DPF
DEBSWANA · PENSION · FUND

Quarter 2 | 2024

Business E-Brief

Your quarterly Fund Performance update

Botswana Equities led the charge driven by robust dividend yields across various sectors.

DPF Q2 2024
E-Brief
Q2 Report Back

> "Debswana Pension Fund's Net Total Assets increased by 2.54 percent from BWP 11,457 billion to BWP 11,681 billion."

The Stock and Bond Markets began the second Quarter of 2024 with a decline due to concerns on persistent inflation and the potential for higher interest rates. However, towards the end of the quarter, investor sentiment improved as softening inflation data increased expectations for a September rate cut by the United States Central Bank, The Federal Reserve Bank. Portfolio performance was mainly driven by Botswana Equities, Emerging Market Equities, and Botswana Bonds. Botswana Equities led the charge driven by improved sentiments and robust dividend yields across various sectors.

Emerging Market (EM) Equities generated strong returns outperforming their Developed Market peers. Emerging Market (EM) performance in the quarter can be attributed to, declining inflation rates, robust economic data in several EM, sustained investor interest in technology and Artificial Intelligence (AI) stocks, in addition to positive geo political outcomes (elections) in countries like South Africa and India. The significant presence of Asian markets within the broader EM landscape was instrumental in driving the outperformance of EM equities relative to their Developed Market counterparts. The positive performance of the Turkish market was underpinned by the expectation of continued conventional economic policies. Taiwan, one of the world's leading producers of information and communications technology products, particularly global semiconductor - manufacturing industry, delivered stellar performance due to investor appetite for technology and AI counters. The Chinese economy demonstrated signs of recovery, albeit at a slower-than-anticipated pace, contributing positively to the broader performance of Emerging Market equities.

Domestic Fixed Income instruments had a favourable positive quarter, the Government of Botswana held 3 auctions in Q2 2024, which resulted in an increase in the yield curve. Global Fixed Income performance was volatile throughout the quarter; initial declines were spurred by fears of persistent US inflation and delayed interest rate cuts. However, a turnaround occurred as the labour market showed signs of easing and inflation expectations improved. African Equities similarly had a strong quarter, led by markets in Morocco and Egypt, while Kenya and Nigeria were detractors.

Global equities, similarly to bonds, underwent a volatile quarter, but experienced a more pronounced downturn resulting in flat performance. The S&P 500 Index continued its upward trajectory, rising 4.3 percent in the second quarter. Year-to-date, the index is up 15.3 percent and has reached 31 new all-time highs. Six of the Magnificent seven companies (Nvidia, Apple, Alphabet, Amazon, Microsoft, Meta) have generated most of the performance for the index. The six companies now account for 31 percent of the index. Inflation in the United States continued to trend downwards in the quarter registering at 3.0 percent as at June 2024 and moving towards the Federal Reserve targets of 2 percent.

Declining gasoline prices and other moderating price trends contributed to the overall decrease The Federal Reserve, has indicated that inflationary pressures have moderated, and a rate cut should be expected towards the end of the year. The dovish pivot by the Federal Reserve has caused the market to price in three or four rate cuts of approximately 0.25 percent, and possibly one rate cut of 0.50 percent.

Emerging Market (EM) Bonds were seemingly flat for the quarter, facing numerous headwinds including rising core rates, increasing commodity prices, prospect of a persistent period of elevated interest rates, and geopolitical uncertainty due to looming elections in various EM markets. Debswana Pension Fund's Net Total Assets increased by 2.54 percent from BWP 11,457 billion to BWP 11,681 billion. Positive performance for the quarter was driven by a combination of Offshore and Onshore Assets namely, Botswana Equities, Emerging Market Equities, Botswana Bonds, Global Bonds, and African Equities. Botswana Equities were the main driver of growth in the quarter in particular, performance can be attributed to the Financial Services, Fast Moving Consumer Goods (FMCG), and Tourism sectors.

The domestic listed capital markets were positive in the quarter, despite Botswana's challenges due to the downward global diamond market pressures. Real Gross Domestic Product (GDP) declined by 5.3 percent in the first quarter of 2024, compared to a growth of 5.3 percent in the same quarter in 2023. Diamond market weakness continues to be driven by factors such as competition from lab-grown diamonds, sluggish Chinese demand, supply chain disruptions caused by the Russia-Ukraine War, and the impact of sanctions on Russian diamonds. Emerging Market Equities exhibited positive returns led by strong performances from Turkey, South Africa, India and China. Botswana Bonds had positive performance in the quarter, the Monetary Policy Committee (MPC) cut interest rates and short- and medium-term bond yields declined slightly, while long-term yields rose due to increased government bond issuance to fund the BWP 8,7 billion budget deficit.

The Global Bond portfolio generated positive performance outperforming the Bloomberg Global Bond Aggregate Index by 4.43 percentage points. Africa Equities continued their upwards trajectory due to an improved African economic outlook driven by the anticipated positive trajectory of the global economy and effective policy actions.

The top performing asset class for the Fund was Global Equities, which increased 8.55 percent (in BWP). The next top performing asset class for Quarter 2 was EM Equities which rose 6.90 percent followed by Botswana Bonds, which advanced 4.69 percent. African Equities and Global Bonds additionally provided positive performance in the quarter advancing by 2.25 percent and 2.70 percent respectively.

Botswana Cash, Emerging Market Bonds, Global Equities were seemingly flat for the quarter generating 0.65 percent ,0.52 percent, and 0.09 percent respectively. Global Property, Global Cash, Botswana Property and China A Share were in negative territory for the quarter declining by 0.67 percent, 0.27 percent, 0.56 percent and 0.36 percent respectively. African Private Equity was the worst performing Asset Class for the quarter declining by 5.06 percent. Some of the negative returns experienced in African Private Equity can be ascribed to the fact that the Fund has initially invested in a new pan African Fund. Private equity funds frequently exhibit a phenomenon known as the J-curve effect. The J-curve effect is characterised by initial negative returns followed by subsequent positive returns as investments mature. These early losses can be attributed to factors such as investment costs, timing and management fees.

The Fund's Market Channel increased 2.59 percent during the quarter, the Conservative Channel rising 2.65 percent and the Pensioner Channel improving 2.52 percent.

On a twelve-month basis, the Fund overall generated positive returns. During the 12-month period, the Market Channel delivered 15.83 percent, while the Conservative Channel rose 15.48 percent and the Pensioner Channel generated 14.89 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 30th June 2024

Life Stage Channel Returns

Fund	3 Months to June 24	6 Months to June 24	12 Months to Mar 24	36 Months to June 24	60 Months to Mar 24	Since Inception (Aug 04)
Market	2.59	8.96	15.83	9.88	10.76	12.43
Conservative	2.65	8.89	15.48	9.50	9.85	10.69
Pensioner	2.52	8.85	14.89	8.91	9.51	11.45
Contingency	2.53	8.87	15.11	9.05	9.48	12.99

Asset Class Returns

Q1 2024		Q2 2024
Asset Class	**%Returns (Net)**	**%Returns (Net)**
Botswana Bonds	5.86%	4.69%
Botswana Cash	0.75%	0.65%
Botswana Equities	2.10%	8.55%
Botswana Property	-0.21%	-0.56%
African Equities	2.52%	2.25%
African Private Equity	0.20%	-5.06%
Global Bonds	0.90%	2.70%
Global Cash	2.19%	-0.27%
Global Property	0.58%	-0.67%
Global Equities	11.22%	0.09%
Emerging Market Bonds	4.92%	0.52%
Emerging Market Equities	6.71%	6.90%
China Funds	-3.23%	-0.36%

Benchmark Asset Class Returns as at 30th June 2024

Asset Class	Benchmark	1M (%)	QTR (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)
Local Equities	Botswana Domestic Companies Index	2.60 ▲	7.51 ▲	10.57 ▲	26.84 ▲	24.41 ▲	22.47 ▲	12.23 ▲
Bonds	Fleming Aggregate Bond Index	0.70 ▲	2.57 ▲	5.93 ▲	11.15 ▲	8.69 ▲	6.70 ▲	4.86 ▲
Global Equities	MSCI World (BWP)	1.20 ▲	1.96 ▲	13.65 ▲	21.01 ▲	25.06 ▲	15.02 ▲	17.48 ▲
Emerging Markets	MSCI EM (BWP)	3.10 ▲	4.57 ▲	9.32 ▲	13.31 ▲	12.13 ▲	2.19 ▲	8.36 ▲
Global Property	FTSE EPRA/NAREIT Developed Rental Index - (BWP)	-0.05 ▼	-2.12 ▼	-1.83 ▼	6.08 ▲	5.60 ▲	3.40 ▲	5.64 ▲
Global Bonds	Bloomberg Barclays GABI - (BWP)	-0.67 ▼	-1.79 ▼	-1.52 ▼	1.61 ▲	4.57 ▲	1.73 ▲	2.98 ▲
African Equities	FTSE/JSE African 30 (BWP)	-1.92 ▼	0.17 ▲	-1.14 ▼	-13.85 ▼	-8.13 ▼	-4.82 ▼	-0.62 ▼
Exchange Rate	USD/BWP	-0.82 ▼	-0.68 ▼	1.70 ▲	0.68 ▲	4.79 ▲	7.64 ▲	5.10 ▲

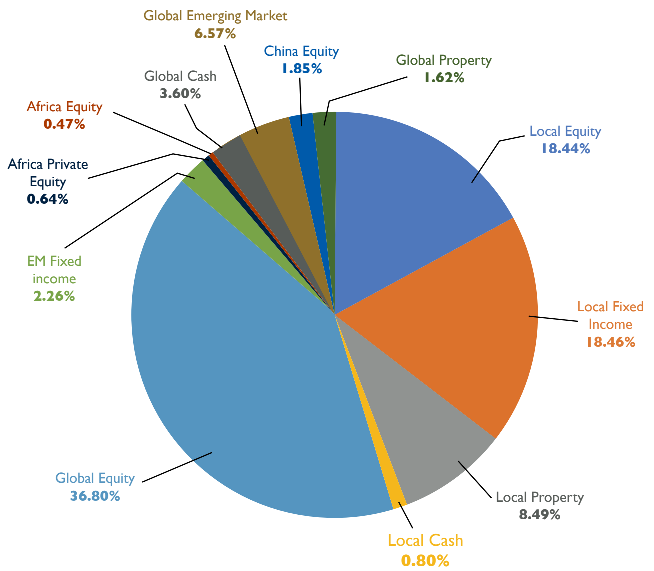
Inflation

The annual inflation rate increase from 2.8 percent in June to 3.7 percent in July 2024.

Interest Rates

At the meeting held on 13 June 2024, the Monetary Policy Committee (MPC) of the Bank of Botswana reduced the Monetary Policy Rate (MoPR) by 25 basis points from 2.4 percent to 2.15 percent

Asset Class Weights 30th June 2024



NB: Market performance results sourced from RISCURA

Global Market Update

Quarter ended 30th June 2024

The second quarter of the year was a relatively volatile period for Global Markets. While there were periods of upward momentum, the overall trend in Q2 was marked by significant price fluctuations and increased investor caution. Market volatility in the quarter can be attributed to numerous factors including stronger than expected U.S economic data and inflationary pressures, which resulted in no interest rate cuts from the Federal Reserve Bank (Fed).

The Federal Open Market Committee (FOMC) maintained its policy rate at 5.25 percent to 5.5 percent. Towards the end of the quarter the inflation outlook improved, investors became increasingly optimistic that the Fed would soon begin to decrease interest rates. Geopolitical events further exacerbated market volatility, particularly as several countries approached elections and the ongoing Russia-Ukraine War continued to disrupt global energy markets and supply chains. Despite slight positive overall performance in the quarter, a unique divergence occurred between major stock indexes and the performance of individual stocks within those indexes. While indexes like the S&P 500 and MSCI ACWI posted positive gains, the average stock within these indexes declined. This phenomenon, uncommon in the past three decades, was primarily driven by the strong performance of mega-cap AI companies like Nvidia and Microsoft. Investors without exposure to these AI leaders may have experienced losses during the quarter.

Against this background, the best performing sectors in the United States were the Information Technology and Communications sectors due to continued investor enthusiasm for AI stocks, driven by positive earnings reports and optimistic future projection. The worst performing sectors were Materials and Industrials. Global Bonds similarly experienced a volatile quarter particularly at the beginning of the quarter. Global Bond markets declines were fueled by resurgent US inflation concerns that led investors to question the anticipated timing of interest rate reductions. However, a more favourable market environment subsequently materialised, underpinned by signs of a cooling labour market and positive inflation data.

The US 10-year Treasury note experienced a further widening from 4.21 percent in Q1 to 4.36 percent in Q2 2024. Investment-grade (IG) corporate bonds delivered absolute and relative returns exceeding those of government bonds during the quarter. High-yield (HY) bonds continued their positive streak, significantly outperforming both government bonds and IG corporate bonds. European Equity markets had a positive quarter despite also experiencing some volatility in the quarter. United Kingdom (UK) equities rallied, culminating in The Financial Times Stock Exchange 100 Index (FTSE 100) reaching new record highs. Small and mid-sized (SMID) companies in the United Kingdom, also benefited from increased merger and acquisition activity. This segment was further buoyed by anticipated improvements in the performance of domestically focused companies, which had underperformed for a decade.

The quarter concluded with increased market volatility as expectations for interest rate cuts diminished. The Japanese equity market, as measured by the Tokyo Price Index, (TOPIX) achieved a positive return of 1.7 percent during the quarter. Market performance was spurred by stronger than anticipated corporate results in Japan. Additionally, numerous firms have expressed their support for the Tokyo Stock Exchange's initiatives aimed at reducing the cost of capital and enhancing share prices. These companies responded by establishing achievable financial goals and implementing revised capital policies, including dividend payout policies. Consequently, there has been a surge in share buybacks in the new fiscal year, resulting in an all-time high for buybacks.

Companies that publicly announced their updated capital allocation plans generally experienced positive stock market reactions. Despite positive outcomes in the quarter for listed equites, market sentiment was dampened by management's cautious earnings guidance for the upcoming fiscal year. Furthermore, a great concern for Japanese Capital Markets is the depreciation of the yen.

The weakness of the Yen can be attributed to US dollar's strength which has been underpinned by a robust US economy and the anticipation of continued elevated interest rates. Asia Ex Japan experienced substantial growth in the second quarter of the year.

The best performing markets were, Taiwan and India. Taiwan's performance continues to be bolstered by Investor optimism for AI. India remains a favoured investment destination, attracting continued positive investor sentiment. Chinese capital markets exhibited stronger performance during the quarter. China A shares performance was driven by the relatively low valuations of many Chinese stocks. EM Markets had a strong quarter underpinned by positive performance from the Information Technology and Communication sectors, while the Health Care and Consumer

Global Market Update (Cont.)

Quarter ended 30th June 2024

Staples sectors were detractors to performance.

Overall positive market sentiment and performance in the quarter resulted in Debswana Pension Fund's Net Total Assets increasing by 2.54 percent from BWP 11,457 billion to BWP 11,681 billion, marking another new record high for DPF. The Fund remains cautiously optimistic for the remainder of the year. Financial markets face numerous challenges including resurgent inflation, the risk of a global economic slowdown, volatile markets, fluctuating energy prices, geopolitical tensions, and pandemic and health crises (Mpox). The Fund will continue to implement its prudent investment strategy to navigate the different risks while taking advantage of emerging opportunities.

Botswana Market Review

Quarter ended 30th June 2024

According to statistics Botswana, the real Gross Domestic Product decreased by 5.3 percent compared to the 5.3 percent growth registered in the same quarter of the previous year.

The decline was attributed to a decrease in real value added for Diamond Trader, Mining & Quarrying. Water & Electricity and Manufacturing which declined by 46.8 percent, 24.8 percent, 10.7 percent and 0.8 percent respectively. In contrast, all other sectors saw growth rates of at least 0.5 percent.

On a quarter to quarter comparison the GDP decreased by 1.8 percent during the period under review.

During the quarter under review, Public Administration & Defence became the major contributor to GDP by 17.4 percent, followed by Mining and Quarrying at 12.5 percent, and Wholesale and Retail Trade at 12.1 percent.

Bank of Botswana's Quarter Business Expectations Survey reveals a more optimistic outlook among businesses for the second quarter of 2024. Firms anticipate inflation staying within the target range, and predict growth in sectors like finance, retail, and transport. These positive developments are expected to boost the domestic economy. Additionally, businesses foresee a decline in cost pressures and anticipate global monetary policy easing, which may lead to lower interest rates in South Africa and elsewhere, while remaining steady domestically.