asset Class	**%Returns (Net)**	**%Returns (Net)**
Botswana Bonds	2.47%	4.01%
Botswana Cash	0.03%	0.04%
Botswana Equity	9.03%	4.48%
Botswana Property	0.48%	-0.36%
Africa Equities	-6.22%	-3.09%
Africa Private Equity	-0.34%	-2.87%
Global Bonds	-1.46%	6.51%
Global Cash	1.37%	-1.74%
Global Property	0.00%	15.70%
Global Equity	-5.69%	8.32%
Emerging Market Bonds	-2.00%	6.37%
Emerging Market Equity	-2.34%	5.24%
China Equity	-4.98%	-4.66%

Benchmark Asset Class Returns as at 31st December 2023

Asset Class	Benchmark	1M (%)	QTR (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)
Local Equities	Botswana Domestic Companies Index	0.57 ▲	4.43 ▲	25.47 ▲	25.47 ▲	21.91 ▲	18.20 ▲
Bonds	Fleming Aggregate Bond Index	0.66 ▲	2.83 ▲	8.72 ▲	8.72 ▲	7.21 ▲	4.73 ▲
Global Equities	MSCI World (BWP)	3.15 ▲	9.10 ▲	30.00 ▲	30.00 ▲	7.38 ▲	15.23 ▲
Emerging Markets	MSCI EM (BWP)	2.17 ▲	5.63 ▲	15.34 ▲	15.34 ▲	-0.07 ▼	1.97 ▲
Global Property	FTSE EPRA/NAREIT Developed Rental Index - (BWP)	8.09 ▲	13.80 ▲	16.55 ▲	16.55 ▲	-3.20 ▼	9.90 ▲
Global Bonds	Bloomberg Barclays GABI - (BWP)	2.41 ▲	5.86 ▲	11.02 ▲	11.02 ▲	0.37 ▲	1.51 ▼
African Equities	FTSE/JSE African 30 (BWP)	-0.89 ▼	7.45 ▲	-16.79 ▼	-16.79 ▼	-12.75 ▼	-2.58 ▲
Exchange Rate	USD/BWP	-1.67 ▼	-2.07 ▼	5.02 ▲	5.02 ▼	6.67 ▲	7.42 ▲

Inflation

The annual inflation rate decreased from 3.9 percent in November to 3.5 percent in December 2023.

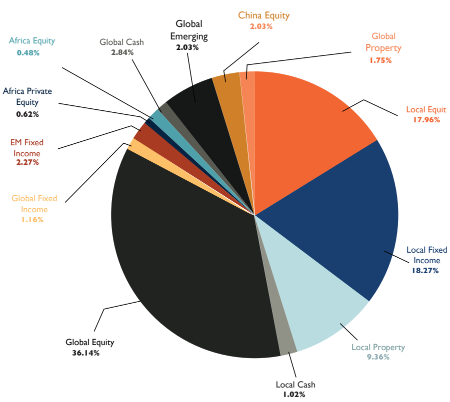
Interest Rates

At the meeting held on February 22, 2024, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 2.4 percent, after a 25 basis point rate cut in December from 2.65 percent.

Inflation has increased in the New Year (3.9 percent in January 2024) but remains within the Bank's medium-term objective range of 3 – 6 percent.

According to Bank of Botswana, the current increase in inflation has been due to the diminishing impact of the decrease in domestic fuel prices in the corresponding period in 2023 (base effects). Inflation is forecast to remain at 3.9 percent in February 2024. The MPC projects inflation to remain within the objective range into the medium term.

Asset Class Weights 30th June 2023



NB: Market performance results sourced from RISCURA

Global Market Update

Quarter ended 31st December 2023

Markets rallied in the fourth quarter of the year capping off a highly successful 2023 for stock markets following a challenging 12 month period in 2022. In an effort to combat inflation, the Federal Reserve has maintained the federal-funds rate at an elevated level (5.25% - 5.50%) since July 2023, significantly higher than the rates seen in the past decade. Easing inflation and a moderating job market caused the Federal Reserve to hint at possibly lowering interest rates in 2024, the signaling of probable interest rate cuts provided a significant tailwind for Capital Markets in the last quarter.

The biggest winners were Mega-cap technology stocks and other growth companies, after significantly underperforming during the 2022 down market. Interest Rate cutting cycles tend to favor large-cap and growth stocks. Large-cap and growth stocks expect to earn most of their money in the future, against this background their prices tend to be more affected by changes in interest rates compared to value stocks. The Magnificent Seven stocks were once again the main driver of equity market performance in the last 3 months of the year.

The seven counters currently account for 28.6 percent of the S&P 500 index's total market capitalisation and brought in 23.1 percent of all S&P 500 earnings. The S&P 500 closed the year near its' 2022 peak. The current market environment favors growth stocks and sectors rather than value stocks, and there could be a sector rotation once again. The dominance of growth stocks in the last decade continues to challenge traditional investment strategies. The top performing US sectors in the quarter were Real Estate, Consumer Discretionary, and Information Technology. A drop in crude oil prices triggered a downturn in the energy sector. Global Bonds experienced their best quarter in the last 20 years. Government Bonds outperformed Corporate Bonds in Q4 2023, as yields fell and bond prices spiked.

The US 10-year declined from 4.57 percent to 3.77 percent, while the two-year government bond yield fell from 5.05 percent to 4.25 percent. Capital markets in the Eurozone mirrored the positive performance observed globally. Investor sentiment, and consequently market performance, were positively impacted by declining inflation (in Europe and the United States) and the anticipation of a potential halt to future interest rate increases.

Most of the sectors were in the black and the top performing sectors were Information and Technology (IT), and Real Estate, Energy and Health Care. The Eurozone economy stagnated in Q4 2023, showing no growth compared to the previous quarter. However, it did experience a slight 0.1 percent growth compared to the same period in 2022.

Elevated interest rates in the Eurozone have dampened economic activity, leading to slower growth and weaker business confidence. The UK's financial markets similarly experienced strong performance in the fourth quarter due to the dovish monetary signaling echoed by global central banks. The industrial and financial sectors were top performers in the UK, while the energy sector once again was a detractor to performance. Japanese Capital markets experienced headwinds in the last 3 months of the year, but strong performance in November resulted in the TOPIX Total return indexing generating 2 percent for the quarter. Japan was boosted by the dovish pivot of global central banks, growth stocks outperformed value stocks and small cap stocks additionally fared well in the quarter.

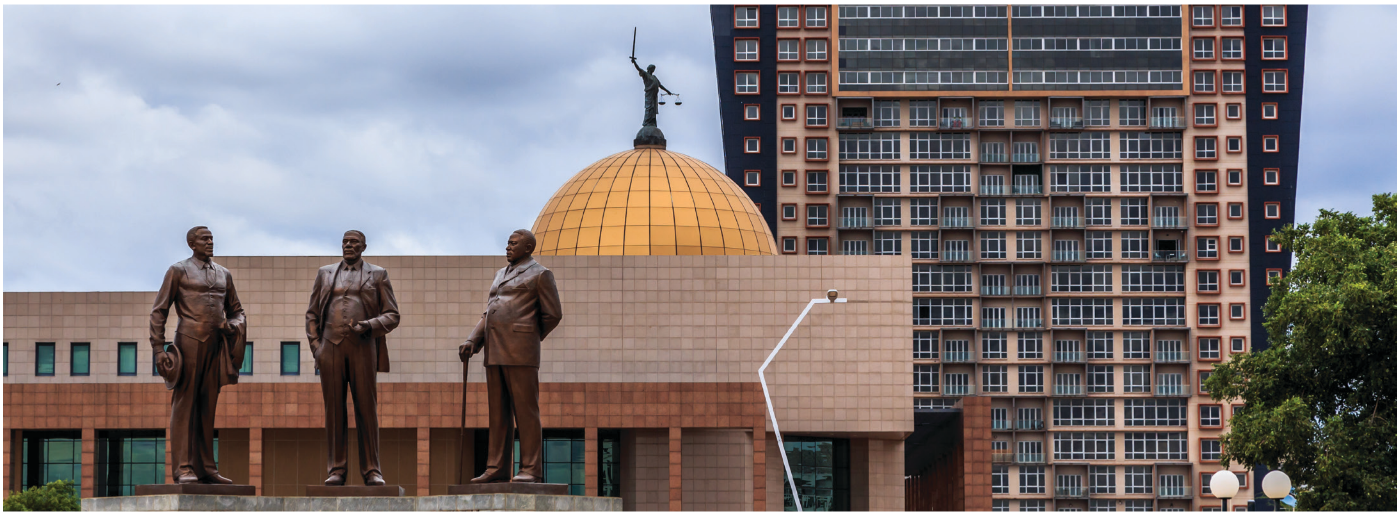
The 10-year Japanese government bond yield declined from 0.755 to 0.65 percent at the end of the quarter. Asia, ex Japan, similarly experienced positive performance due to improved market optimism and greater willingness to take on risk in Asian markets. China experienced weak performances once again, the country's economic recovery has been anemic and Beijing continues to struggle with the Real Estate downturn prompted by the forced liquidation of Real Estate giant China Evergrande. Furthermore, markets continue to be concerned about the regulatory risk in China.

Emerging Markets lagged in the first half of the quarter due to increasing bond yields and Geo political concerns, particularly the conflict in the Middle East. Markets were able to rally in the last half of the quarter due to growing anticipation of interest rate reductions. China continues to be a performance bottle neck for Emerging Markets.

Overall positive market sentiment and performance in the quarter resulted in Debswana Pension Fund's Net Total Assets increased by 5.19 percent from BWP 10,483 billion to BWP 10,927, a new record high for DPF. The Fund remains cautiously optimistic heading in to the New Year. Financial markets face many challenges including, geopolitical tensions, resurgent inflation due to high energy prices, China's growth slow down, and rising government debt levels. The Fund will continue to implement its prudent investment strategy to navigate the different risks and take advantage of emerging opportunities.

Botswana Market Review

Quarter ended 31st December 2023



According to statistics Botswana, the real Gross Domestic Product (GDP) increased by 0.5 percent compared to the 5.0 percent growth registered in the same quarter of the previous year.

The growth was attributed to real value added by Public Administration & Defence, Real Estate and Other Administrative & Support Activities which rose by 6.4, 6.3 and 6.3 percent respectively. All other industries recorded positive growths of more than 1.3 percent except Mining, Water & Electricity and Diamond Traders which declined by 9.2, 9.8 and 20.4 percent respectively.

On a quarter to quarter comparison GDP increased by 0.9 percent during the period under review. During the quarter under review, Public Administration & Defence became the major contributor to GDP by 17.3 percent, followed by Mining & Quarrying at 14.4 percent, Wholesale & Retail at 11.5 percent and Construction at 11.3 percent.

Bank of Botswana's Quarter Business Expectations Survey states that firms continue to be optimistic about business conditions in the last quarter. The overall economy and different sectors are forecasted to have improved performance in the quarter, particularly in Mining and Quarrying; Manufacturing; Agriculture; Retail Accommodation, Transport and Communications; and Finance, Professional and Administrative sectors. Firms anticipate tighter credit markets as regional central banks continue to be hawkish and anticipate cost pressure due to geo political events.