DPF
DEBSWANA · PENSION · FUND

Quarter 4 | 2025

# Business E-Brief

Your quarterly Fund performance update

**The fourth quarter of 2025 was defined by robust earnings momentum, moderating inflation, and continued investor optimism in the technology sector**

# DPF Q4 2025 E-Brief

## Q1 Report Back

> **"Despite heightened market volatility and challenging conditions, the Debswana Pension Fund delivered a modest quarterly return of 0.96 percent"**

The fourth quarter of 2025 was defined by robust earnings momentum, moderating inflation, and continued investor optimism in the technology sector. Investor confidence in AI-driven growth remained strong, even as markets began a gradual rotation toward international exposures and more attractively valued segments. Expectations of continued monetary policy easing from major central banks supported these shifts. Performance in the final quarter of the year was primarily driven by the sustained upward trajectory in global markets, particularly equity markets, with several leading equity indices ending the year near record or multi-year highs. Non-U.S. equities outperformed their U.S. counterparts for the first time in several years. African listed equity markets delivered some of the strongest returns globally in 2025, with multiple exchanges significantly outperforming major developed and emerging market benchmarks. In recent years, African markets have attracted increased investor interest as capital has shifted away from developed markets in search of strong growth opportunities, with the continent offering compelling prospects supported by attractive valuations. Collectively, the continent's equity performance has reflected a broad-based macroeconomic recovery, sustained investor appetite for emerging and frontier-markets, and resilient corporate earnings momentum.

International equity markets outperformed the U.S, largely because valuations abroad were considerably more attractive after several years of U.S. outperformance and stretched multiples in major U.S. indices. Many developed ex-U.S. markets, particularly in Europe, Asia, and parts of the emerging market universe, offered notably more attractive price multiples, providing investors with greater upside potential as earnings stabilised. In addition, international markets benefited from more supportive monetary and fiscal conditions, including earlier expectations for rate cuts in several regions, improved energy price stability, and improved global trade activity. The combination of a weaker U.S. dollar, more attractive valuations abroad, and a rotation away from U.S. technology names helped position international markets for notably stronger performance across Europe, Asia, and emerging markets. Globally, earnings growth remained robust, supported by profit margins that in most countries sit in the upper half of their historical ranges over the past decade. Looking ahead, analysts expect all major regions and the majority of global sectors to continue delivering positive Earnings Per Share (EPS) growth. Global inflation continued to ease through the second half of 2025, with headline price pressures moderating across most major economies and gradually moving closer to central-bank targets. This broad-based disinflation allowed several central banks, particularly in advanced markets, to begin shifting away from hawkish policy stances after an extended period of elevated rates. As inflation trended lower and monetary authorities began to unwind tightening measures, expectations for further policy easing gained momentum. These developments helped improve liquidity conditions, lowered discount-rate pressures, and provided a supportive backdrop for global equity-market performance in the fourth quarter of 2025. Technology remained one of the strongest-performing global sectors in the quarter, benefiting from continued enthusiasm around artificial intelligence and related growth themes.

In developed markets such as the United States, the sector's prominence was less pronounced than earlier in the year as market performance began to broaden, with value-oriented and international segments gaining traction. Although technology remained strong, cyclical and value-driven sectors increasingly outperformed, supported by improving fundamentals and more attractive valuations. In contrast, technology stocks in emerging markets continued to deliver notably strong results, supported by robust demand, structural digital-adoption trends, and investor rotation into markets with stronger earnings momentum.

Botswana Equities continued to exhibit positive momentum through the quarter, extending their streak of strong performance. Market activity remained elevated, supported in large part by regulatory-driven demand stemming from ongoing pension-fund transition mandates and institutional rebalancing, which have significantly boosted equity turnover in 2025. While this structural demand has been the dominant driver, several sectors also delivered genuinely solid fundamental performance, contributing to broad market gains.

Overall, the majority of the Fund's Asset Classes posted positive performance by the end of the quarter. Portfolio performance was mainly driven by Africa Listed Equities, Emerging Market Equities, Botswana Equities, Botswana Cash, Botswana Property, Emerging Markets Bonds and Global Equities.

Africa Listed Equities were the top-performing asset class and continued with their positive performance streak in the third quarter. Africa Listed Equities generated positive performance from countries such as Egypt, Nigeria, and Ghana. Egyptian Equities advanced approximately 14 percent in U.S.-dollar terms, while the Nigerian market rose around 12 percent. In Ghana, a roughly 19 percent appreciation of the cedi significantly boosted returns, lifting the market to a strong 28 percent gain in U.S.-dollar terms.

Emerging Market Equities similarly posted positive performance during the quarter. Gains were driven primarily by AI-related technologies and strong investor optimism around artificial intelligence, along with a more accommodative policy stance by the U.S. Federal Reserve, which improved global liquidity and bolstered demand for emerging-market assets.

Botswana Equities once again delivered strong positive performance during the period and were the best-performing domestic asset class. Gains were primarily driven by the financial services and commodities sectors.

Global Equities marginally contributed to the Fund's performance during the quarter. Markets posted broad-based gains, supported by strong corporate earnings, resilient economic data, and sustained enthusiasm around artificial intelligence. Continued optimism was further boosted by two U.S. Federal Reserve rate cuts, which eased global financial conditions and strengthened risk appetite.

The top performing asset class for the Fund in the quarter was Africa Equities, which increased 8.38 percent (in BWP). The next top performing asset class for Quarter 4 was Emerging Market Equities, which rose 5.33 percent, followed by Botswana Equities with a return of 4.94 percent. Botswana Cash advanced 2.07 percent, and Botswana Property generated 1.18 percent.

Emerging Market Bonds and Global Equities provided marginal positive performance in the quarter, advancing by 0.93 percent and 0.72 percent, respectively.

Global Bonds, Global Cash, China Equities, Global Property, African Private Equity, and Botswana Bonds were in negative territory for the quarter, declining by 1.07 percent, 1.83 percent, 2.26 percent, 2.42 percent, 3.33 percent and 3.63 percent.

The Fund delivered modest growth during the quarter, advancing by 0.96 percent, the Market Channel increased 1.21 percent, the Conservative Channel rose by 1.12 percent, and the Pensioner Channel generated 0.65 percent.

On a twelve-month basis, the Fund overall generated positive returns, growing by 11.28 percent. During the 12 months, the Market Channel delivered 12.33 percent, while the Conservative Channel rose 11.20 percent and the Pensioner Channel generated 9.97 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, which registered relatively lower returns.

### Life Stage Channel Returns

| Fund | 3 Months to December 25 | 6 Months to December 25 | 12 Months to December 25 | 36 Months to December 25 | 60 Months to December 25 | Since Inception (Aug 04) |
|---|---|---|---|---|---|---|
| Total Portfolio | 0.96% | 5.97% | 11.28% | 14.01% | 9.83% | 12.47% |
| Market Portfolio | 1.21% | 6.57% | 12.33% | 14.96% | 10.53% | 11.63% |
| Conservation Portfolio | 1.12% | 5.93% | 11.20% | 13.72% | 9.64% | 10.72% |
| Pensioner Portfolio | 0.65% | 5.25% | 9.97% | 12.66% | 8.83% | 10.87% |
| Contingency Portfolio | 0.52% | 4.42% | 8.89% | 12.66% | 8.74% | 12.08% |

### Asset Class Returns

| Q3 2025 | | Q4 2025 |
|---|---|---|
| Asset Class | %Returns (Net) | %Returns (Net) |
| Botswana Bonds | 2.30% | -3.63% |
| Botswana Cash | 1.58% | 2.07% |
| Botswana Equities | 6.64% | 4.94% |
| Botswana Property | 1.08% | 1.18% |
| African Equities | 18.28% | 8.38% |
| African Private Equity | -0.10% | -3.33% |
| Global Bonds | 1.37% | -1.07% |
| Global Cash | 0.13% | -1.83% |
| Global Property | 2.91% | -2.42% |
| Global Equities | 4.65% | 0.72% |
| Emerging Market Bonds | 4.33% | 0.93% |
| Emerging Market Equities | 11.46% | 5.33% |
| China Funds | 26.35% | -2.26% |

**Benchmark Asset Class Returns as at 31st December 2025**

| Asset Class | Benchmark | 1M (%) | QTR (%) | YTD (%) | 1Y (%) | 2Y (%) | 3Y (%) | 5Y (%) |
|---|---|---|---|---|---|---|---|---|
| Local Equities | Botswana Domestic Companies Index | 3.03 ▲ | 5.24 ▲ | 16.10 ▲ | 16.10 ▲ | 19.31 ▲ | 21.33 ▲ | 18.65 ▲ |
| Bonds | Fleming Aggregate Bond Index | 0.87 ▲ | -5.62 ▼ | -4.09 ▼ | -4.09 ▼ | 0.75 ▲ | 3.34 ▲ | 3.12 ▲ |
| Global Equities | MSCI World (BWP) | -1.24 ▼ | 5.22 ▲ | 17.97 ▲ | 17.97 ▲ | 20.69 ▲ | 23.72 ▲ | 17.38 ▲ |
| Emerging Markets | MSCI EM (BWP) | 0.90 ▲ | 6.86 ▲ | 30.12 ▲ | 30.12 ▲ | 20.64 ▲ | 18.85 ▲ | 9.06 ▲ |
| Global Property | FTSE EPRA/NAREIT Developed Rental Index - (BWP) | -3.31 ▼ | 1.19 ▲ | 5.81 ▲ | 5.81 ▲ | 6.18 ▲ | 9.53 ▲ | 8.39 ▲ |
| Global Bonds | Bloomberg Barclays GABI - (BWP) | -1.78 ▼ | 2.28 ▲ | 5.38 ▲ | 5.38 ▲ | 3.82 ▲ | 6.17 ▲ | 2.43 ▲ |
| African Equities | FTSE/JSE African 30 (BWP) | 0.63 ▲ | 7.74 ▲ | 52.75 ▲ | 52.75 ▲ | 27.82 ▲ | 10.78 ▲ | 8.60 ▲ |
| Exchange Rate | USD/BWP | -2.04 ▼ | 2.04 ▲ | -2.58 ▼ | -2.58 ▼ | 0.68 ▼ | 2.10 ▲ | 4.67 ▲ |

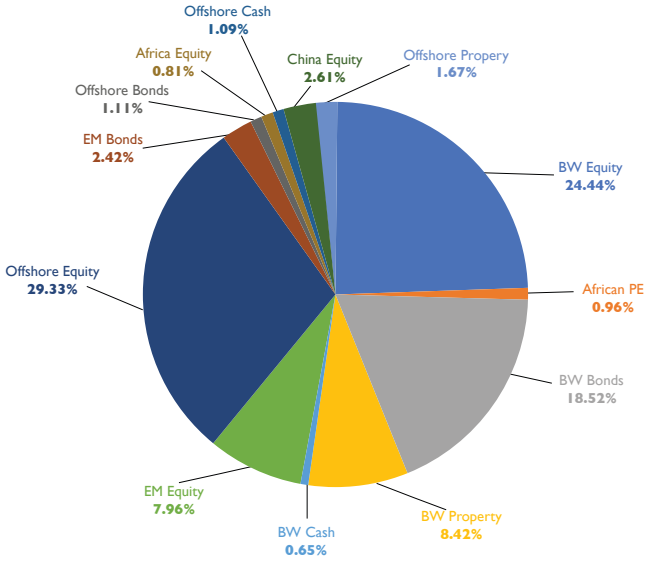
# Inflation

According to the Bank of Botswana, headline inflation rose slightly to 3.9 percent in December 2025, up from 3.8 percent in November, remaining within the medium-term objective range. The marginal increase was driven primarily by faster price growth in Transport and Health, while most other categories saw stable price movements.

# Interest Rates

At its meeting on 4 December 2025, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 3.5 percent, following the significant recalibration implemented in October. The decision aimed to consolidate earlier measures intended to strengthen liquidity management and support the July 2025 exchange-rate adjustments, which were designed to safeguard foreign reserves and maintain external balance.

**Asset Class Weights 31st December 2025**




**NB:** Market performance results sourced from RISCURA

# Global Market Update

Quarter ended 31st December 2025

Global markets ended the fourth quarter under a broadly supportive backdrop, with performance becoming less concentrated and strength emerging across a wider range of regions and sectors.

In the Global Equity landscape, investor positioning shifted away from previously concentrated areas of the market toward broader sector participation, accompanied by a clear shift in relative performance. Global Equity markets entered the fourth quarter of 2025 with steady momentum, supported by solid earnings, easing inflation pressures, and growing expectations that major central banks, led by the Federal Reserve, would continue with interest rate cuts. Despite the generally positive sentiment in developed markets, Global Equities were outperformed, with the United States in particular lagging behind, as emerging and frontier markets delivered stronger value-oriented returns. This relative outperformance in non-developed markets was further supported by a weaker U.S. dollar. The quarter marked a shift toward more diversified performance drivers, as investors moved beyond early-year concentrated winners and embraced wider sector contributions. Geographically, Europe, Asia, and emerging markets outperformed the U.S., supported by improving fundamentals and more attractive valuations across these regions. The S&P 500 posted a 2.7 percent gain in the fourth quarter, concluding a strong year of equity performance with a full-year return of approximately 18 percent, despite the pronounced volatility and sharp drawdown experienced in April 2025. The Magnificent 7 (Apple, NVIDIA, Microsoft, Amazon, Tesla, Alphabet, and Meta) were not dominant performance contributors during the quarter. Alphabet advanced 65 percent for the year, and Nvidia gained more than 39 percent, while the remaining mega-cap names failed to outperform the broader market.

Monetary easing by the Federal Reserve played a pivotal role in supporting performance. The Federal Reserve cut interest rates twice during the quarter, first in October and again in December, as policymakers responded to signs of softening labour-market conditions and rising downside risks to employment. These successive 25-basis-point reductions brought the federal funds target range down to 3.50%–3.75% by year-end. The Federal Reserve signalled a more gradual path for policy easing, with its latest projections indicating only one additional rate cut in 2026 and another in 2027 as policymakers anticipate a slower trajectory for future adjustments.

In the United States, Information Technology and Communication Services remained the dominant performance drivers during the quarter, buoyed by strong demand for AI-driven solutions and digital platforms. Despite the dominance of Information Technology and Communication services, several cyclical and defensive sectors, including industrials, financials, healthcare, and utilities, also delivered strong double-digit gains over the year, demonstrating broader market performance.

U.S. fixed income markets underperformed in Q4 2025. Treasury returns remain subdued as long-duration yields drifted upward and short-maturity yields fell, resulting in a noticeable steepening of the yield curve. The US 10-year Treasury rose from 4.16 percent in Q3 to 4.18 percent in Q4. The U.S 2-year bond declined from 3.60 percent in Q2 to 3.47 percent. Credit markets delivered positive total returns over the quarter, with investment-grade credit outperforming government bonds.

The U.S. dollar showed a modest rebound in Q4; overall performance remained constrained as policy uncertainty and expectations of further Federal Reserve rate cuts continued to weigh on the currency.

European equity markets posted another strong quarter, maintaining their upward momentum. Similarly, Europe also delivered broad-based gains, with Eurozone equities demonstrating stronger relative performance compared to U.S. markets. Investor sentiment was strengthened by the Federal Reserve's continued rate cuts, which supported financial conditions and reduced perceived risks to European assets. Financials led the advance, alongside strong positive performance in the healthcare and utilities sectors.

United Kingdom (UK) Equities also advanced over the quarter. Gains were driven primarily by large, globally oriented firms, with notable strength in sectors such as financials, mining, defence, and other areas tied to commodity markets. These industries benefited from firm international demand, elevated commodity prices, and a moderately softer pound.

Japanese Equities extended their positive streak this quarter, supported by strong global momentum in generative AI and increased defence spending, which buoyed related sectors. Domestically, Prime Minister Sanae Takaichi's election and the formation of a more stable governing coalition helped lift investor sentiment.

Asia ex-Japan Equities posted strong gains during the quarter, with performance led by technology-heavy sectors as global optimism around AI continued to bolster sentiment. South Korea, once again, was a standout performer, driven by robust demand for AI-related and semiconductor technologies. Countries such as Malaysia, the Philippines, Indonesia, and India also

# Global Market Update (Cont.)

Quarter ended 31st December 2025

delivered strong performance, supported by resilient domestic demand and improving local economic fundamentals. In contrast, markets like Thailand and Singapore lagged, weighed down by softer external demand and ongoing trade-related uncertainties

Emerging markets once again outperformed their developed-market counterparts in Q4, supported by a combination of sector-specific and monetary policy tailwinds. Performance was led by strong AI-driven optimism in Taiwan and Korea, where technology and semiconductor stocks surged. EM performance was further underpinned by a more accommodative U.S. monetary backdrop, as the Federal Reserve delivered three rate cuts between September and December. This shift towards a looser policy helped bolster risk appetite and contributed to the EM index's stronger returns. Chinese Equity markets did not fare as well in the quarter; the market retraced as investors locked in profits. In addition, sentiment in China weakened further amid deteriorating macro indicators and heightened uncertainty surrounding the property sector.

Despite heightened market volatility and challenging conditions, Debswana Pension Fund delivered a modest quarterly return of 0.96 percent. Despite the positive performance, the Fund's Assets Under Management (AUM) slightly decreased from BWP 12,256.95 to BWP 12,110.10 billion, due to members' exits.

Debswana Pension Fund enters 2026 with a cautiously constructive outlook amid an environment shaped by shifting global macro trends and elevated geopolitical uncertainty. While global markets continue to benefit from technological innovation and ongoing investment in AI-related productivity enhancements, valuations in several major markets remain stretched, leaving portfolios more vulnerable to downside shocks if earnings growth moderates. Rising tariff tensions between major trading blocs, particularly the U.S. and China, pose additional risks to global supply chains and could reignite inflationary pressures just as central banks navigate the final stages of policy normalisation. Geopolitical instability, including continued conflict in key energy-producing regions, may further heighten commodity-price volatility, adding another layer of uncertainty for global risk assets. Political transitions across major economies, highlighted by a heavy global election calendar in which more than 40 countries representing roughly 1.6 billion people will hold national-level elections in 2026, introduce meaningful policy uncertainty that could affect capital markets, currency markets, and capital flows. Against this backdrop, the Fund remains prudent in its positioning, balancing participation in growth opportunities with careful risk management as it heads into 2026.

# Botswana Market Review

Quarter ended September 2025

According to Statistics Botswana, the Real Gross Domestic Product increased by 8.2 percent compared to the 4 percent decline registered in the same quarter of the previous year. The increase was attributed to real value added by Diamond Traders, Mining & Quarrying, Finance, Insurance & Pension Funding, Transport and Storage, and Accommodation & Food Services, which recorded 88.1 percent, 39.5 percent, 5.2 percent, 5.2 percent, and 4.6 percent, respectively.

On a quarter-to-quarter comparison, the GDP decreased by 10.6 percent during the period under review.

During the quarter under review, Public Administration & Defence became the major contributor to GDP at 18.2 percent, followed by Wholesale & Retail and Mining & Quarrying at 12.8 percent and 11.8 percent.

According to the Bank of Botswana's latest Business Expectations Survey (BES), firms expressed pessimism about operating conditions in the fourth quarter of 2025 compared to optimism in the previous quarter.

Negative sentiment was most pronounced in sectors such as Construction and Real Estate; Finance, Professional, and Administrative Activities; and Retail, Accommodation, Transport and Communication. In contrast, the Manufacturing sector has a positive outlook, whilst Mining and Quarrying and Agriculture maintained a broadly neutral outlook. Despite the overall short-term pessimism, expectations for the 12 months ahead, up to December 2026, were more bullish.

The survey once again highlights constrained government spending as the most significant obstacle to business performance, reflecting Botswana's weak fiscal position amid subdued diamond market activity. Additionally, firms cited an unfavourable exchange rate environment following recent adjustments to exchange rate parameters. These factors, combined with limited public sector expenditure, continue to weigh on long-term sentiment, even as businesses navigate relatively stable conditions in the near term.

Looking ahead, businesses anticipate an increase in lending interest rates and borrowing volumes over the coming year, signalling tighter financial conditions. Cost pressures are expected to rise slightly in the fourth quarter of 2025, mainly due to higher input costs. Firms believe inflation expectations remain well anchored, with businesses projecting inflation to stay within the Bank of Botswana's medium-term target range of 3–6 percent through 2025 and 2026. This suggests confidence in price stability despite fiscal and exchange rate challenges.