


Quarter 3 | 2024

Business E-Brief

Your quarterly Fund Performance update

Domestic markets continued to generate positive value for the Fund, as both Botswana Equities and Botswana Fixed Income produced stellar returns in the quarter.



“ During the quarter Debswana Pension Fund’s Net Total Assets increased by 3.16 percent from BWP 11,681 billion to BWP 11,913 billion. ”

The third quarter of 2024 presented a challenging investment environment, characterised by heightened market volatility. Despite the significant market fluctuations, numerous Asset Classes posted positive performance by the end of the quarter. Portfolio performance was mainly driven by China Equities, Global Property, Botswana Equities, Global Equities, Botswana Bonds, Global Bonds, African Equities, and Emerging Market bonds.

The positive performance in the third quarter was led by China A Shares, which posted double digit returns after experiencing a significant period of underperformance, driven by Beijing’s strict Zero-COVID policy and property sector challenges. The Chinese government announced unprecedented economic stimulus, as a means of addressing China’s economic slowdown. The stimulus aimed to improve liquidity, bolster the property market, and stabilise financial markets. The Chinese government’s announcement positively impacted investor sentiment, leading to a substantial market rally. Global Property markets similarly experienced a significant turnaround, after a prolonged period of underperformance.

Improved performance by Global Property was spurred by an aggressive interest rate cut by the United States Federal Reserve Banks (Fed) and signaling for future interest rate cuts by the Fed. The Federal Reserve lowered the target interest rate range by 50 basis points to 4.75 percent-5.0 percent at the September 2024 Federal Open Market Committee (FOMC) meeting. The Federal Reserve’s 50 basis point rate cut surprised market participants, who had widely anticipated a much smaller reduction. This decision reflected the Fed’s assessment of moderating inflationary pressures and its commitment to its dual mandate of achieving price stability and maximum employment. Inflation in the United States continued to trend downwards in the quarter, registering at 2.4 percent as at

September 2024 and moving towards the Federal Reserve targets of 2 percent.

Declining gasoline prices and other moderating price trends continued to contribute to the overall decrease. Despite a volatile quarter, Global Equities demonstrated their resilience continuing their upward trajectory. Global Equities experienced initial weakness due to economic concerns and technology valuations, ultimately Global Equities rebounded due to positive economic data, Fed rate cuts, and China’s stimulus measures.

The Standard and Poor’s 500 index (S&P 500) continued its upward momentum, posting gains for the fourth straight quarter. In contrast to the first half of the year, where technology stocks were the primary drivers of market performance, the third quarter witnessed broader market participation. The index reached new highs on 18 occasions during the quarter. Overall the S&P 500 is up 22 percent year-to-date, hitting 42 new all-time highs.

Global Fixed Income similarly generated positive performance for the quarter spurred by implementation of interest rate cuts, coupled with expectations of additional easing. Emerging Market hard currency bonds delivered positive total returns, benefiting from a decline in U.S. Treasury yields and a reduction in credit spreads. Domestic markets continued to generate positive value for the Fund, as both Botswana Equities and Botswana Bonds produced stellar returns in the quarter.

Performance from Botswana Equities was driven by the Beverage, Financial, and Tourism sectors. Fixed Income instruments continued to benefit from the increased demand from the government of Botswana. During the quarter Debswana Pension Fund’s Net Total Assets increased by 3.16 percent from BWP 11,681 billion to BWP 11,913 billion.

The top performing asset class for the Fund was China, which increased by 17.01 percent (in BWP). The next top performing asset class for Quarter 3 was Global property which rose by 11.39 percent followed by Botswana Equities, which advanced 8.49 percent. Global Equities, Botswana Bonds, Global Bonds, African Equities, Emerging Market bonds additionally provided positive performance in the quarter advancing by 2.26 percent, 2.10 percent, 1.67 percent, 1.51 percent, and 1.41 percent, respectively.

Emerging Market equities and Botswana Cash, were seemingly flat for the quarter generating 0.65 percent and 0.60 percent. Global Cash and Botswana Property were in negative territory for the quarter, declining by 4.32 percent and 0.74 percent, respectively. Global Cash was the worst performing Asset Class for the quarter. In quarter three, The U.S. dollar experienced a decline against other major currencies, as measured by the U.S. Dollar Index (DXY). The U.S. dollar initially weakened due to the Fed’s prolonged period of tight monetary policy. The September rate cut and uncertainty surrounding future policy actions further fueled volatility in FX markets. The Fund’s Market Channel increased 3.52 percent during the quarter, with the Conservative Channel rising 3.04 percent and the Pensioner Channel improving 2.60 percent.

On a twelve-month basis, the Fund overall generated positive returns. During the 12-month period, the Market Channel delivered 19.02 percent, while the Conservative Channel rose 17.84 percent and the Pensioner Channel generated 17.12 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 September 2024

Life Stage Channel Returns

| Fund | 3 Months to Sept 24 | 6 Months to Sept 24 | 12 Months to Sept 24 | 36 Months to Sept 24 | 60 Months to Sept 24 | Since Inception (Aug 04) |
|--------------|---------------------|---------------------|----------------------|----------------------|----------------------|--------------------------|
| Market | 3.16% | 5.78% | 18.24% | 10.44% | 10.38% | 13.27% |
| Conservative | 3.04% | 5.77% | 17.84% | 10.42% | 10.01% | 10.65% |
| Pensioner | 2.60% | 5.19% | 17.12% | 9.78% | 9.57% | 11.41% |
| Contingency | 3.02% | 5.63% | 17.71% | 10.08% | 9.63% | 12.96% |

Asset Class Returns

| Q2 2024 | | Q3 2024 |
|--------------------------|---------------|---------------|
| Asset Class | %Returns(Net) | %Returns(Net) |
| Botswana Bonds | 4.69% | 2.10% |
| Botswana Cash | 0.65% | 0.60% |
| Botswana Equities | 8.55% | 8.49% |
| Botswana Property | -0.56% | -0.74% |
| African Equities | 2.25% | 1.51% |
| African Private Equity | -5.06% | -0.87% |
| Global Bonds | 2.70% | 1.67% |
| Global Cash | -0.27% | -4.32% |
| Global Property | -0.67% | 11.39% |
| Global Equities | 0.09% | 2.26% |
| Emerging Market Bonds | 0.52% | 1.41% |
| Emerging Market Equities | 6.90% | 0.65% |
| China Funds | -0.36% | 17.01% |

Benchmark Asset Class Returns as at 30th September 2024

| SET CLASS | BENCHMARK | 1M (%) | QTR (%) | YTD (%) | 1Y (%) | 2Y (%) | 3Y (%) | 5Y (%) |
|------------------|---|---------|---------|---------|---------|---------|---------|---------|
| Local Equities | Botswana Domestic Companies Index | 0.00 | 3.45 ▲ | 14.38 ▲ | 19.45 ▲ | 23.43 ▲ | 20.52 ▲ | 13.23 ▲ |
| Bonds | Fleming Aggregate Bond Index | 0.97 ▲ | -0.80 ▼ | 5.08 ▲ | 8.06 ▲ | 7.49 ▲ | 7.16 ▲ | 4.42 ▲ |
| Global Equities | MSCI World (BWP) | -0.03 ▼ | 1.79 ▲ | 15.68 ▲ | 26.22 ▲ | 25.75 ▲ | 14.32 ▲ | 16.82 ▲ |
| Emerging Markets | MSCI EM (BWP) | 4.73 ▲ | 4.05 ▲ | 13.74 ▲ | 20.14 ▲ | 17.42 ▲ | 5.23 ▲ | 9.28 ▲ |
| Global Property | FTSE EPRA/NAREIT Developed Rental Index (BWP) | 1.35 ▲ | 11.81 ▲ | 9.76 ▲ | 24.91 ▲ | 14.55 ▲ | 6.16 ▲ | 5.88 ▲ |
| Global Bonds | Bloomberg Barclays GABI (BWP) | -0.15 ▼ | 2.38 ▲ | 0.83 ▲ | 6.74 ▲ | 5.88 ▲ | 1.60 ▲ | 2.48 ▲ |
| Africa Equities | FTSE/JSE Africa 30 (BWP) | 0.71 ▲ | 5.07 ▲ | 3.88 ▲ | 11.62 ▲ | -4.96 ▼ | -5.74 ▼ | -0.48 ▼ |
| Exchange Rate | USDBWP | -1.82 ▼ | -4.30 ▼ | -2.67 ▼ | -4.69 ▼ | -1.05 ▼ | 4.80 ▲ | 3.34 ▲ |

Interest Rates



The Bank of Botswana's Monetary Policy Committee held the Monetary Policy Rate (MoPR) steady at 1.9% on November 7, 2024.

Global Market Update

Quarter ended 30th September 2024



The third quarter of the year presented a complex period for investments, marked by numerous evolving factors. In the United States, interest rate dynamics dominated market movements, overshadowing other factors. At the beginning of the quarter the United States Federal Reserve bank-maintained interest rates at elevated levels, as the quarter progressed weak economic indicators caused market uncertainty prompting the Federal Reserve to cut interest rates by quarter end.

Interest rate cuts, coupled with strong

corporate earnings helped spur positive market performance. United States Equities rose, but performance varied across sectors. Interest rate movements led to a rotation away from top performing sectors and towards previously underperforming sectors.

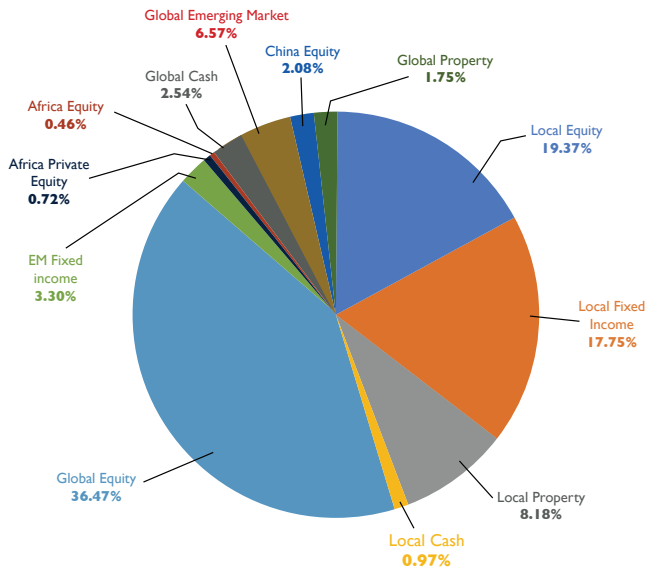
U.S. small-cap and value stocks outperformed large-cap and growth stocks in Q3 2024, reversing a trend in which large-cap and growth stocks (particularly the magnificent seven) had dominated within the year. The Information and

Technology sector, which has been a top performer in the year, advanced marginally as concerns emerged about the potential return on significant Artificial Intelligence (AI) investments. Utilities and Real Estate were the top performing sectors. Utility counters gained momentum due to increased investments in energy infrastructure driven by growing demand from AI and data centers.

Real Estate sector performance was driven by falling interest rates. The Energy sector was the worst performing sector for the quarter due to a decline in global demand. Global Bonds similarly were impacted by interest rate cuts by Global central banks.

In the United States, The Fed's decision to cut interest rates, coupled with expectations of accelerated monetary policy easing, led to a weaker U.S. dollar and a significant decline in U.S. Treasury yields. The US 10-year Treasury note experienced a decline from 4.36 percent in Q2 2024 to 3.78

Asset Class Weights 30th September 2024



NB: Market performance results sourced from RISCURA

Global Market Update (Cont.)

Quarter ended 30th September 2024

percent in Q3 2024. The U.S 2-year bond yield fell from 4.72 percent in Q2 2024 to 3.65 percent.

European Equity markets had a positive quarter despite also experiencing some volatility in the quarter. United Kingdom (UK) equities rallied, driven by the Labour Party election victory and the subsequent Bank of England (BOE) interest rate cut. However, concerns over potential tax hikes and spending cuts by the new Prime Minister Keir Starmer dampened market sentiment by the end of the quarter. Q3 2024 was a volatile period for the Japanese stock market, characterised by an initial rally followed by a sharp correction.

Japan's market volatility was triggered by a combination of factors, including weaker U.S. economic data and the Bank of Japan (BOJ)'s decision to adjust its monetary policy stance. The yen appreciated significantly against the U.S. dollar during the quarter. The Japanese equity market, as measured by the Tokyo Price Index, (TOPIX) declined by 4.4 percent in local currency terms. The strengthening yen had a mixed impact on the various Japanese sectors, Domestic-focused sectors benefited, while export-oriented sectors were negatively affected.

Small cap firms outperformed large-cap stocks. Asia ex-Japan equities performed well in Q3 2024, with most jurisdictions posting positive returns. South Korea and Taiwan underperformed due to a sell-off in technology stocks, as investors grew cautious about the potential benefits of AI investments. Chinese capital markets exhibited strong performance during the quarter.

Chinese Equity performance was driven by extensive government stimulus measures, aimed at reviving the economy including interest rate cuts and fiscal support. China's recent stimulus measures have primarily targeted monetary policy, aiming to stimulate the economy through banking and monetary tools, rather than relying on increased government spending.

Beijing's stimulus measures aim to achieve the country' 5 percent growth target for 2024. EM markets displayed resilience in Q3, delivering strong returns amidst heightened volatility. The quarter for Emerging Markets began with a sharp sell-off in technology stocks and the unwinding of carry trades following a BoJ rate hike. However, subsequent U.S. and Chinese monetary easing measures spurred strong returns in the quarter.

“ The Fund will continue to implement its prudent investment strategy to navigate the different risks while taking advantage of emerging opportunities. ”

Despite significant market volatility and challenging market dynamics, Debswana Pension Fund achieved a 2.54 percent increase from BWP 11,681 billion to BWP 11,913 billion, marking another new record high for DPF. Debswana Pension Fund has a well-diversified investment portfolio that enables it to withstand adverse market conditions.

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. 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 September 2024

According to statistics Botswana, the Real Gross Domestic Product decreased by 0.5 percent compared to the 0.3 percent growth registered in the same quarter of the previous year.

The decline was attributed to a decrease in real value added for Mining & Quarrying and Diamond Trade. Water & Electricity, and Manufacturing which declined by 16.5 percent and 11.2 percent respectively. In contrast, all other sectors saw growth rates of at least 0.3 percent.

On a quarter to quarter comparison the GDP decreased by 1.4 percent during the period under review. During the quarter under review, Public Administration & Defence became the major contributors to the GDP by 17.4 percent, followed by Mining and Quarrying at 14.2 percent, and Wholesale and Retail Trade at 11.8 percent and Construction at 11.5 percent

Bank of Botswana's Quarter Business Expectations Survey reveals that firms are less optimistic about business conditions.

Firms anticipate inflation staying within the target range, and predict growth in sectors such as Mining and Quarrying; Finance, Professional and Administrative Activities; and Agriculture sectors. 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.