DEBSWANA · PENSION · FUND

Quarter 4 | 2024

Business E-Brief

Your quarterly Fund Performance update

African Equities Drive Q4 Market Performance

DPF Q4 2024 E-Brief

Q4 Report Back

> "Debswana Pension Fund achieved a 2.59 percent increase from BWP 11,913 billion to 12,175 billion, marking another new record high for DPF."

The fourth quarter of the year culminated in yet another period of significant volatility for financial markets thereby concluding a year characterised by considerable instability and widespread uncertainty.

Geopolitical developments, particularly shifts in the US political landscape and central bank actions were the primary drivers of market movements in the fourth quarter. Donald J. Trump won the 2024 United States elections, defeating Democratic candidate and former Vice President Kamala D. Harris. Mr. Trump secured the presidency by surpassing his 2020 performance in both Republican and Democratic states, capturing enough swing states to achieve 270 Electoral College votes. In addition to Mr. Trump's victory, the Republicans achieved a red sweep by securing control of both the House of Representatives and the Senate in the 2024 elections. This win grants the Republican Party control over Congress, the highest legislative authority responsible for drafting and enacting laws, for at least the next two years, thereby facilitating the advancement of their legislative agenda.

Donald Trump's victory had a profound impact on global markets. US equities, which represent over 50 percent of the global market capitalisation, surged following the election result, fueled by optimism surrounding deregulation and tax cuts. However, these gains were later moderated by concerns over potential trade wars and rising inflation, which also negatively impacted other regions. There was notable divergence in performance among geographies, with US equities reaching another all-time high in November 2024 before tapering off in the final month. Meanwhile, other markets, especially those susceptible to proposed US tariffs like China and Mexico, showed signs of weakness. The U.S. central bank impacted markets in Q4 by highlighting that it anticipates fewer policy rate cuts in 2025 due to persistently high inflation. The Federal Reserve's comments spurred a stock market sell-off after the market adjusted its expectations for fewer rate cuts in 2025. Despite the significant market fluctuations, a majority of the Fund's Asset Classes posted positive performance by the end of the quarter. Portfolio performance was mainly driven by Africa Equities, Global Cash, Emerging Market Bonds, Global Equities and Global Bonds.

The positive performance in the third quarter was led by Africa Equities. Africa listed equities can offer diversification benefits, especially during periods of global market volatility. African stock markets often have a lower correlation with Developed Market Equities, which can help reduce overall portfolio risk. Africa Listed Equities generated positive performance from countries such as Egypt, Nigeria, Kenya, Ghana, and Senegal. Despite encountering numerous and overlapping challenges, African economies continue to demonstrate resilience, Real Gross Domestic Product was estimated to be 2.4 percent for 2024.

Global Cash similarly experienced a significant turnaround, after some underperformance throughout the year. The United States Dollar (USD) experienced significant volatility before and after the United States elections. Before the elections, volatility was driven by investor uncertainty about the election outcome and potential policy changes. After the elections the U.S. Dollar (USD) strengthened against major global currencies.

The strengthening of the dollar was due to market expectations of economic growth under Trump's proposed policies, which were expected to focus on domestic growth, inflation control, and fiscal stimulus. Emerging Market Hard Currency Bonds delivered positive performance, driven by strategic duration positioning, effective credit hedges, and underweight positions in underperforming bonds. Despite another volatile quarter, Global Equities demonstrated their resilience continuing their upward trajectory. United States Equities led the charge spurred by Trump momentum-driven gains. The Standard and Poor's 500 index (S&P 500) rose by 2 percent in the quarter. The S&P 500 increased by 23.31 percent in 2024, continuing it's upward trajectory from a 24.2 percent rise in 2023. In the first half of the year, Artificial Intelligence(AI)-driven enthusiasm propelled the S&P 500, with Nvidia and Apple, members of the "Magnificent 7", rising by 171 percent and 30 percent, respectively.

Despite strong year-to-date performance, US Equity markets faced challenges in the final days of December. Investors crystallized gains from some of 2024's top performers, while concerns about rising rates towards year-end added to the market pressure. Botswana equities maintained their positive performance streak. In the quarter performance was driven by the Financial services and FMCG sectors. Fixed income markets were highly volatile in Q4 2024. Bond market fluctuations were driven by monetary policy decisions, geo-political tensions, and changing inflation rates. Major government bond markets experienced significant sell-offs, influenced by various global factors.

The top performing asset class for the Fund in the quarter was Africa Equities, which increased 12.48 percent (in BWP). The next top performing asset class for Quarter 4 was Global cash which rose 6.56 percent followed by Emerging Market Bonds, which advanced 6.15 percent. Global Equities, Botswana Equities, Global Bonds, additionally provided positive performance in the quarter advancing by 4.48 percent, 4.24 percent, 1.66 percent, respectively.

Botswana Cash, China A Shares, Botswana Property, and Botswana Bonds were seemingly flat for the quarter generating ,0.76 percent, 0.49 percent and 0.32 percent and 0.16 percent, Africa Private Equity, Global Property, and Emerging Market Equities were in negative territory for the quarter, declining by 13.97 percent, 3.71 percent, and 0.45 percent. Africa Private Equity was the worst performing Asset Class for the quarter declining by 13.97 percent. Some of the negative returns experienced in African Private Equity can be ascribed to the fact that the Fund has 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 by 2.75 percent during the Quarter, the Conservative Channel rising by 2.57 percent and the Pensioner Channel improving by 2.34 percent.

On a twelve-month basis, the Fund overall generated positive returns. During the 12-month period, the Market Channel delivered 14.76 percent, while the Conservative Channel rose 13.42 percent and the Pensioner Channel generated 12.27 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.

Life Stage Channel Returns

Fund	3 Months to December 24	6 Months to December 24	12 Months to December 24	36 Months to December 24	60 Months to December 24	Since Inception (Aug 04)
Market	2.75%	5.98%	14.76%	9.33%	10.55%	12.39%
Conservative	2.57%	5.06%	13.42%	9.07%	9.66%	10.63%
Pensioner	2.34%	4.22%	12.27%	8.34%	9.11%	11.32%
Contingency	2.54%	4.87%	12.94%	8.69%	9.20%	12.86%

Asset Class Returns

	Q3 2024	Q4 2024
Asset Class	%Returns (Net)	%Returns (Net)
Botswana Bonds	2.10%	0.16%
Botswana Cash	0.60%	0.76%
Botswana Equities	8.49%	4.24%
Botswana Property	-0.74%	0.32%
African Equities	1.51%	12.48%
African Private Equity	-0.87%	-13.97 %
Global Bonds	1.67%	1.66%
Global Cash	-4.32%	6.56%
Global Property	11.39%	-3.71%
Global Equities	2.26%	4.48%
Emerging Market Bonds	1.41%	6.15%
Emerging Market Equities	0.65%	-0.45%
China Funds	17.01%	0.49%

Benchmark Asset Class Returns as at 31st December 2024

Asset 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 ▲
African Equities	FTSE/JSE African 30 (BWP)	0.71 ▲	5.07 ▲	3.88 ▲	11.62 ▲	-4.96 ▼	-5.74 ▼	-0.48 ▼
Exchange Rate	USD/BWP	-1.82 ▼	-4.30 ▼	-2.67 ▼	-4.69 ▼	-1.05 ▼	4.80 ▲	3.34 ▲

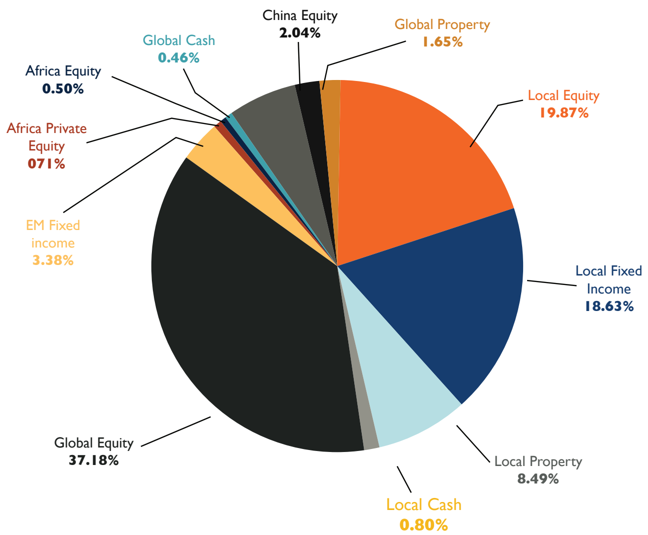
Inflation

The annual inflation rate increased from 1.7 percent in December 2024 to 2.5 percent in January 2025.

Interest Rates

At its meeting of 20 February 2025, the Bank of Botswana's Monetary Policy Committee (MPC) maintained the Monetary Policy Rate (MoPR) at 1.9 percent.

Asset Class Weights 31st December 2024



NB: Market performance results sourced from RISCURA

Global Market Update

Quarter ended 31st December 2024

The fourth quarter was characterised by geopolitical developments and the prevailing uncertainty regarding inflation.

In the lead-up to the United States presidential elections, public opinion polls had anticipated a closely contested race between Donald Trump and Vice President Kamala Harris. However, Trump ultimately secured a comfortable victory, defying the majority of the predictions. Donald Trump's re-election as President of the United States resulted in enthusiasm and caution in global financial markets. Initially Equity markets rallied driven by anticipated reductions in taxes, deregulation, and beneficial tariffs.

The S&P 500 returned 2.1 percent for the quarter and 23.31 percent for the year. The S&P 500 achieved its second consecutive annual gain of over 20 percent, driven by interest rate cuts, robust economic growth, and advancements in Artificial Intelligence. The Magnificent Seven stocks accounted for more than half of the gains in the S&P 500. The Magnificent Seven, saw a 67 percent increase in 2024, after generating 75 percent the previous year. Their strong performance significantly influenced the overall returns of the index. These seven companies now account for one-third of the S&P 500 Index and represent more than 20 percent of global equity market capitalisation. Despite their considerable economic contributions, the Magnificent Seven's market dominance is a source of apprehension. The concentration of the market among a few dominant players introduces risks, such as the possibility of overvaluation and susceptibility to economic downturns. The top performing sectors in the quarter were information technology, communication services and consumer discretionary. Sectors sensitive to interest rates, including consumer staples, real estate and utilities declined. Despite Trump's advocacy for increased drilling, the energy and materials sectors, particularly oil and gas, experienced underperformance.

In the third quarter, the Federal Reserve Bank cut interest rates by 50 basis points. In the fourth quarter the U.S. central bank reduced interest rates by 25 basis points as anticipated, however, Federal Reserve Chair Jerome Powell indicated that any further cuts in borrowing costs would depend on the continued progress in reducing persistently high inflation. The central bank's actions indicated that policymakers were beginning to consider the potential for significant economic changes and trade conflicts under the Trump administration that could potentially be inflationary for the United States Economy. The central bank's remarks led to some volatility towards the end of the quarter, causing stock markets to decline, and bond yields to rise. Looking ahead, investor sentiment suggests that borrowing costs may not decrease as significantly, leading to a less optimistic outlook for the market.

Global Bonds similarly experienced a very volatile quarter. US Treasury yields initially surged due to expectations of increased fiscal spending following the dominance of the Republican party in the 2024 elections. However, yields later rescinded as investors considered the potential for a more fiscally conservative Treasury Secretary Scott Bessent. The US 10-year Treasury note experienced an increase from 3.78 percent in Q3 2024 to 4.57 percent in Q4 2024. The significant increase suggests market uncertainty about the Fed's future actions, amid rising expectations for inflation if President-elect Trump were to implement his full range of economic policies. The U.S 2-year bond increased from 3.65 percent to 4.25 percent. The United States Dollar (USD) continued to strengthen through-out the Quarter, mostly due to uncertainty regarding the U.S elections. The Dollar maintained its upward trajectory, increasing by 7 percent in 2024 despite two rate cuts by the Federal Reserve.

European Equity Markets had a disappointing quarter, capping off a year of mixed performance. Equities experienced a downturn in Q4 due to recession concerns. Additionally, political instability in France and Germany, coupled with apprehensions about trade wars led by Donald Trump's, contributed to market volatility. The strongest performing sector was industrials, whilst the materials, real estate, and consumer staples sectors were the weakest performers for the quarter. Similarly, United Kingdom (UK) equities declined in the Quarter, driven by an increasing concern about the country's macro-economic outlook and uncertainties surrounding the new government's fiscal policies.

Japan experienced a positive Quarter after a volatile Q3, supported by a weaker Yen. The depreciation of the Yen towards the end of 2024 enhanced the earnings prospects for large listed exporting manufacturing companies, contributing to a strong year-end performance in the market. The TOPIX Total Return Index rose by 5.4 percent in Yen terms. Investor concerns about potential tariffs following Donald Trump's re-election led to difficulties for Asia ex-Japan equities in Q4. Singapore and Taiwan were the only markets to finish the Quarter in positive territory. China and Hong Kong saw significant declines during

Global Market Update (Cont.)

Quarter ended 31st December 2024

the Quarter, driven by concerns over potential increased trade and technology tensions associated with a Trump 2.0 presidency.

EM markets struggled in Q4, driven by Trump's re-election and his pending economic policies and tariffs. Emerging Markets were also adversely affected by foreign currency fluctuations, as the US dollar's strong appreciation followed the Federal Reserve's policy shift in December.

Despite significant market volatility and challenging market dynamics, Debswana Pension Fund achieved a 2.59 percent increase from BWP 11,913 billion to 12,175 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.

Debswana Pension Fund remains cautiously optimistic going into 2025. A second Trump presidency introduces several complexities for investors. Key concerns include heightened geopolitical tensions, particularly in trade and technology sectors, and potential volatility stemming from aggressive tariff policies. Additionally, deregulation efforts and shifts in fiscal policy could drive inflation and impact interest rates.

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 December 2024

According to statistics Botswana, the Real Gross Domestic Product decreased by 4.3 percent compared to the 1.1 percent growth registered in the same quarter of the previous year. The decline was attributed to real value added by Diamond Traders, Mining & Quarrying, Agriculture, Forestry & Fishing, Manufacturing and Transport & Storage which decreased by 75.6 percent, 27.2 percent, 2.1 percent, 1.7 percent and 0.8 percent respectively.

On a quarter to quarter comparison the GDP decreased by 2.9 percent during the period under review. During the quarter under review, Public Administration & Defence became the major contributor to GDP by 18.7 percent, followed by Wholesale & Retail Trade at 12.5 percent, and Construction at 12.2 percent.

Bank of Botswana's Quarter Business Expectations Survey reveals that firms are less optimistic about business conditions. However, sectors such as Mining and Quarrying, Finance, Professional and Administrative Activities, and Manufacturing expected an increase in output. Additionally, firms anticipated a decrease in lending interest rates across all markets, aligning with the anticipated global monetary policy easing. Furthermore, firms expected some cost pressures to diminish in Q4 2024 and projected inflation to stay within the 3-6 percent target range for 2024.