

Economic trends and investment themes

2024

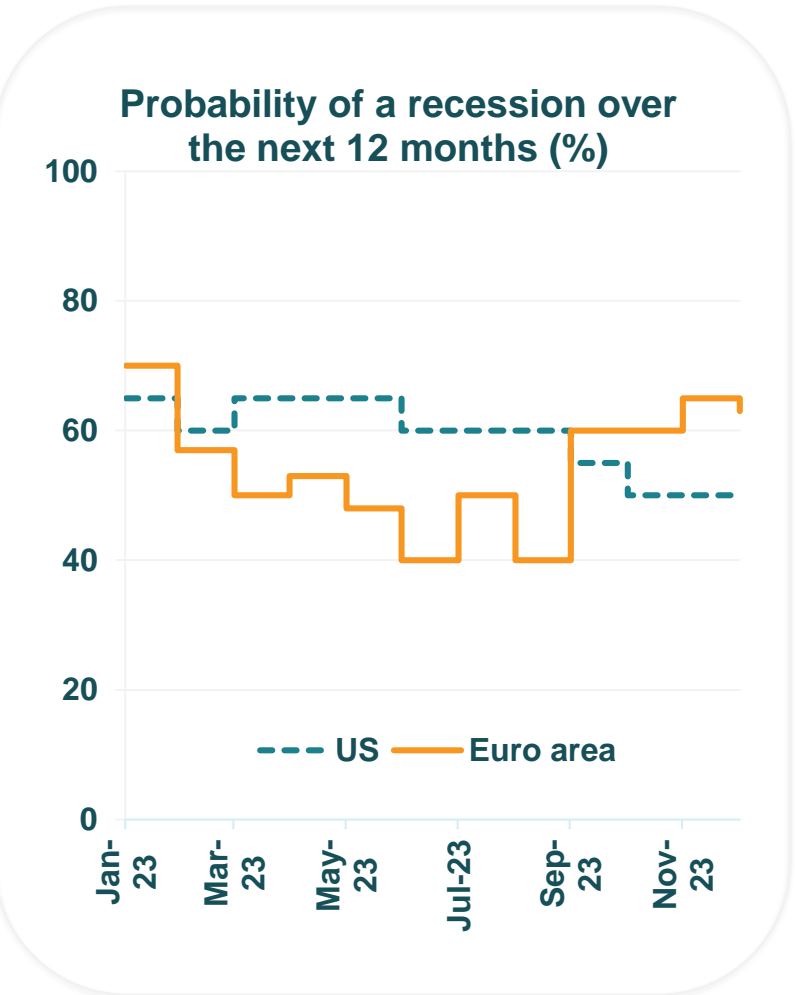
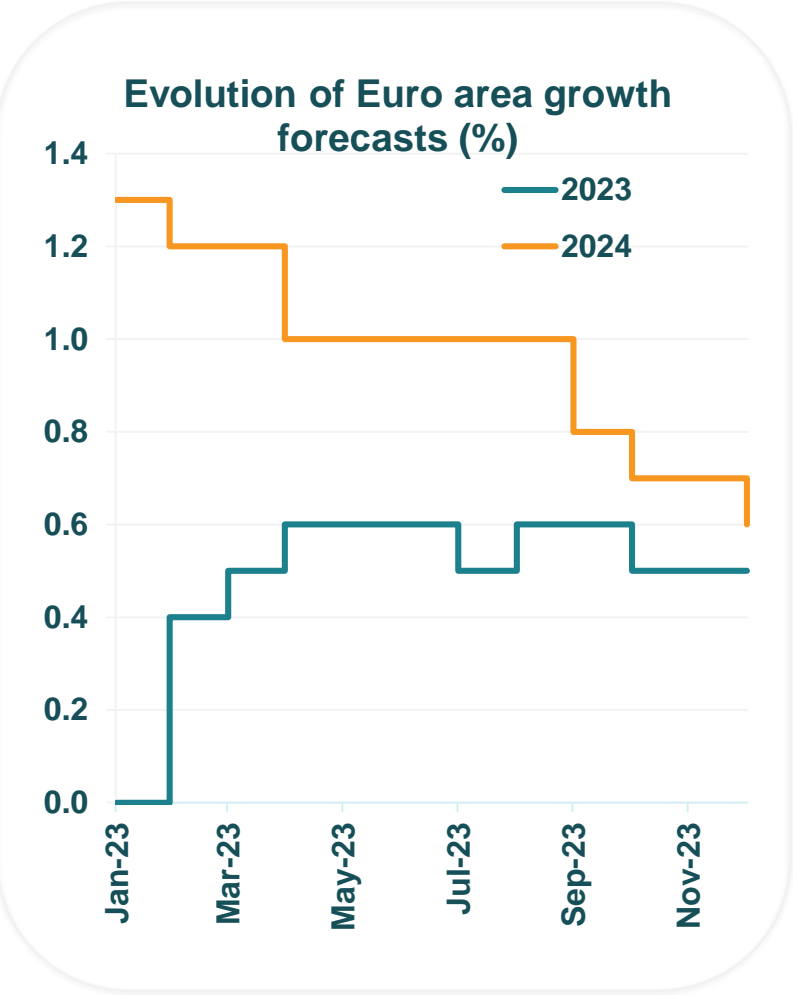
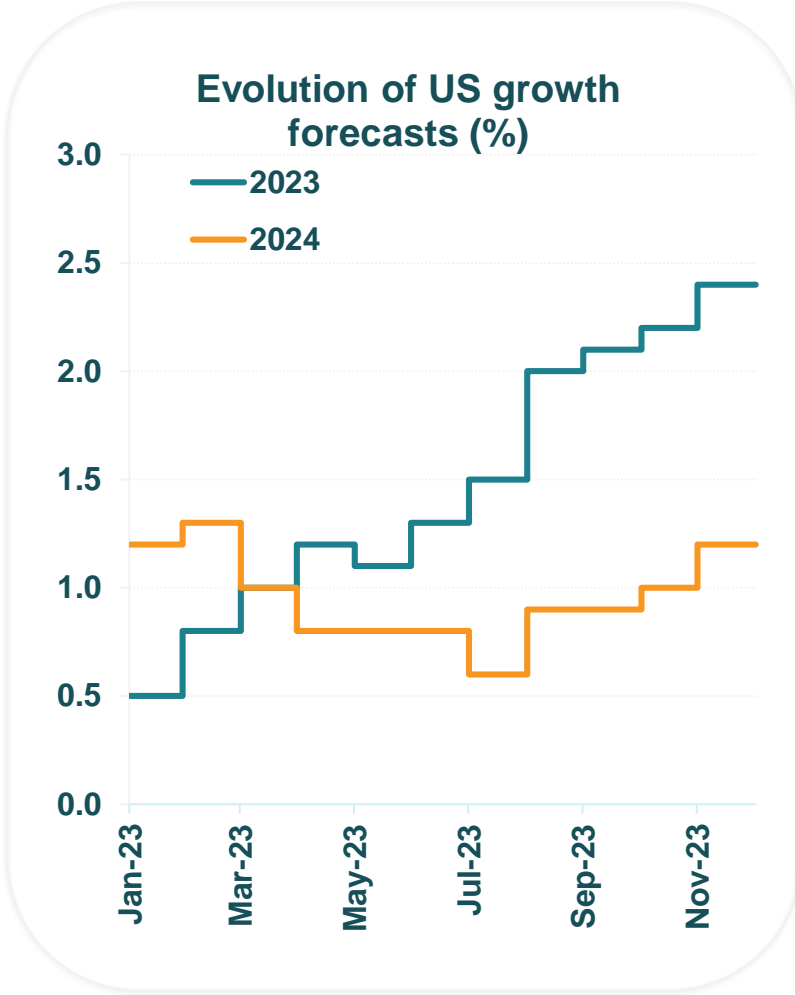
Investments

2023: A year of inflections

- Hard to soft landing
- Banking sector turmoil
- Federal Reserve Bank's pivot

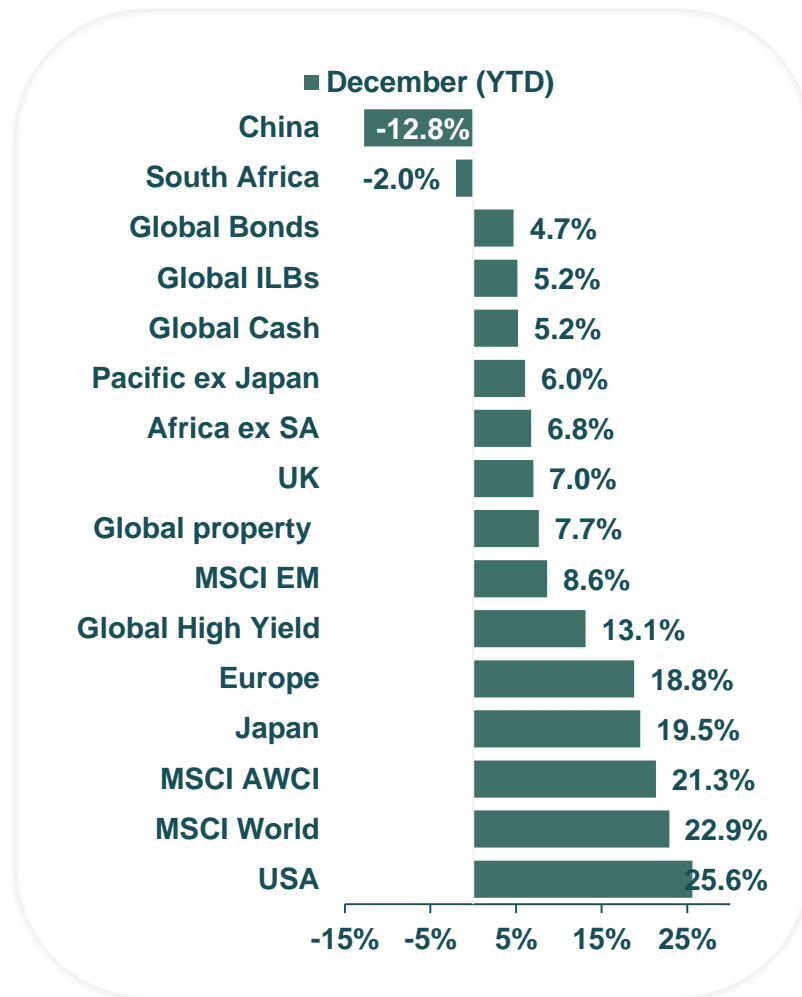
Investments

- Bearish beginning of the year views turned positive into year-end
-



Source: Bloomberg, Alexander Forbes Investments

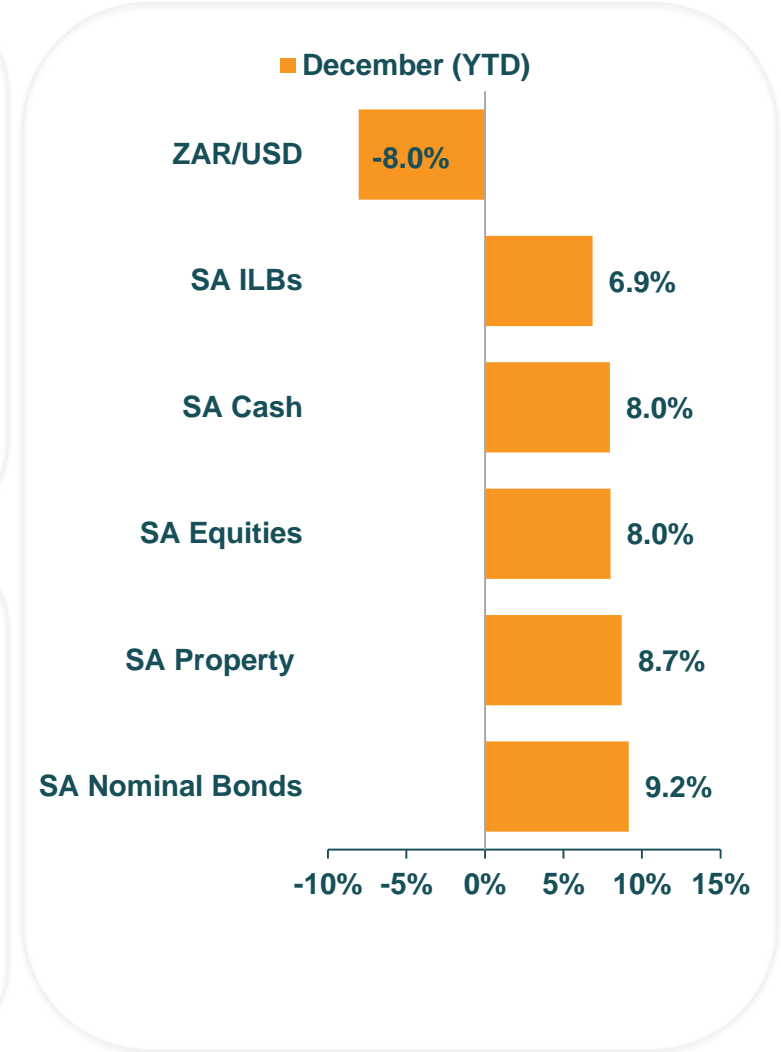
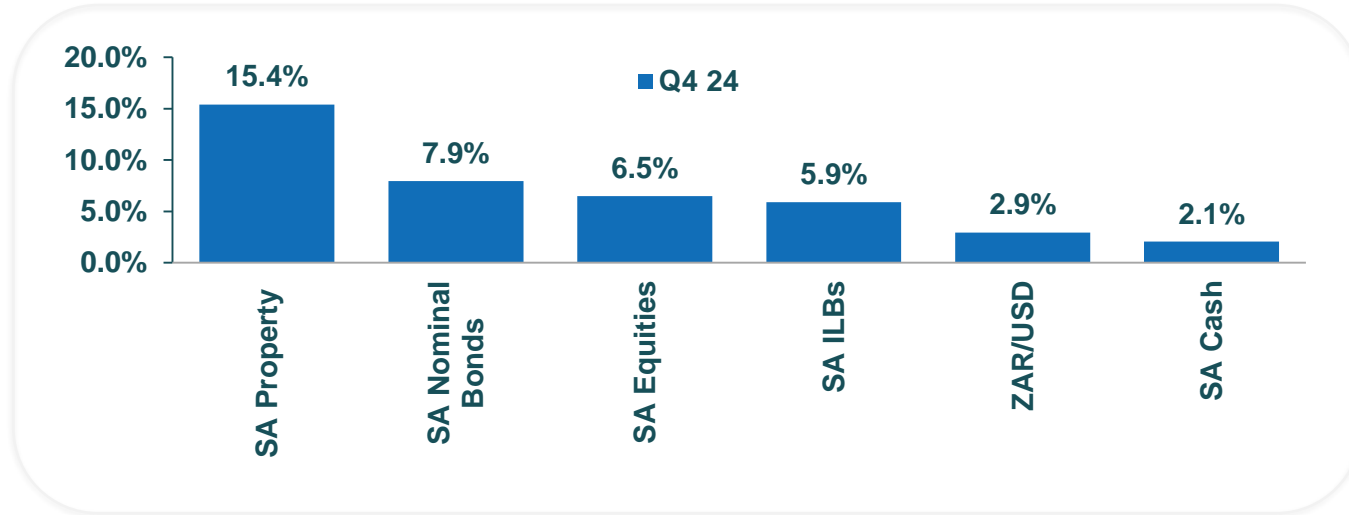
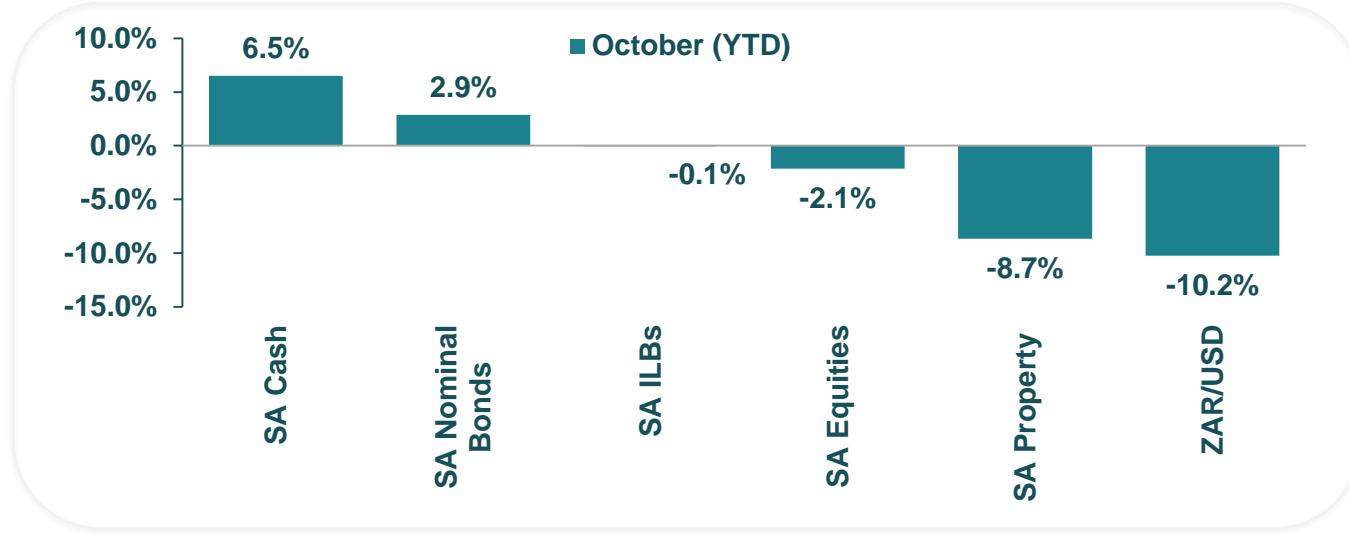
Supporting a broad-based market rally in Q4 24 (in USD)



Source: FactSet, Alexander Forbes Investments

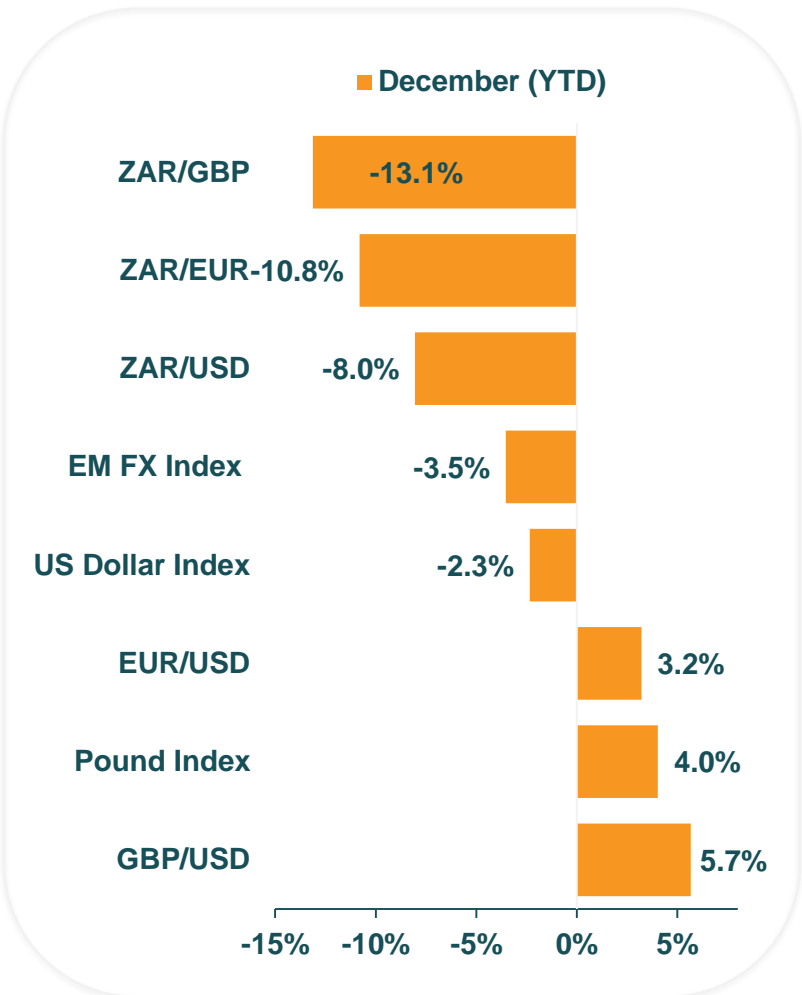
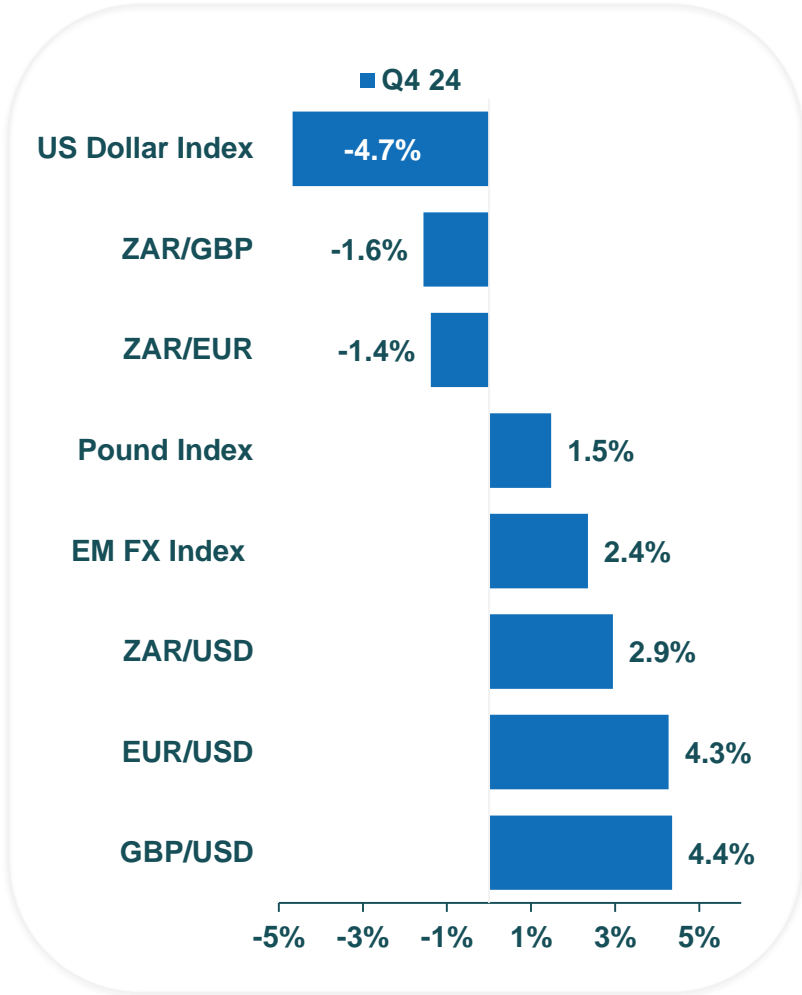
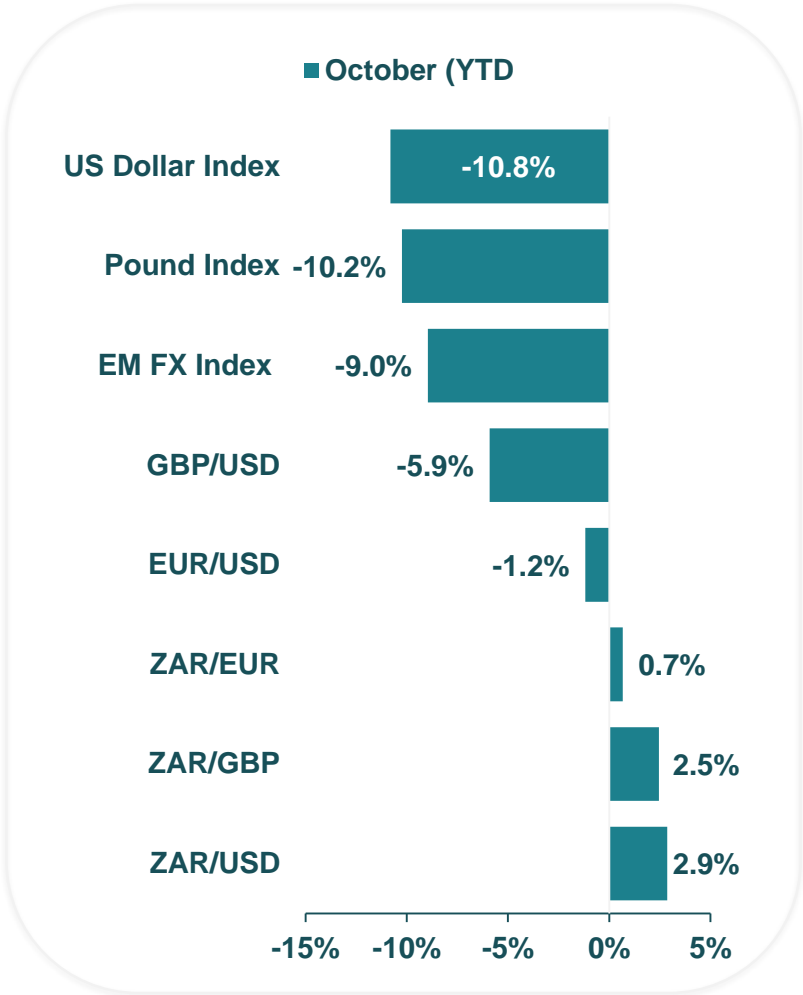


With SA assets also benefiting from improved sentiment



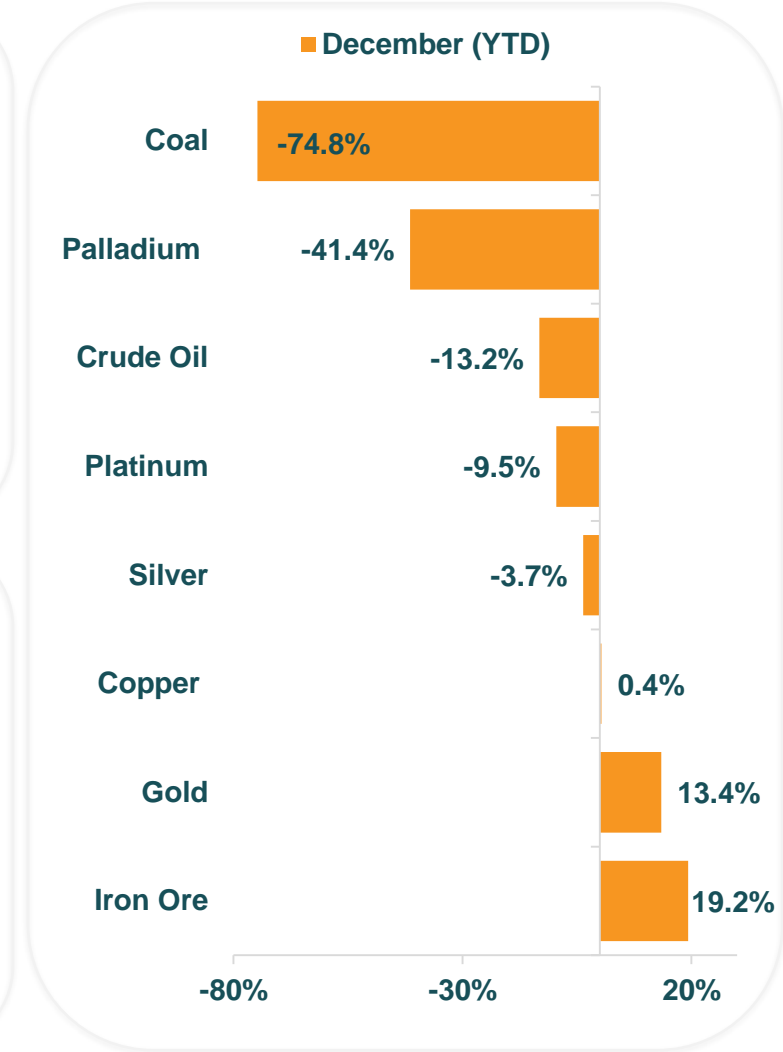
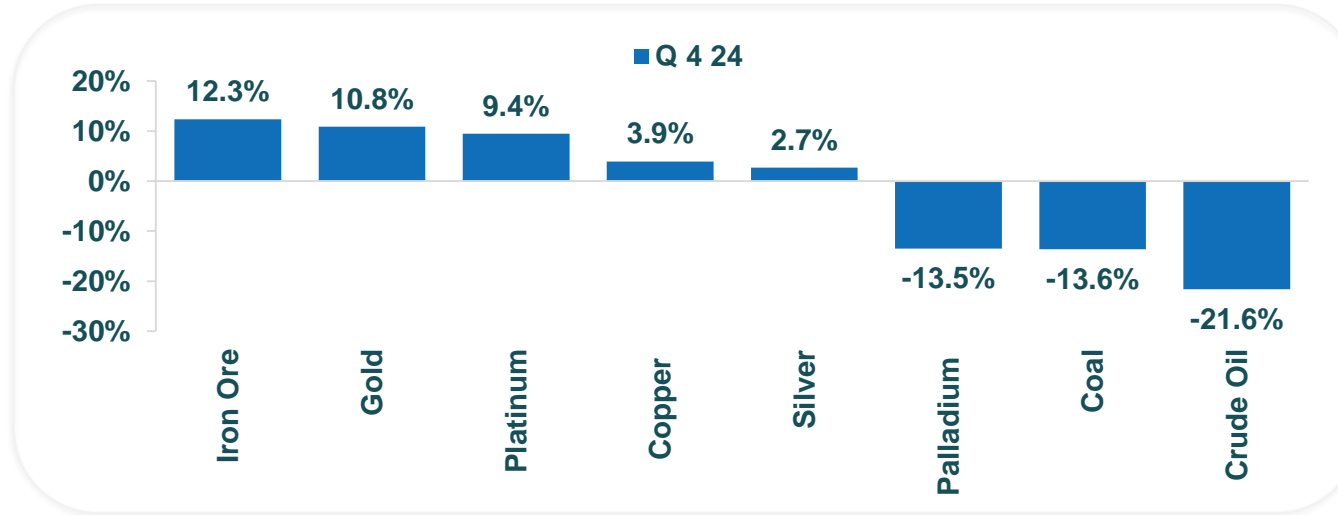
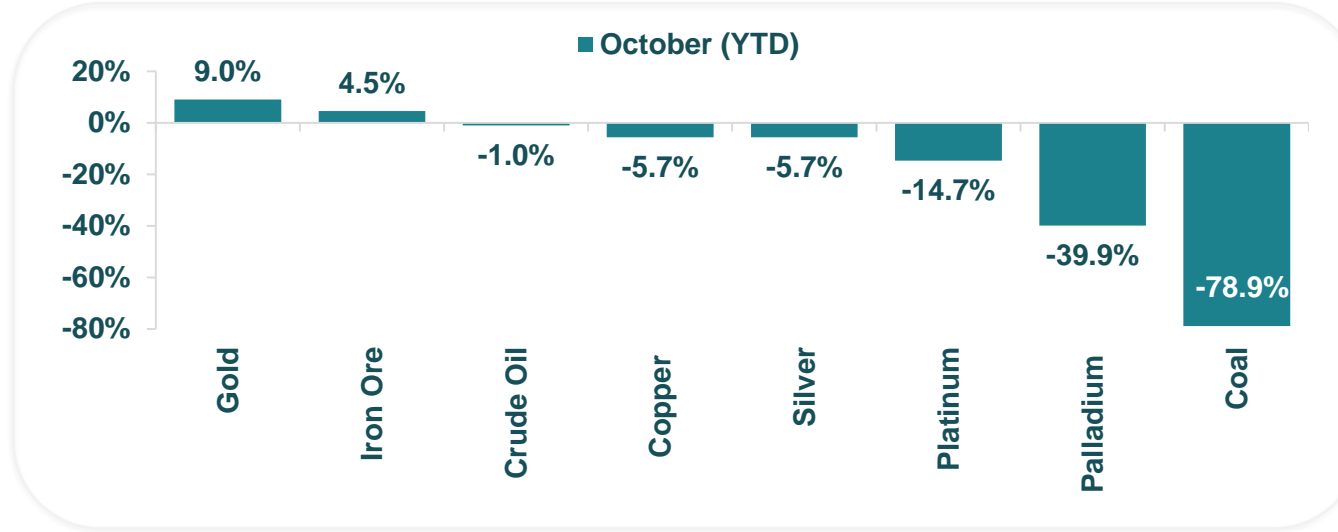
Source: FactSet, Alexander Forbes Investments

And the Fed's dovish tilt weighing on USD



Source: FactSet, Alexander Forbes Investments

Industrial metals down on overall slowing growth



Source: FactSet, Alexander Forbes Investments



2024 outlook less certain

“navigating by the stars under cloudy skies” – J Powell



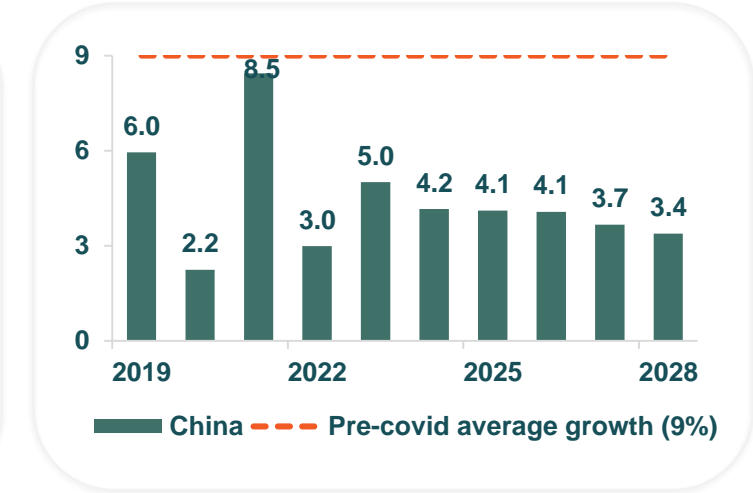
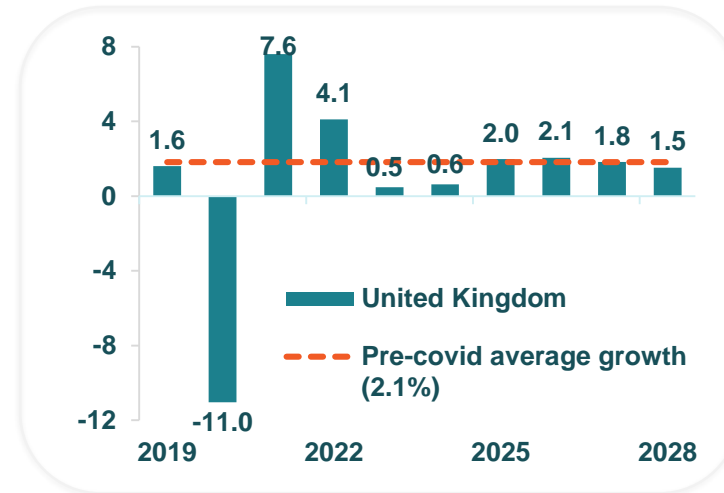
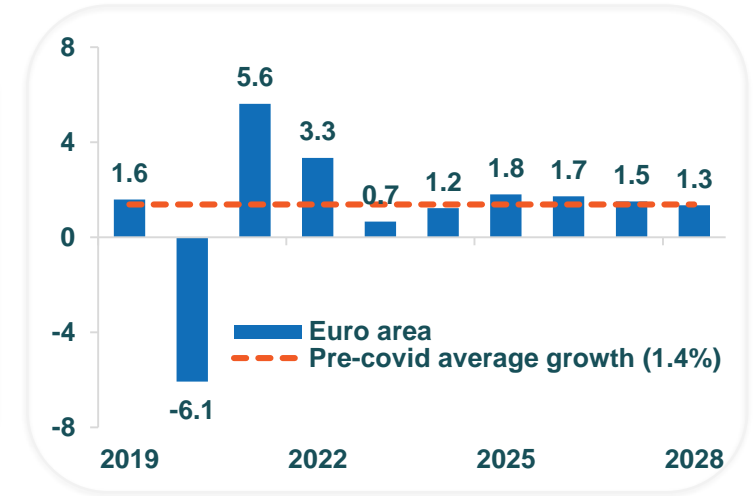
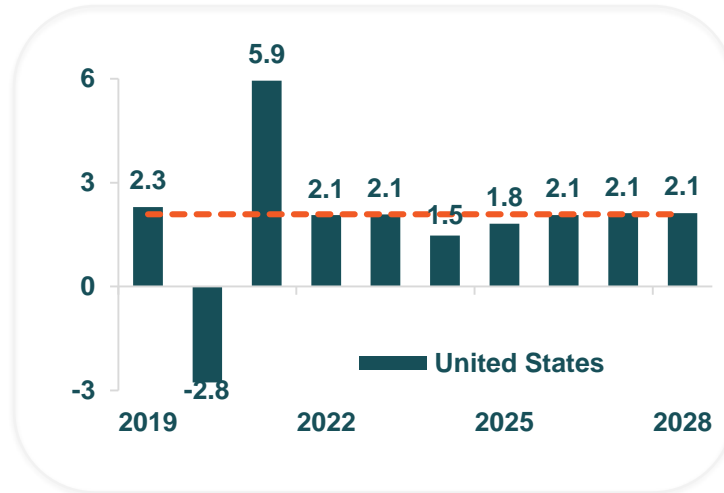
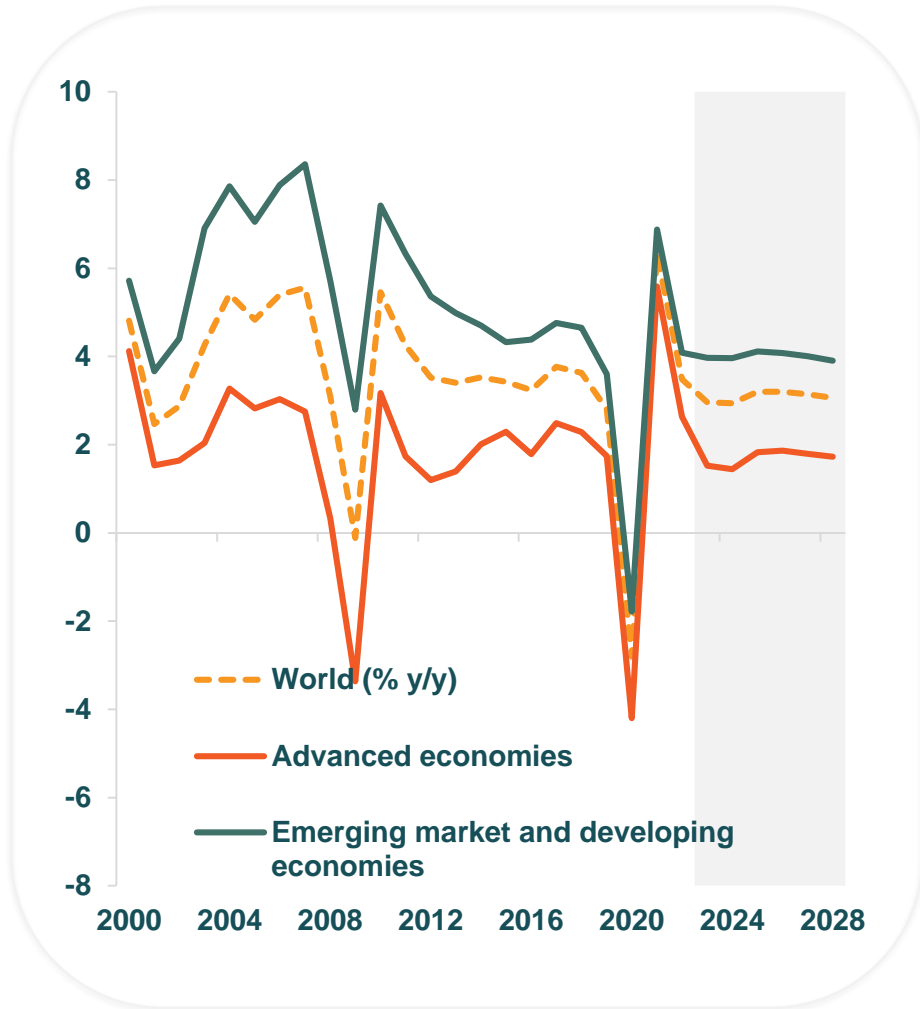


Election packed calendar points to another year of uncertainty



Source: Association of World Election Bodies, Alexander Forbes Investments

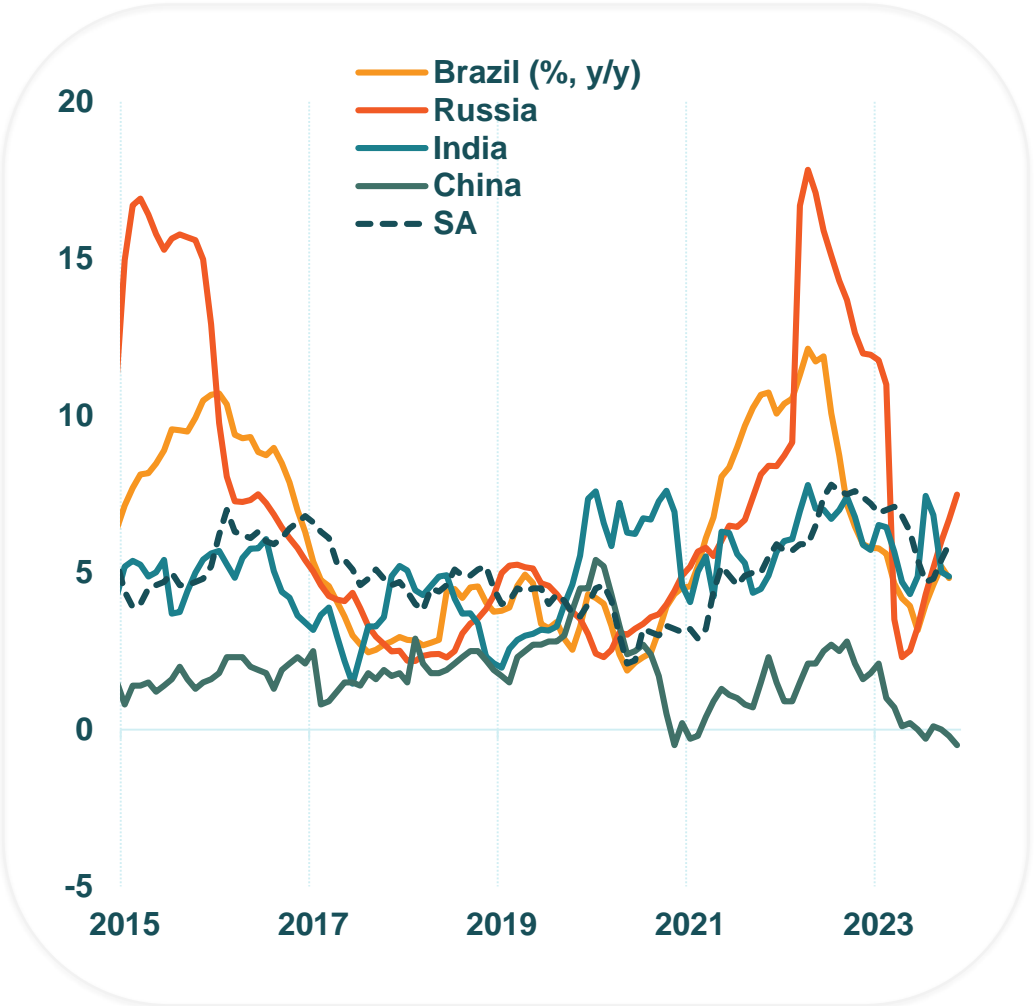
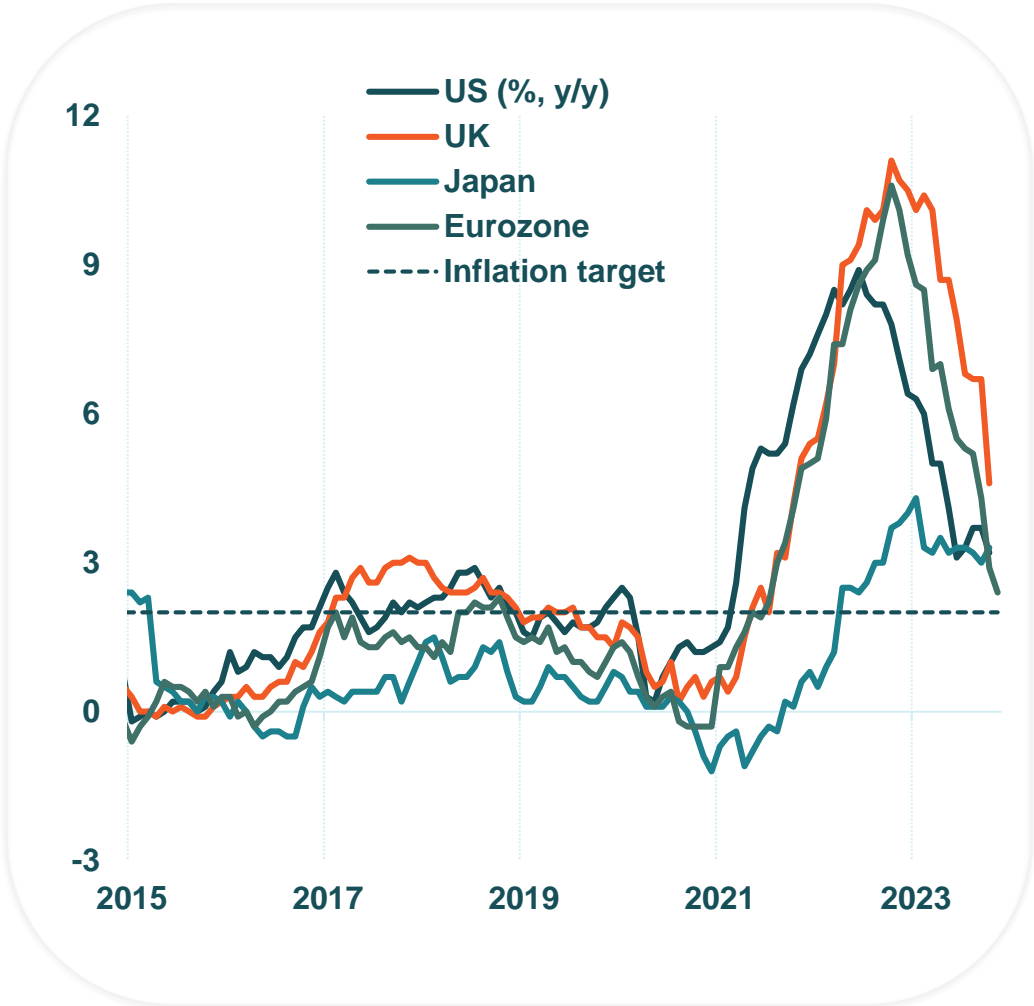
Global growth to slow for third consecutive year, with underlying divergences



Source: IMF, Alexander Forbes Investments



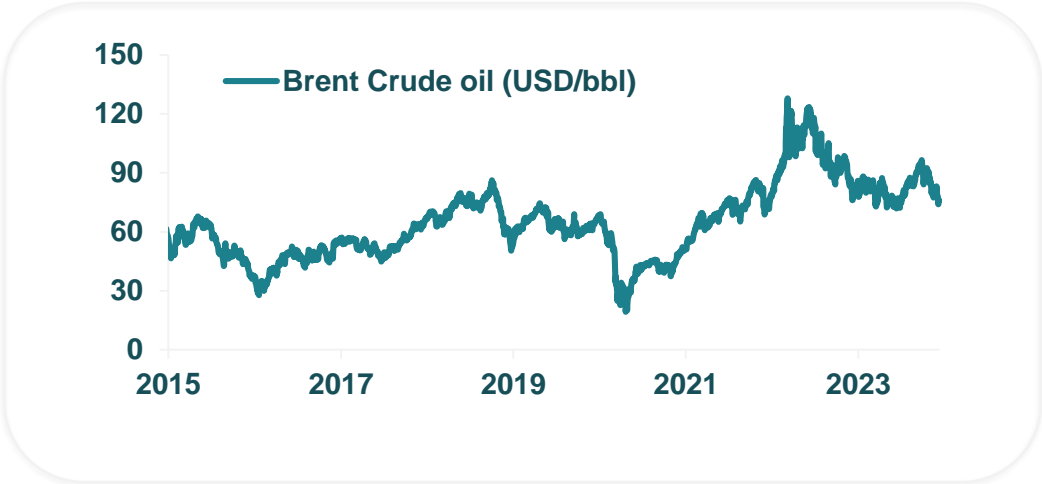
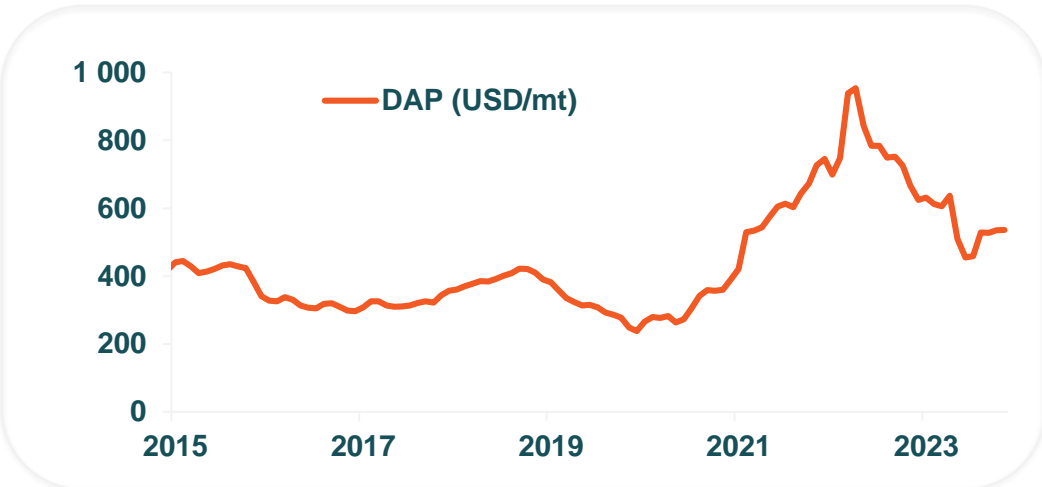
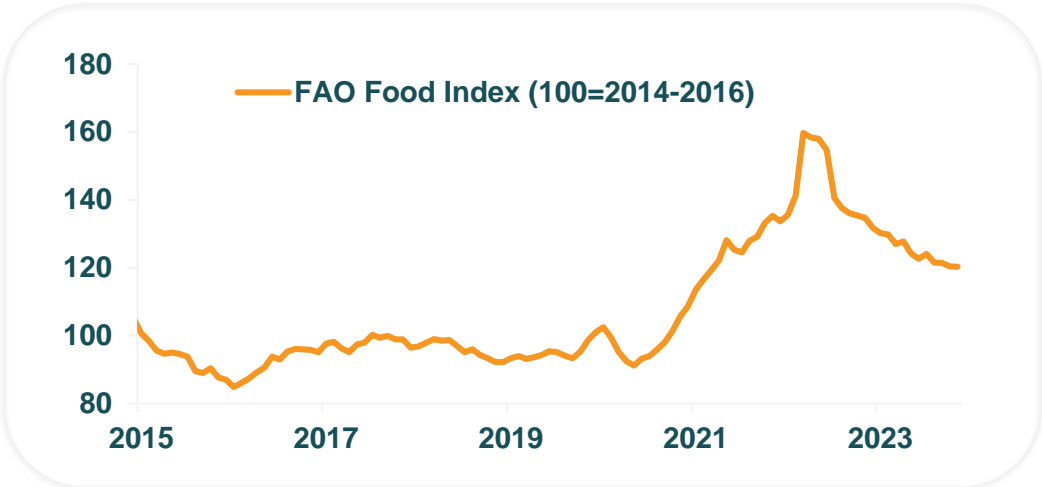
Disinflation trend to continue



Source: Bloomberg, Alexander Forbes Investments



As food and energy prices further decline



Source: Bloomberg, FED, World Bank, Alexander Forbes Investments

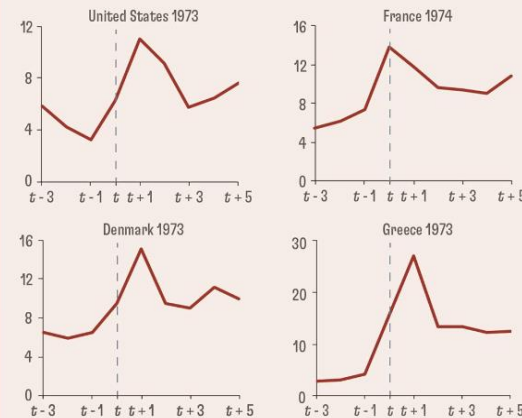
Though risks could derail the last phase of disinflation

IMF study of **inflation shocks** warns that inflation is persistent and that the fight is far from over

CHART 2

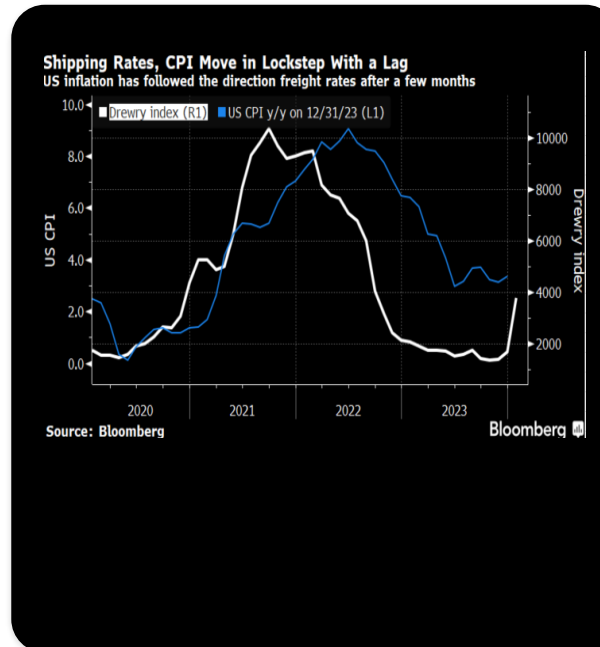
Premature celebrations

Inflation often slows after an initial shock only to accelerate again or become stuck at a faster pace.
(consumer price inflation, percent)



SOURCE: IMF, World Economic Outlook.

Insecurity in the Red Sea raises supply chain constraints and threat of a wider Middle East conflict



Source: Bloomberg

Bloomberg

IMF study on trade fragmentation shows that it:

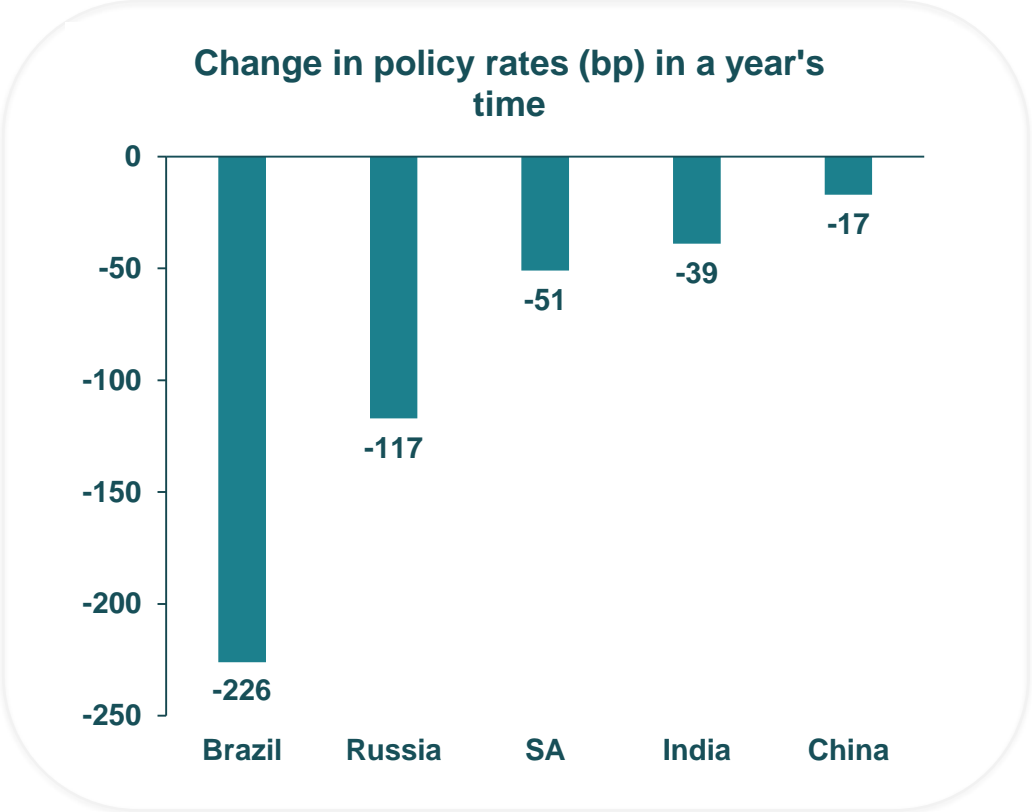
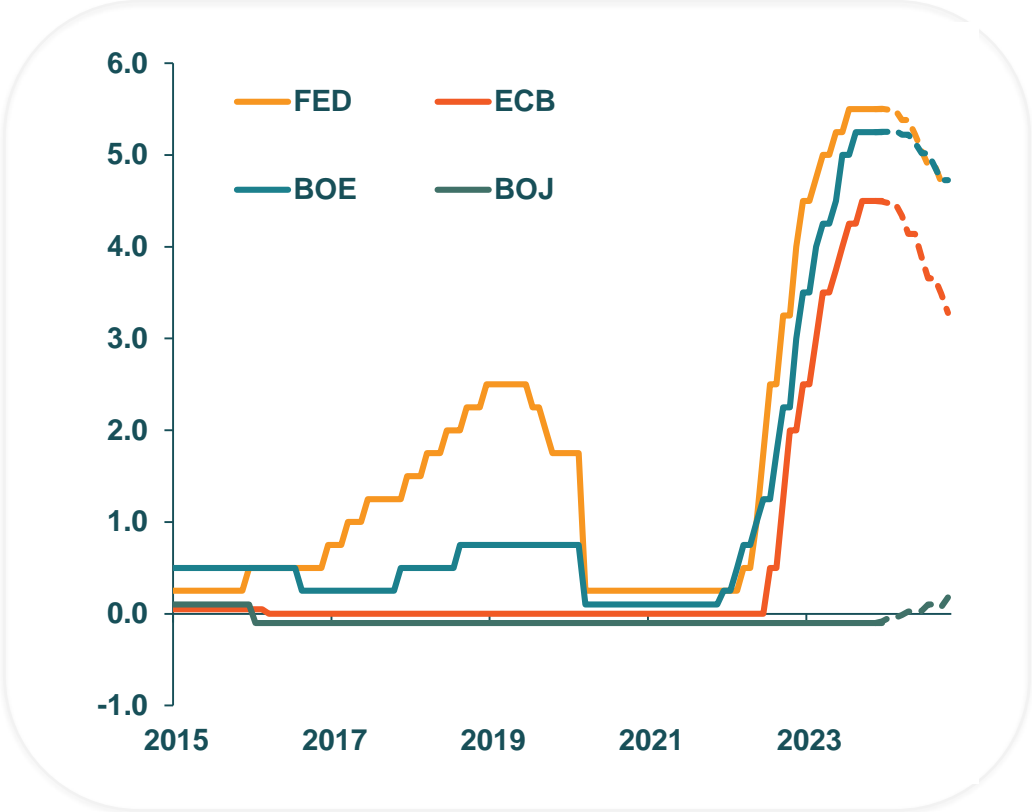
- Reduces economies of scale and efficiency gains, resulting in price pressures and supply shortages
- Makes it harder to tackle challenges transcending geopolitical blocs
- Could derail the green energy transition

Weather related shocks could affect food supply and lead to higher levels of inflation.

Source: IMF, The Conversation, Alexander Forbes Investments



Markets pricing in rate cuts as early as Q1 2024

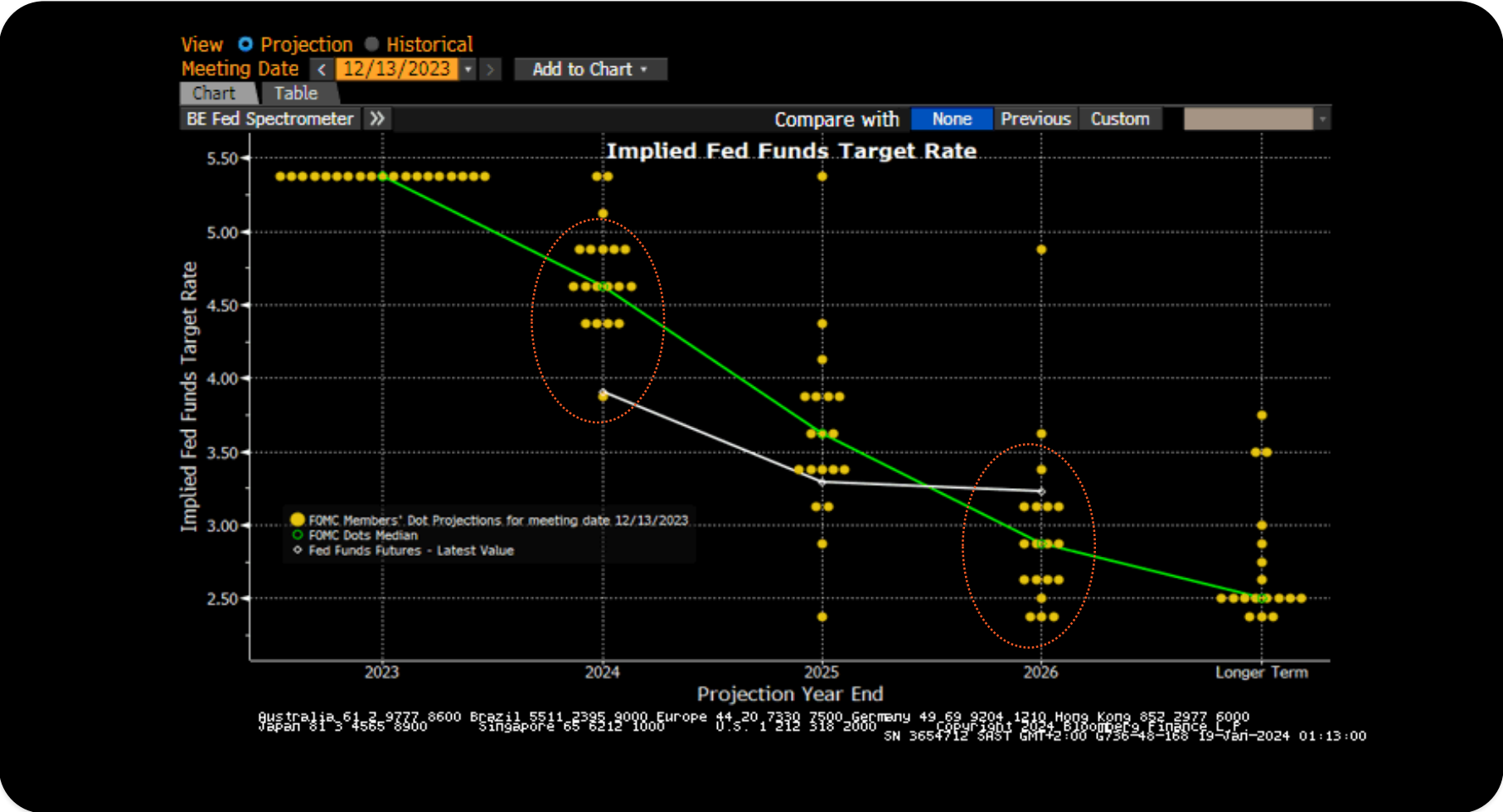


But there is room for disappointment given upward risks to the inflation outlook, which could see riskier assets reverse end-2023 gains

Source: Bloomberg, Alexander Forbes Investments



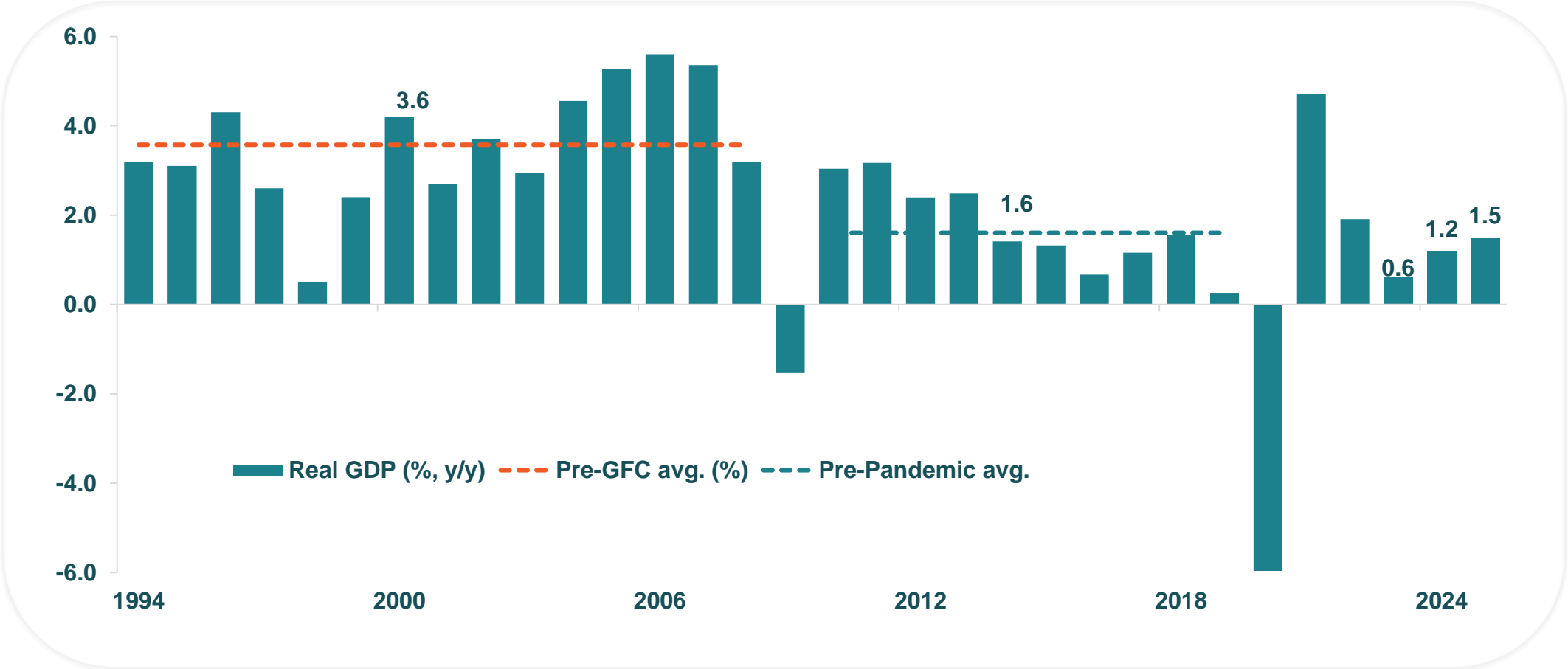
Market differs with Fed on the pace and quantum of cuts



Source: Bloomberg, Alexander Forbes Investments

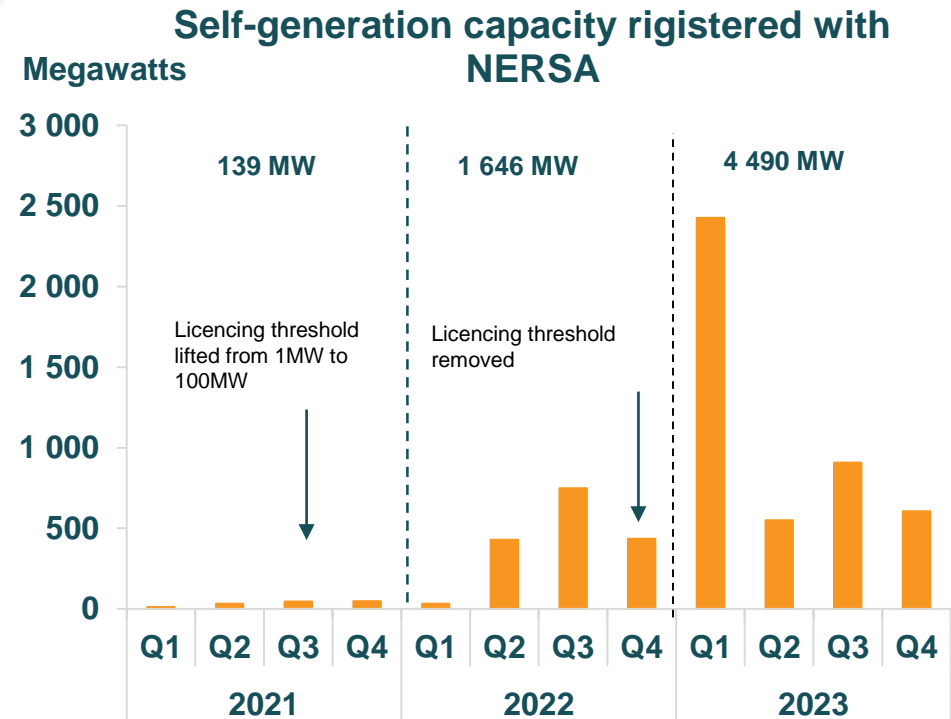
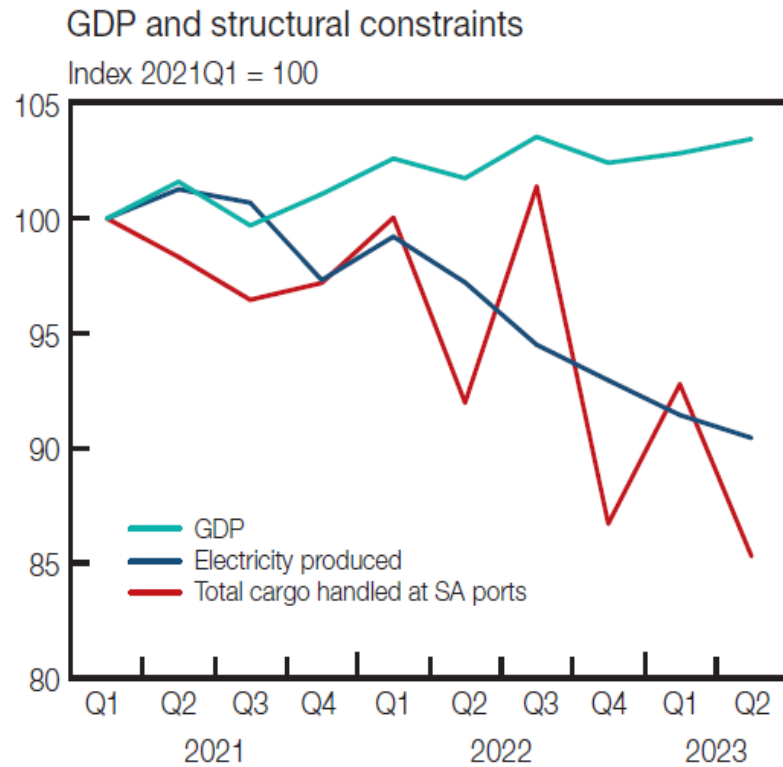


SA economy is limping along



Source: Stats SA, Alexander Forbes Investments

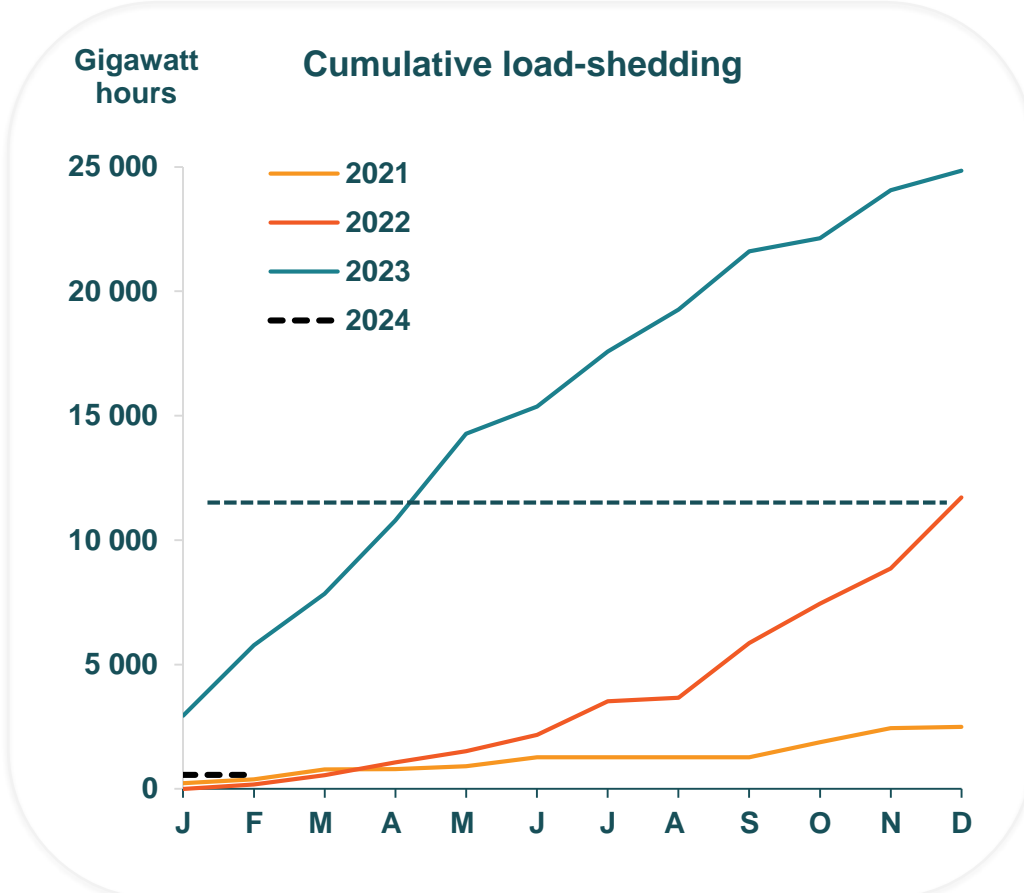
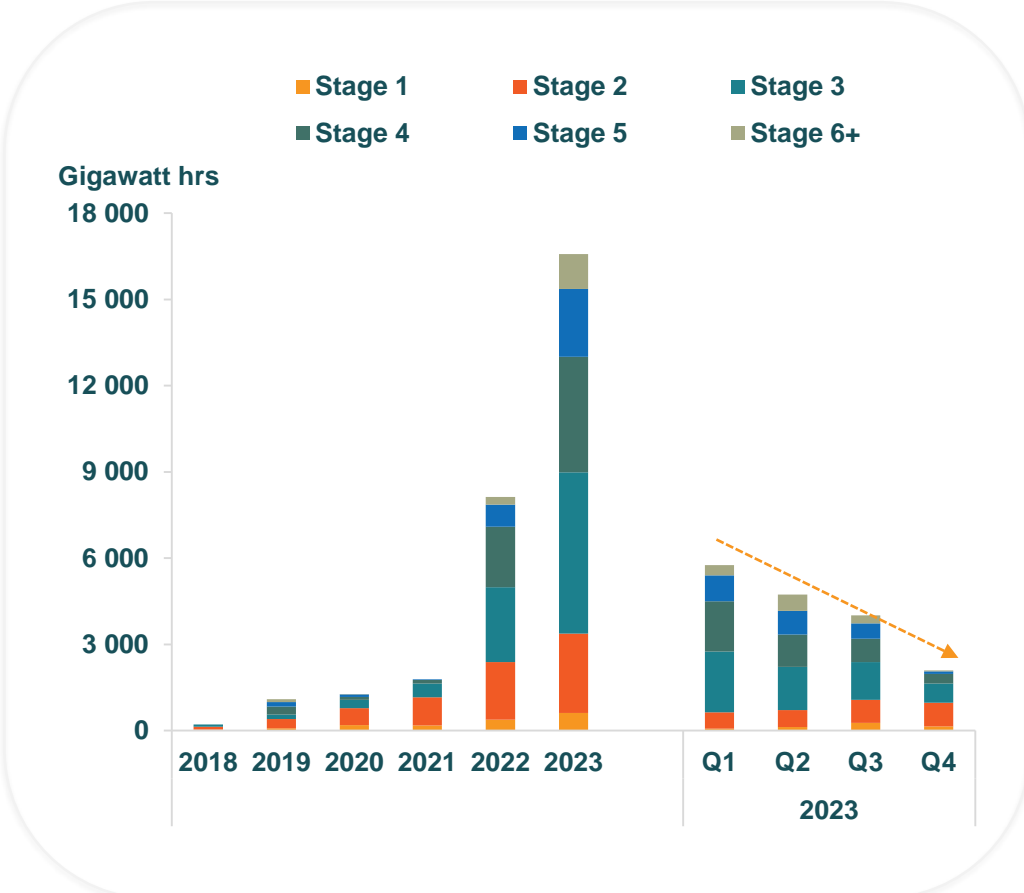
- Improving self generation capacity to support growth, while
- logistical bottlenecks are likely to be a drag



Source: SARB, NERSA, Alexander Forbes Investments



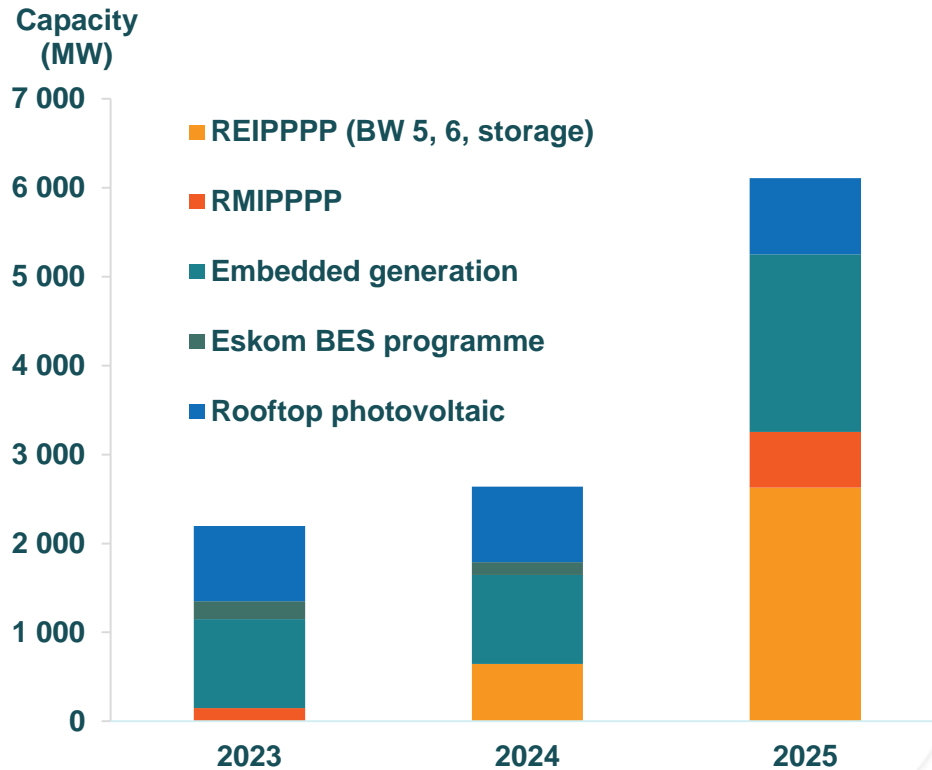
While load-shedding intensity increased for 2023 as a whole, it eased over the quarters



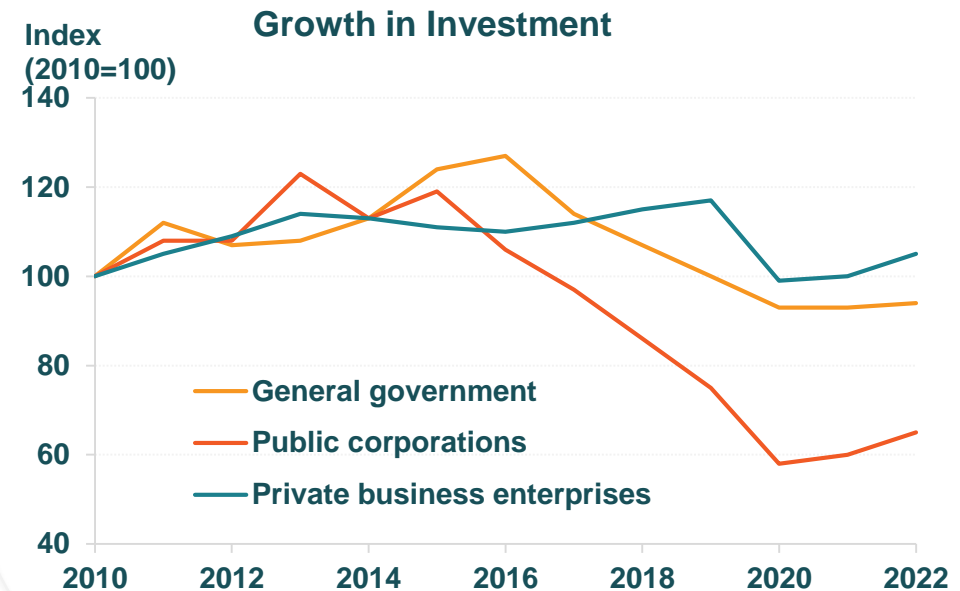
Source: NT, Eskom, Alexander Forbes Investments

- Easing load-shedding intensity coupled with a recovery in investment is supportive of growth prospects
-

Capacity expected from renewable energy



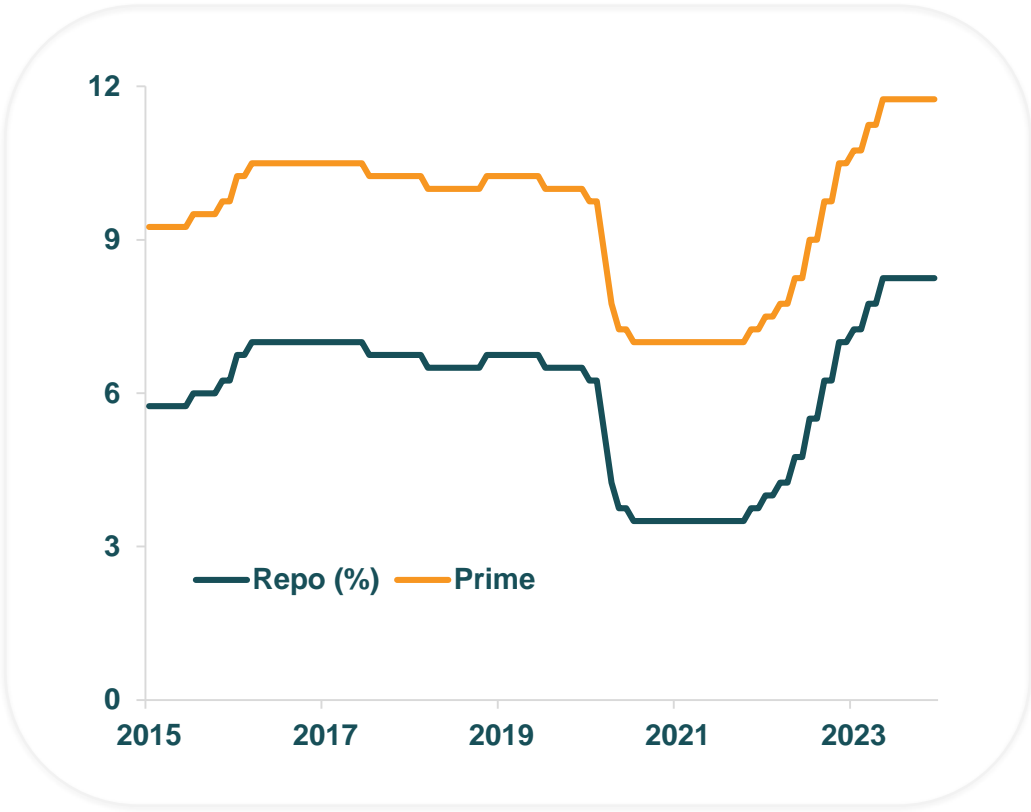
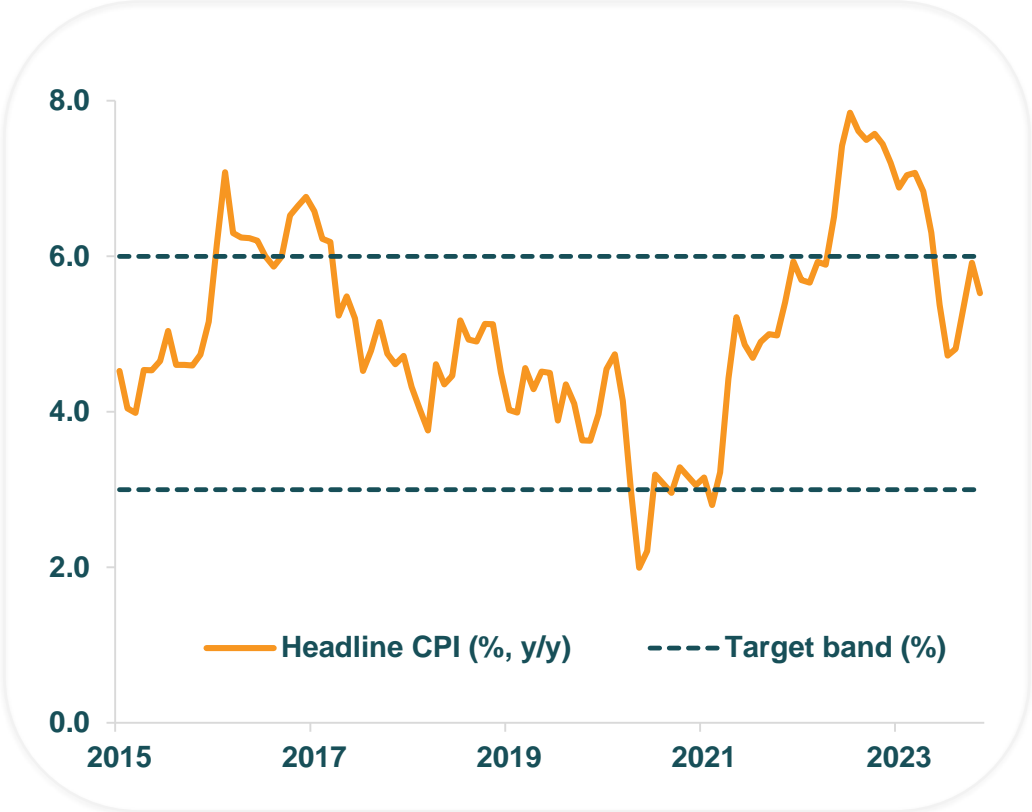
Multiyear decline in investment seems to have bottomed



Source: NT, Alexander Forbes Investments



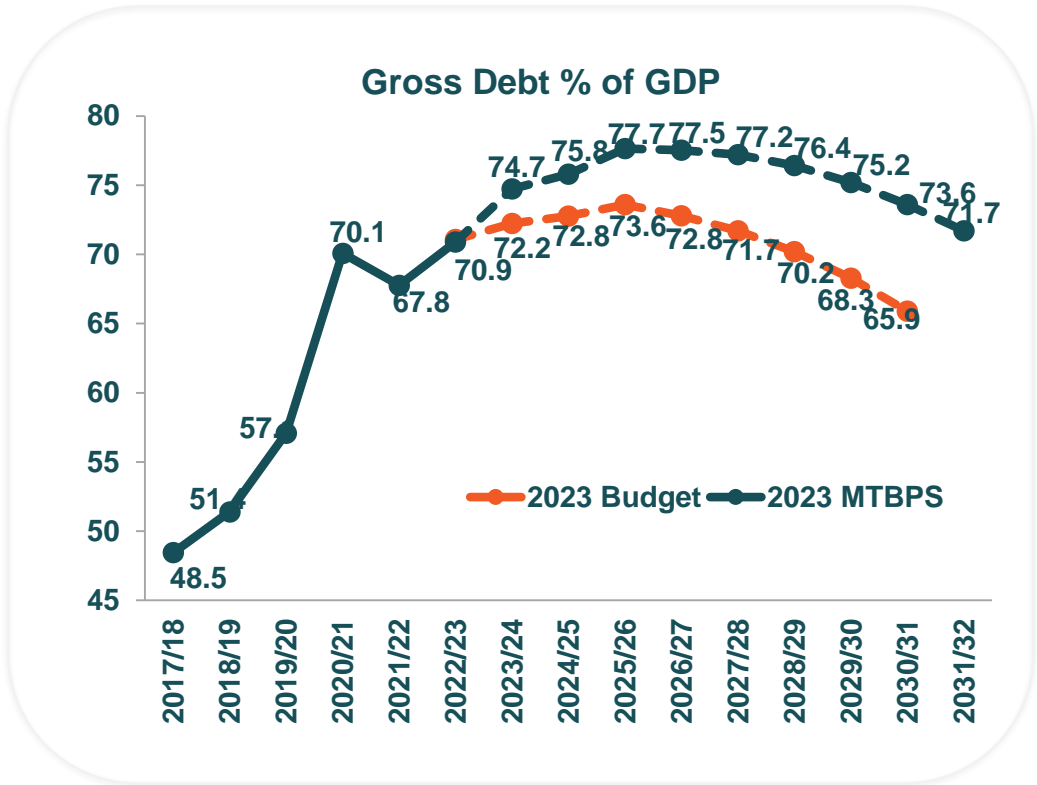
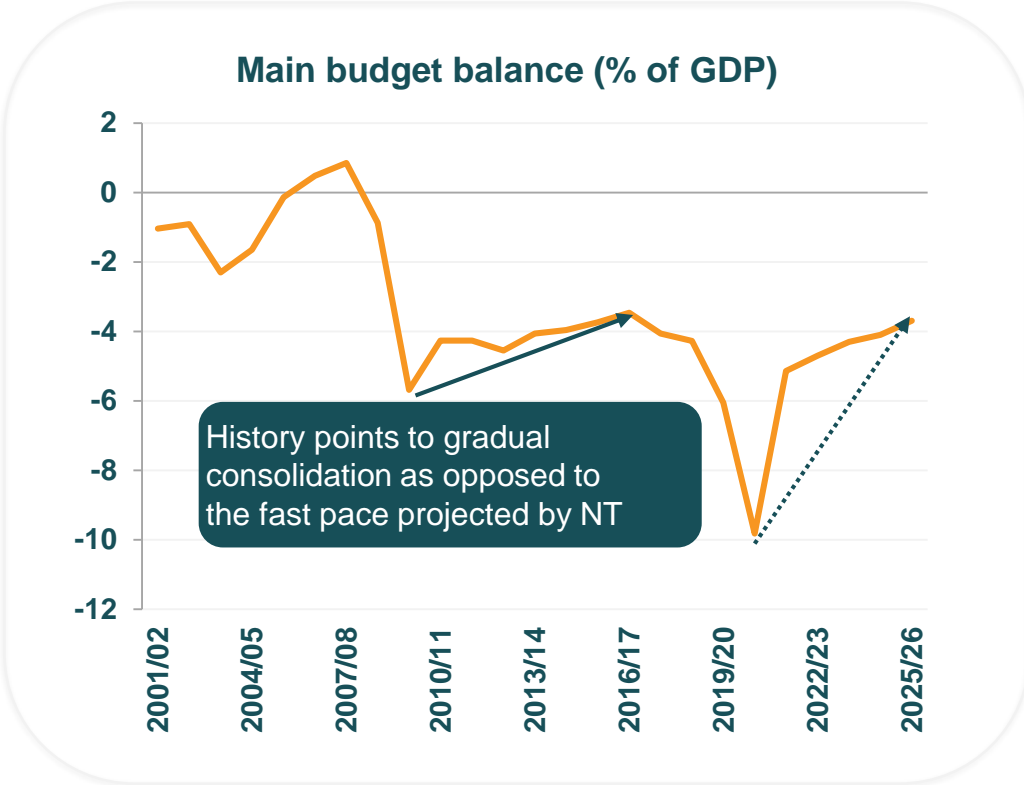
SA inflation back to target following 13-month breach



We expect headline inflation to reach 4.7% by end-24, averaging 4.9% for the full year (2023: 5.9%), enabling the SARB to ease rates in H2 24

Source: Stats SA, SARB, Alexander Forbes Investments

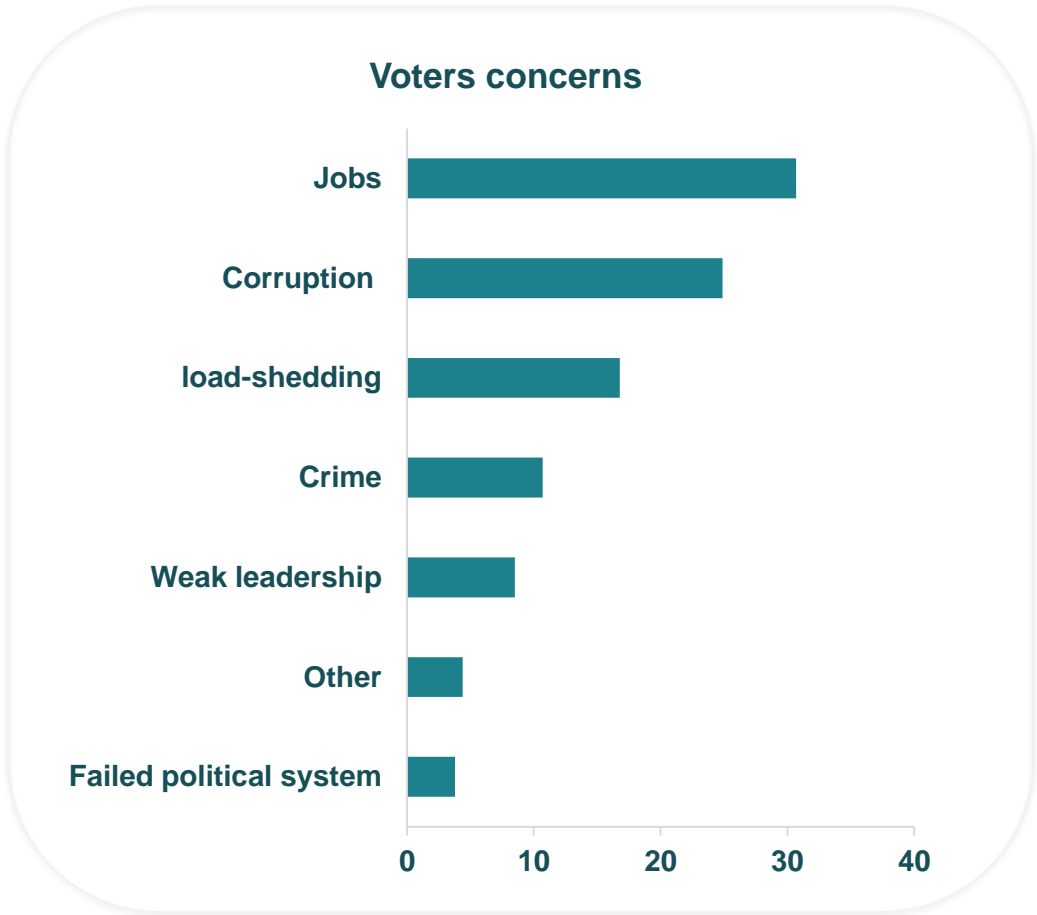
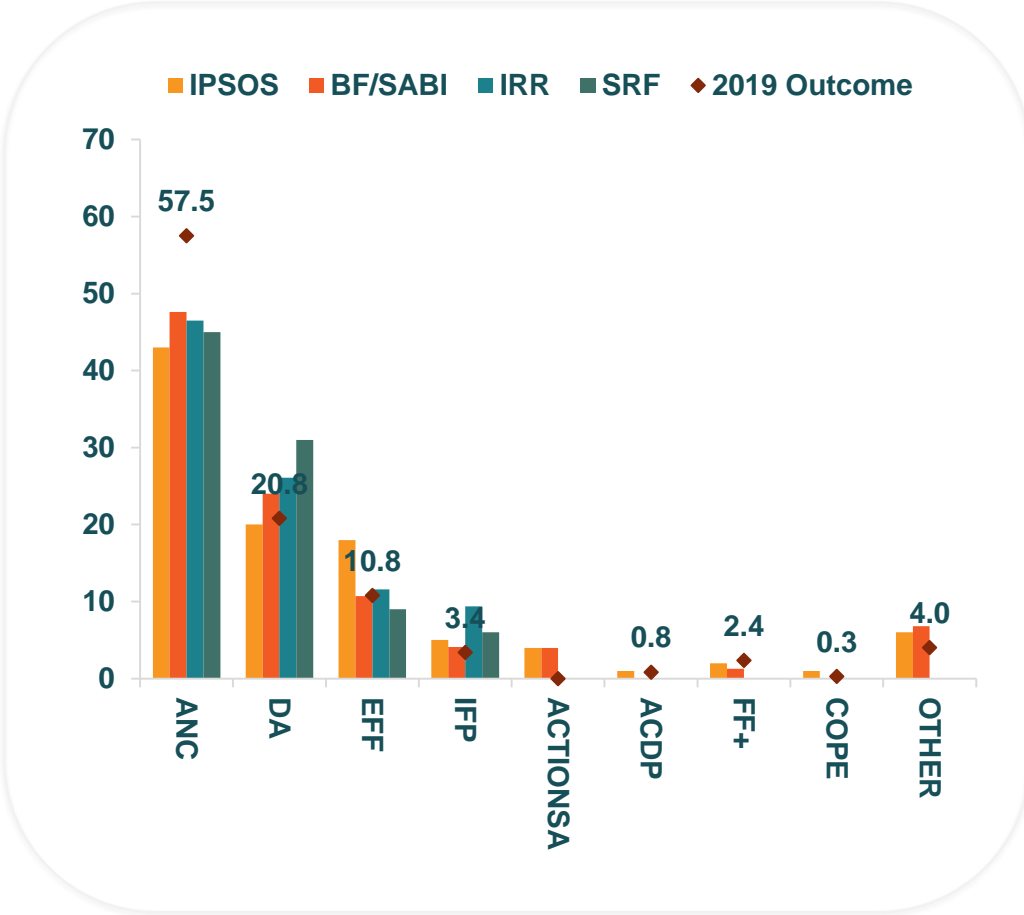
- Fiscal consolidation likely to lose steam as the commodities revenue windfall wanes



Lower-than expected revenue outcomes likely to lead to a higher deficit and debt-to-GDP trajectory

Source: NT, Alexander Forbes Investments

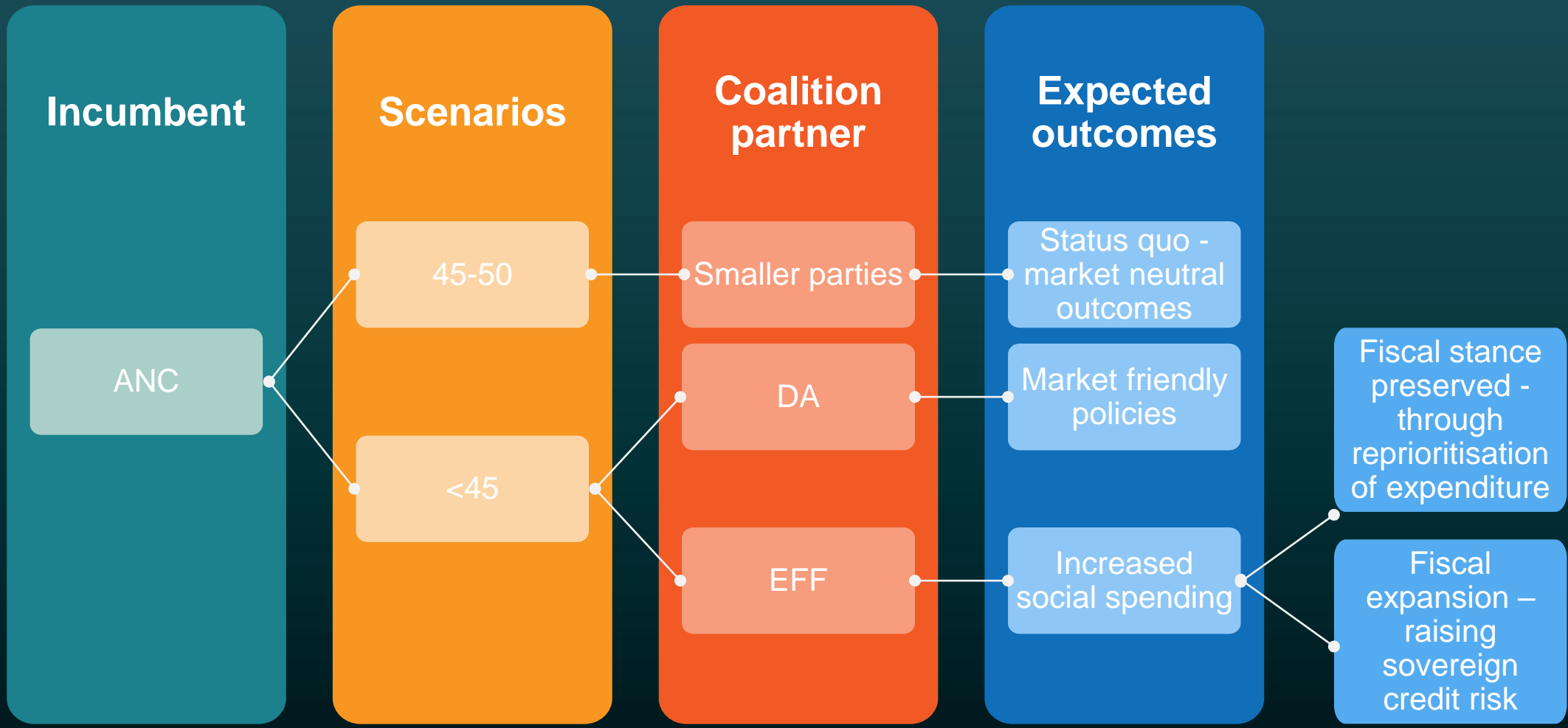
- Opinion polls show the ANC losing its majority over lackluster job growth, corruption and load-shedding concerns



Source: PSOS, Brenthurst Foundation, Social Research Foundation, Alexander Forbes Investments



Election scenarios



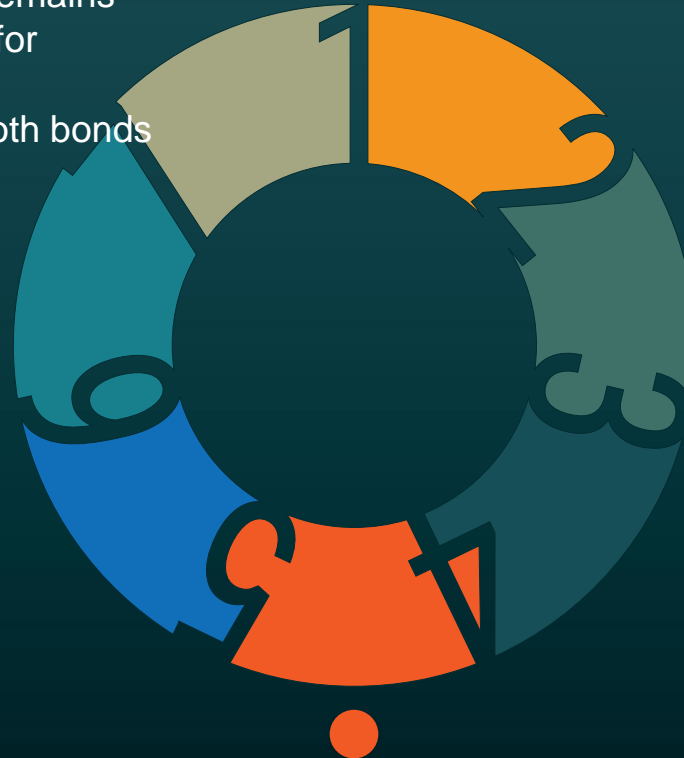
Source: Alexander Forbes Investments

Concluding remarks

Bottom line: While uncertainty remains a central theme in 2024, a well diversified portfolio remains key. Our expectation of a soft landing and for interest rates to ease in H2 24 points to an opportunity to a favourable backdrop for both bonds and equities

On the upside, faster-than-expected decline in inflation could lead to deeper rate cuts and better-than-expected global growth

Risks to the outlook are tilted to the downside and entail a wider Middle East conflict, resurgence in commodity prices and deepening real estate crisis in China



2024 promises to be another year of uncertainty as the full extent of synchronised monetary policy tightening remains uncertain

The election packed calendar, widening conflict in the Middle East and on-going Russia-Ukraine war will likely add to uncertainty and market volatility

Given upward risks to the inflation outlook, we believe central banks will maintain a cautious approach and ease policy rates in H2 24 – later than markets currently expect

2025 looks set to be a reflation story, with further rate cuts expected to support the growth recovery

Source: Bloomberg, Alexander Forbes Investments



Thank you

For any questions you can email the Team on
EconomicsTeam@alexforbes.com

Investments



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2024

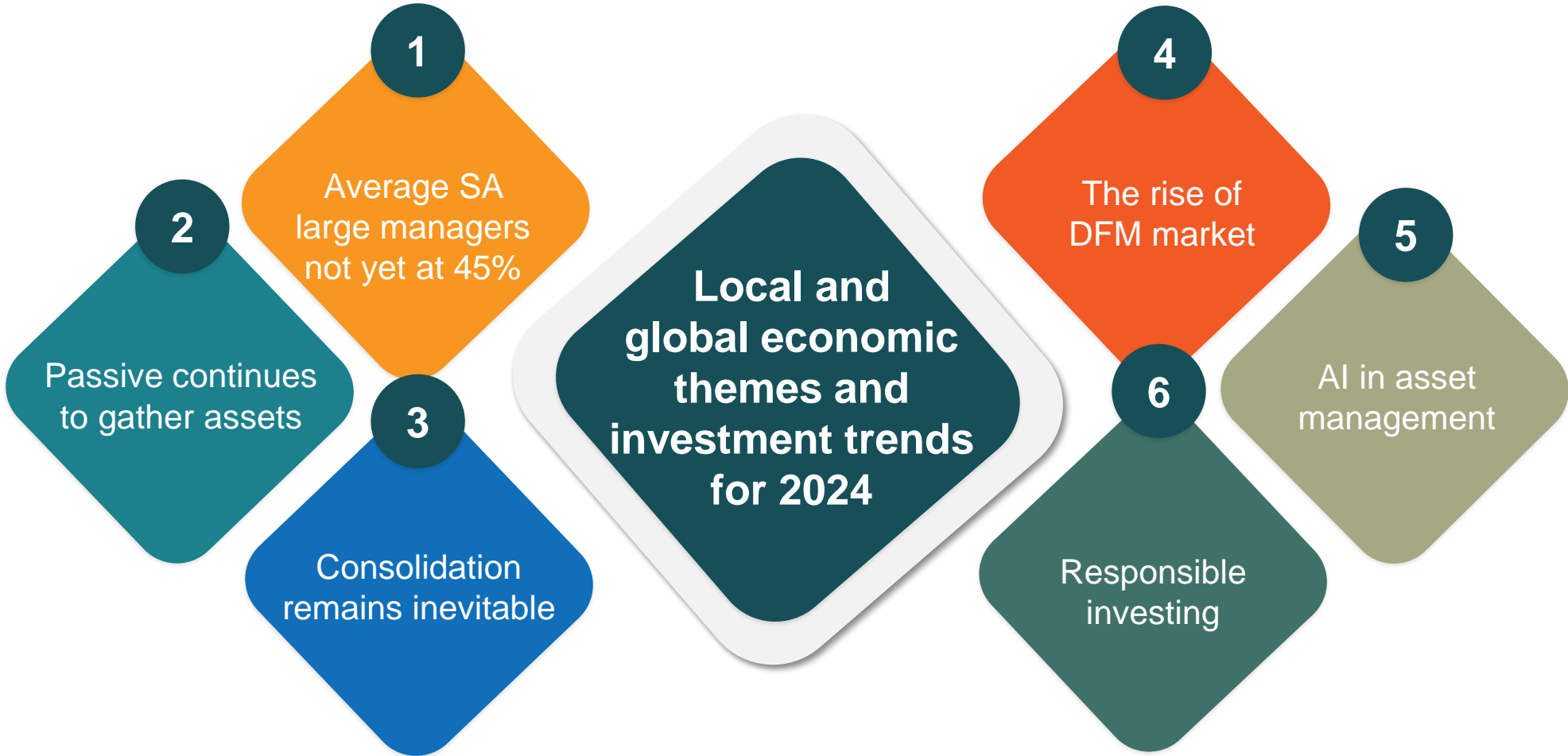
Investments



The focus will be on major local and global themes in asset management trends and challenges, *that continues to drive investment outcomes resultant impact on business models in asset management.*



Key topics



**Average SA large managers
not yet at 45%**

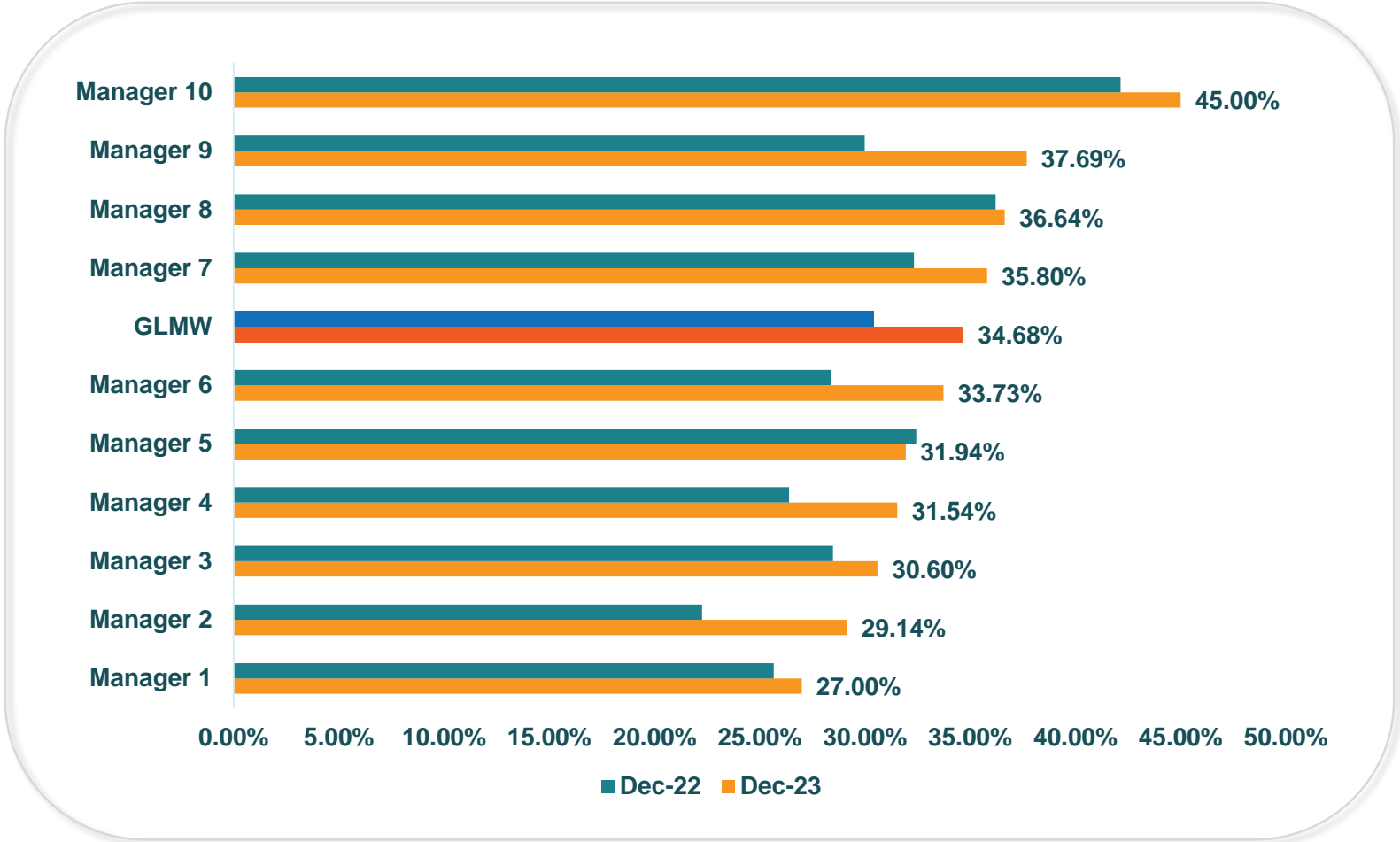




SA Global balanced managers

Offshore exposure
December 2022 vs
December 2023

Average SA
manager offshore
allocation is 35%

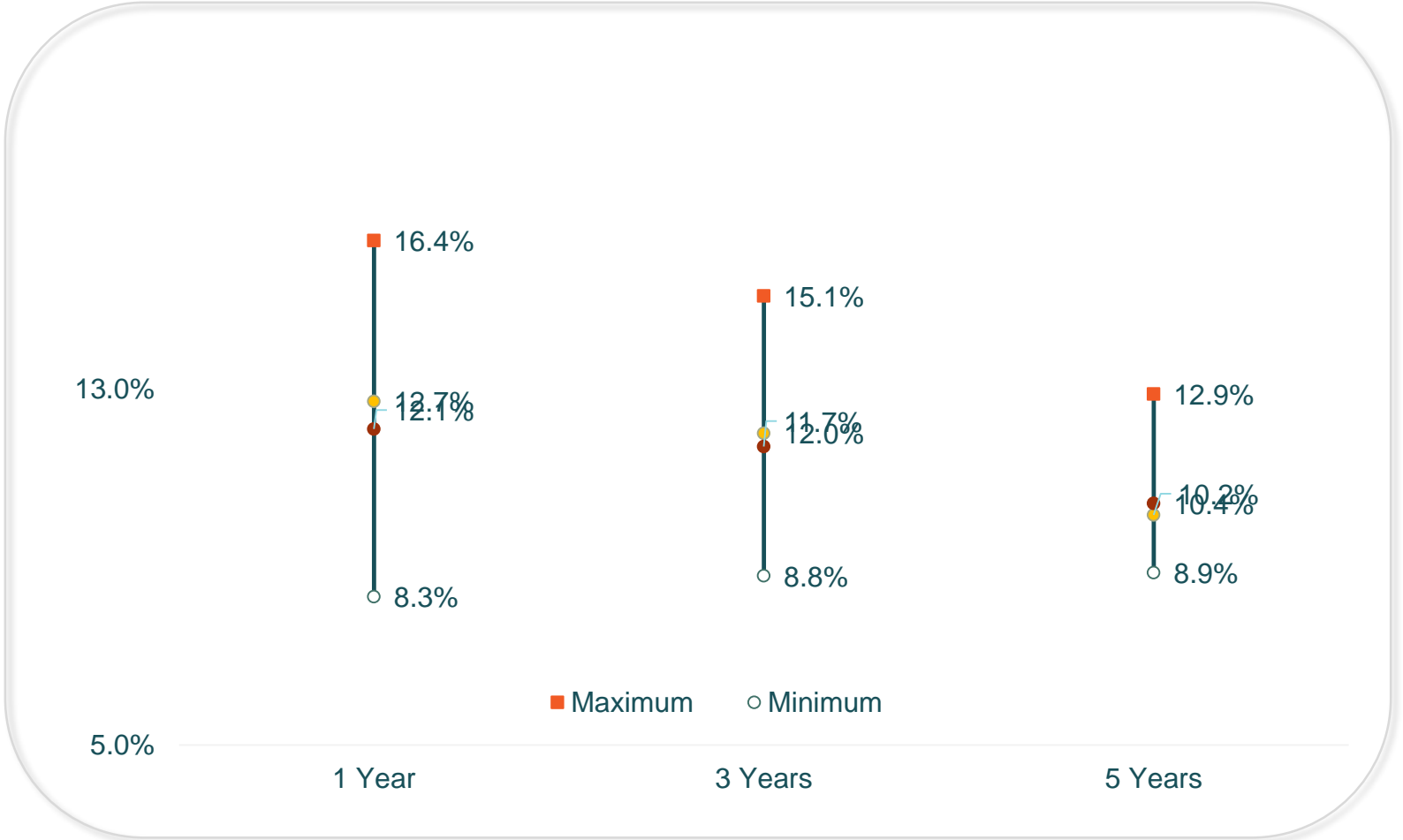


Source: Alex Forbes Investments



SA Global balanced managers

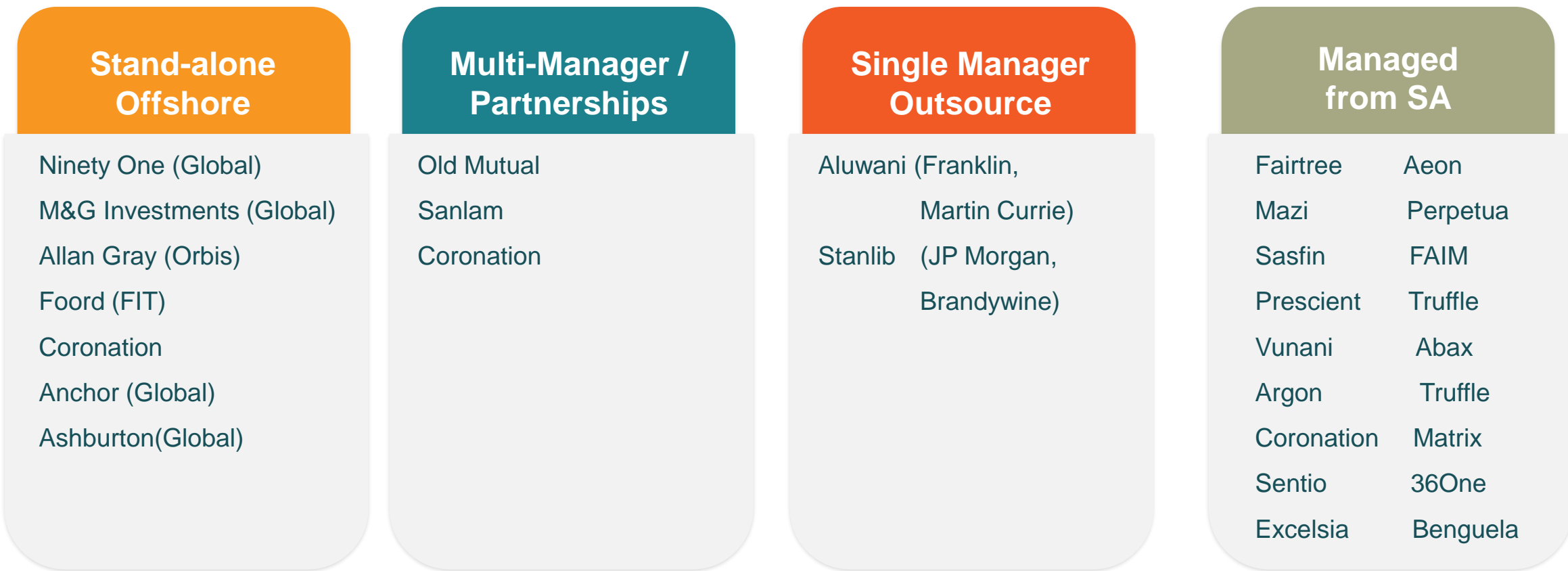
High Dispersion to December 2023



Source: Alex Forbes Investments



How SA managers access offshore markets



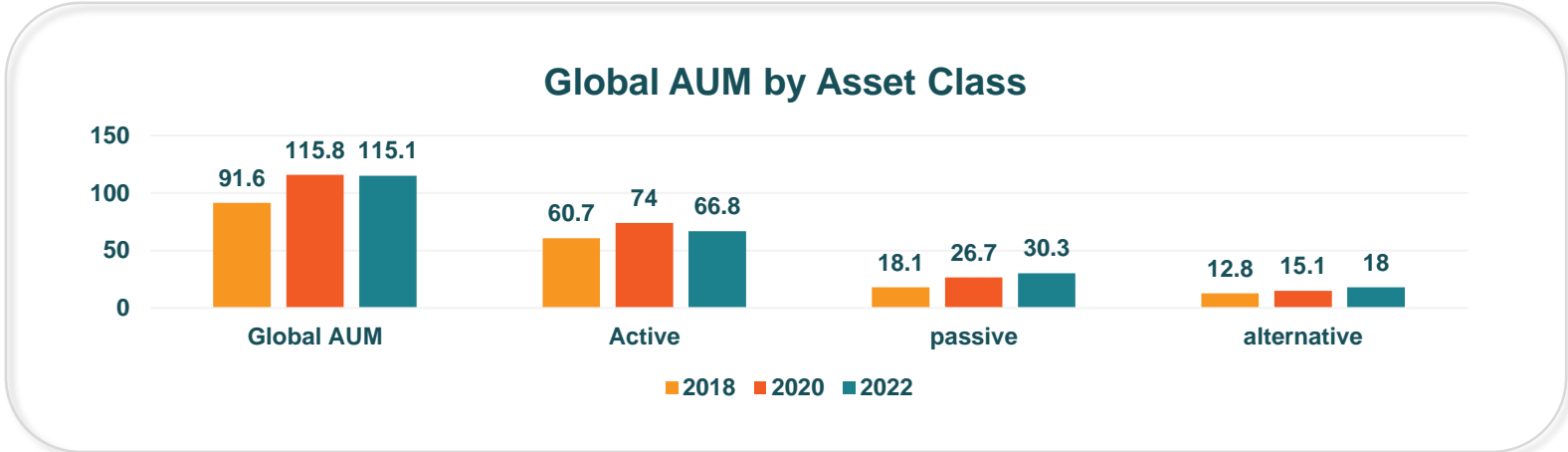
Passive continues to gather assets





Passive and alternatives continues to attract flows

Value Style out of favour



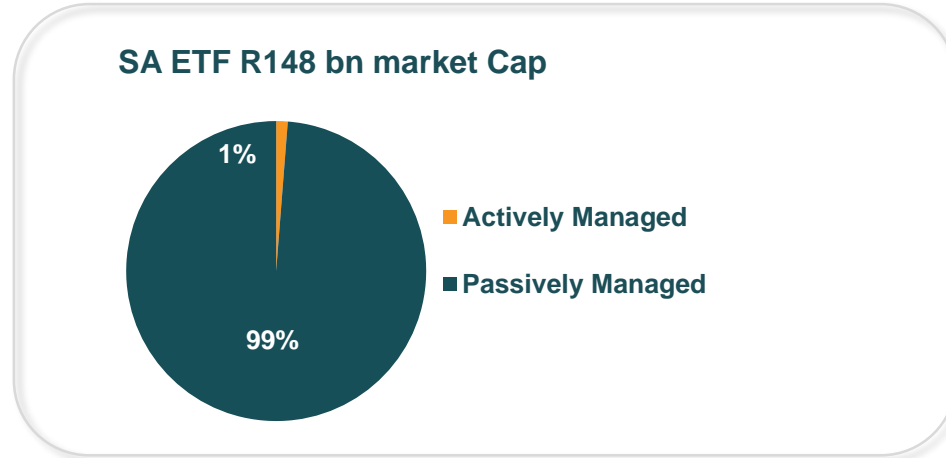
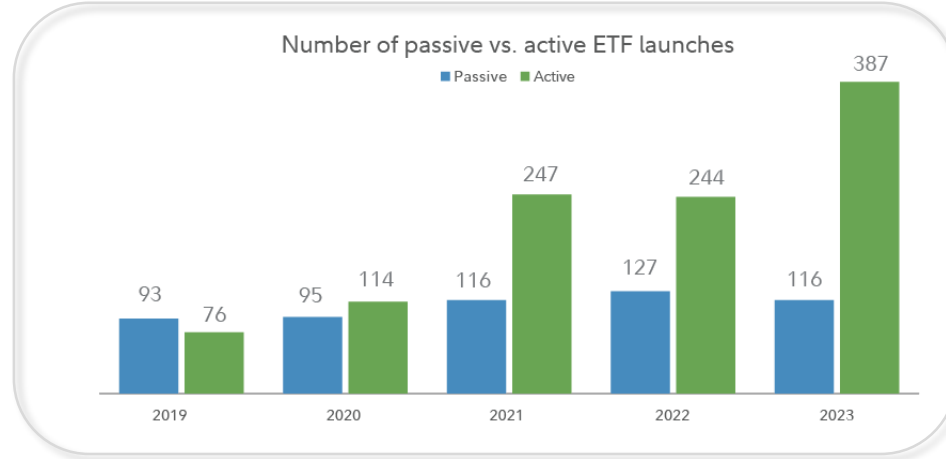
U.S. Equity Category	YTD Active Net Flow (\$Bil)	YTD Passive Net Flow (\$Bil)
Large Blend	(44.9)	140.0
Large Growth	(79.6)	32.8
Large Value	(51.7)	(20.3)
Mid-Cap Blend	(4.3)	5.7
Mid-Cap Growth	(17.6)	0.4
Mid-Cap Value	(14.1)	(1.0)
Small Blend	(4.7)	9.1
Small Growth	(8.7)	0.1
Small Value	(1.7)	1.0

Source: Morningstar Direct Asset Flows. Data as of Nov. 30, 2023.



The rise of Global Active ETF

SA Active ETF market at infancy

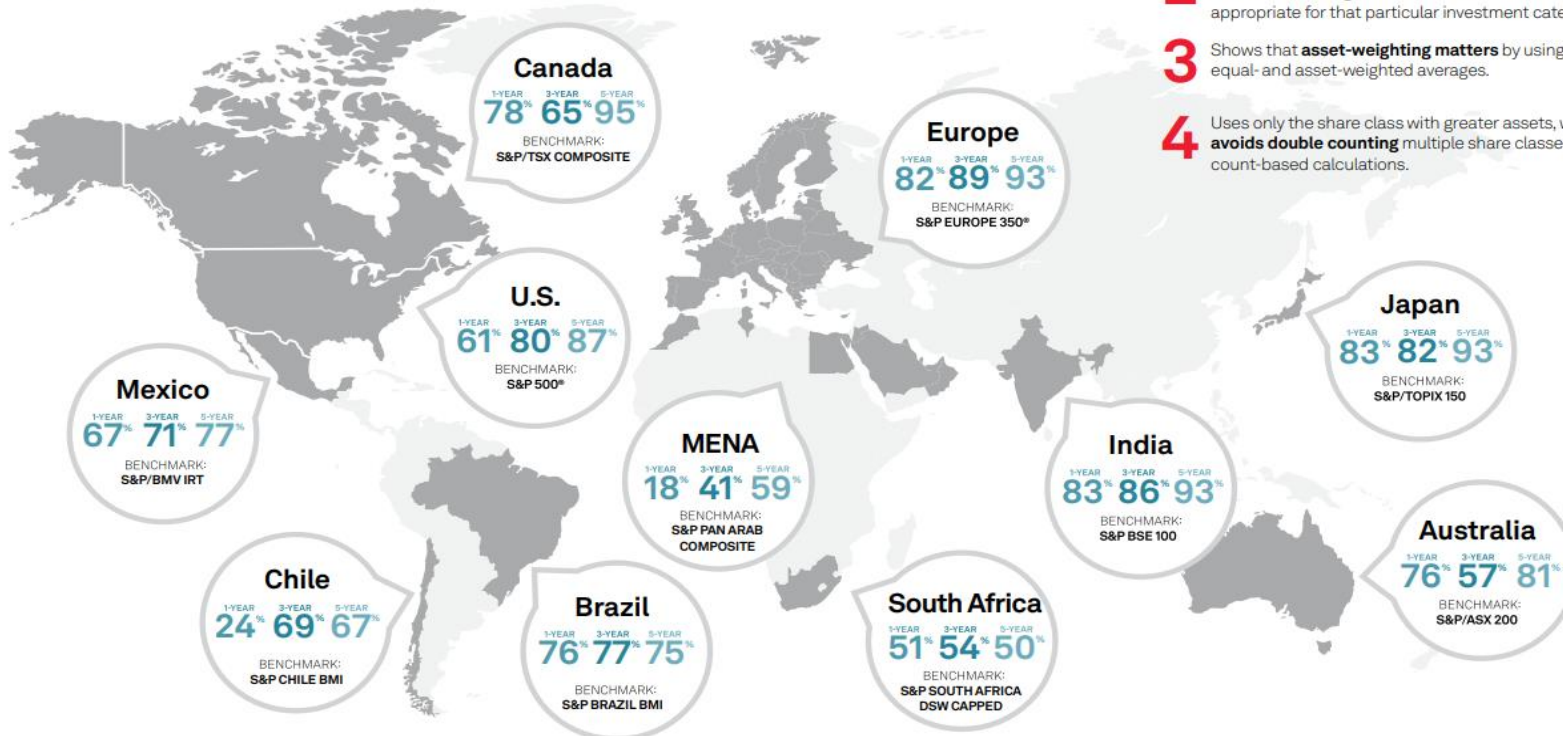


Source: Fidelity. 2023 ETS flows report and JSE

Global equity active managers underperforming per region

SPIVA® Around the World

Percentage of active funds underperforming their assigned benchmarks* over 1-, 3-, and 5-year periods



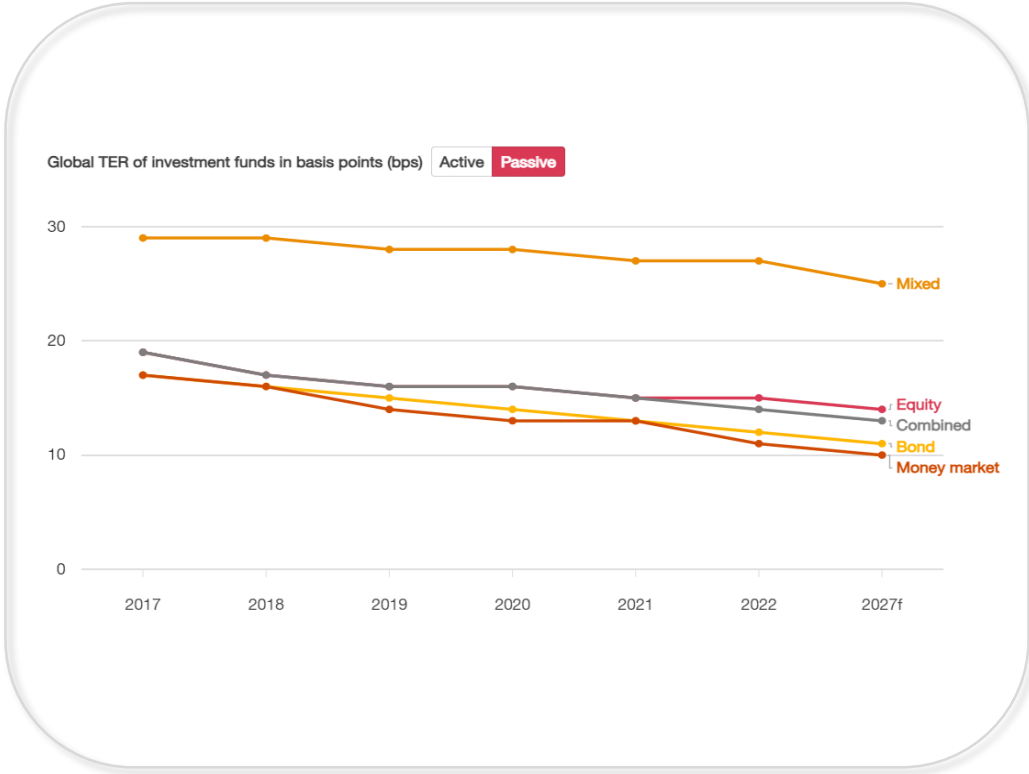
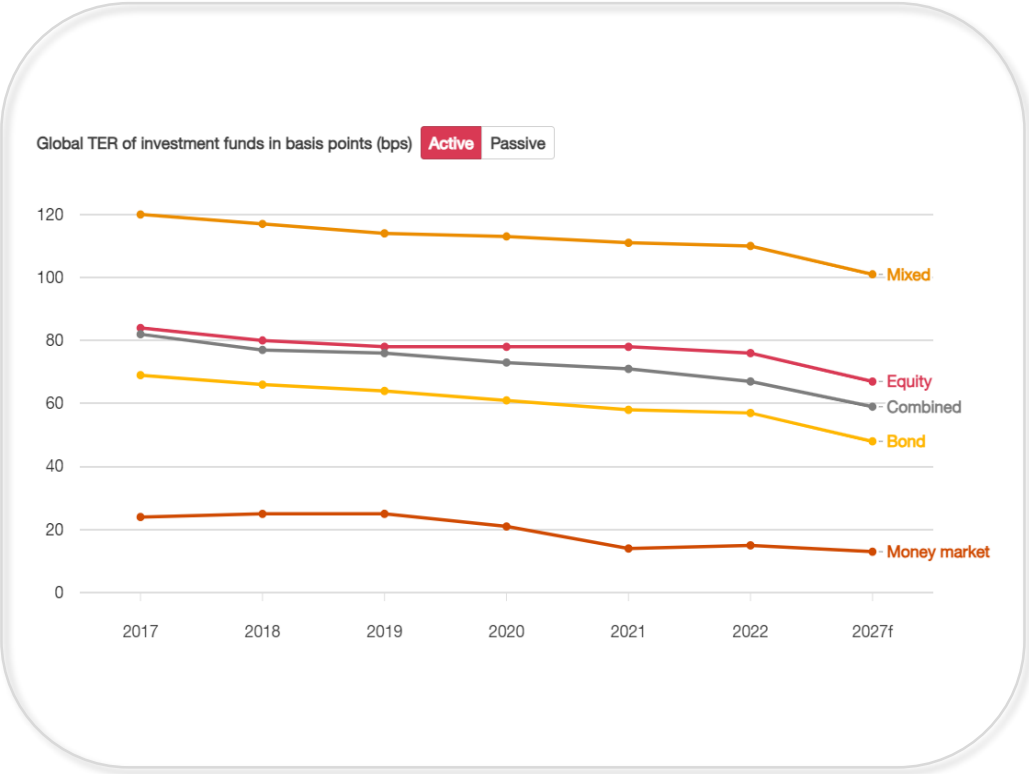
The SPIVA Difference

- 1 Accounts for the entire opportunity set — not just the survivors — thereby **eliminating survivorship bias**.
- 2 Applies an **apples-to-apples comparison** by measuring a fund's returns against the returns of a benchmark appropriate for that particular investment category.
- 3 Shows that **asset-weighting matters** by using both equal- and asset-weighted averages.
- 4 Uses only the share class with greater assets, which **avoids double counting** multiple share classes in all count-based calculations.

Source: S&P



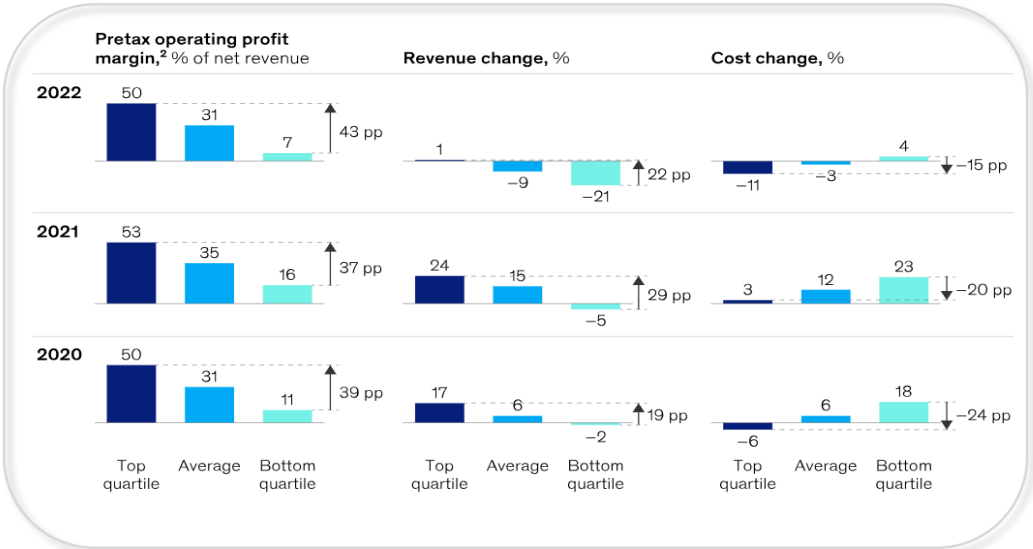
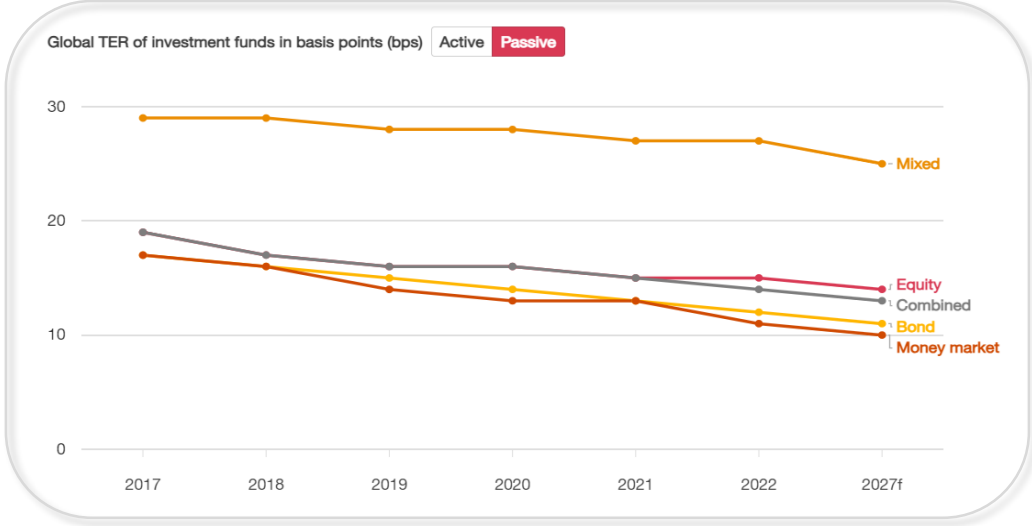
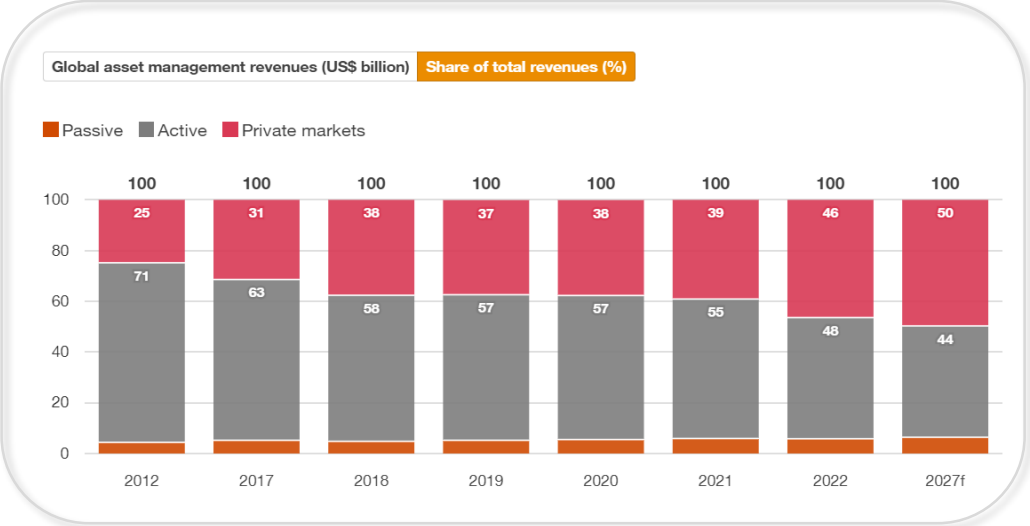
Investment cost are expected to low





Private market expected to control a lion share of revenue

Clients willing to pay for performance



Source: PWC Asset manager survey 2023

Consolidation remains inevitable



- **Almost 75% of AM are considering a strategic consolidation with another asset managers. Hence concentration**

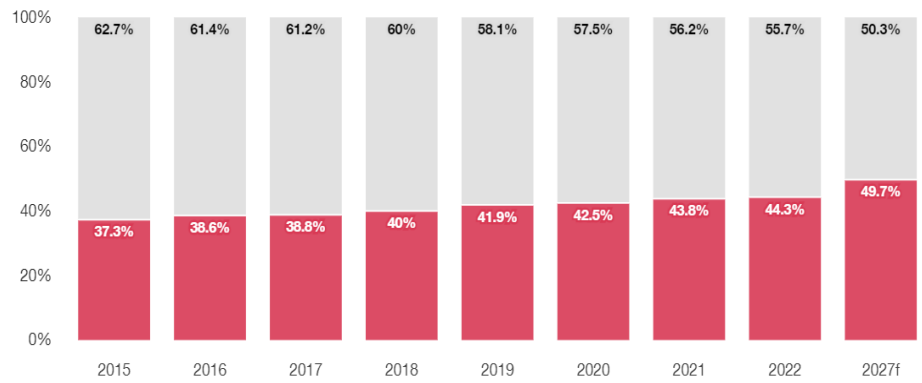
Factors for asset managers to consolidate within the next two years



Source: PwC Global AWM & ESG Research Centre

■ Top ten AWM orgs ■ Other AWM orgs

Asset concentration





Consolidation expected to continue

Aluwani acquisition of **Afena**

Sanlam acquisition of **Absa**

RECM merged with **Counterpoint Asset Management**

Citadel acquired Point 3

Citadel also acquired a 49% stake in Seshego Benefit Consulting

Laurium acquired 100% of **Tantalum**

Taquanta acquisition of **Ngwedi**

Bridge Fund Managers acquired by **Counterpoint Asset Management**

BlueAlpha announced acquisition of a majority stake in **Crede Capital Partners**

Momentum Investments international acquired Seneca Investment Managers Limited

Electus Fund Managers closed down for business at the end of June 2020





Sample of global consolidation in alternative vs. traditional AM –

Private credit has become very attractive to investors

Date	Buyer	Core Competency	Target	Target Core Competency
May 2023	TPG, Inc	Private & Growth Equity	Angelo Gordon	Real Estate & Credit
July 2023	Ares Management Corporation	Credit	Crescent Point Capital	Asian Private Equity
September 2023	CVC Capital Partners	Private Equity	DIF Capital Partners	Infrastructure Equity

Date	Traditional AM Buyer	Target	Target Core Competency
July 2023	PGIM	Deerpath Capital	US Middle Market Direct Lending
May 2023	BlackRock	Kreos Capital	European Private Debt
November 2023	Manulife Investment Management	CQS	Multi-Strategy Credit Platform

The rise of Discretionary Fund Management





What is a Discretionary Fund Management ?

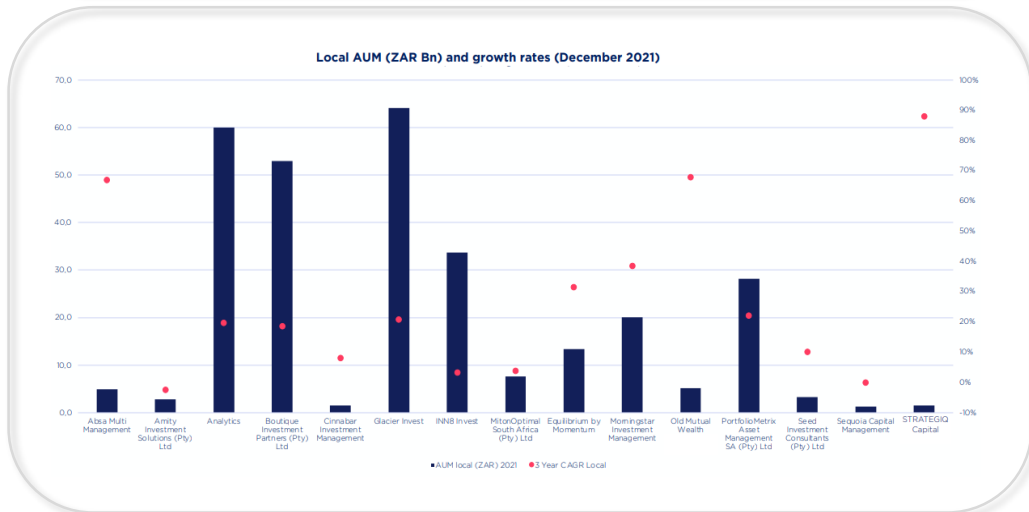
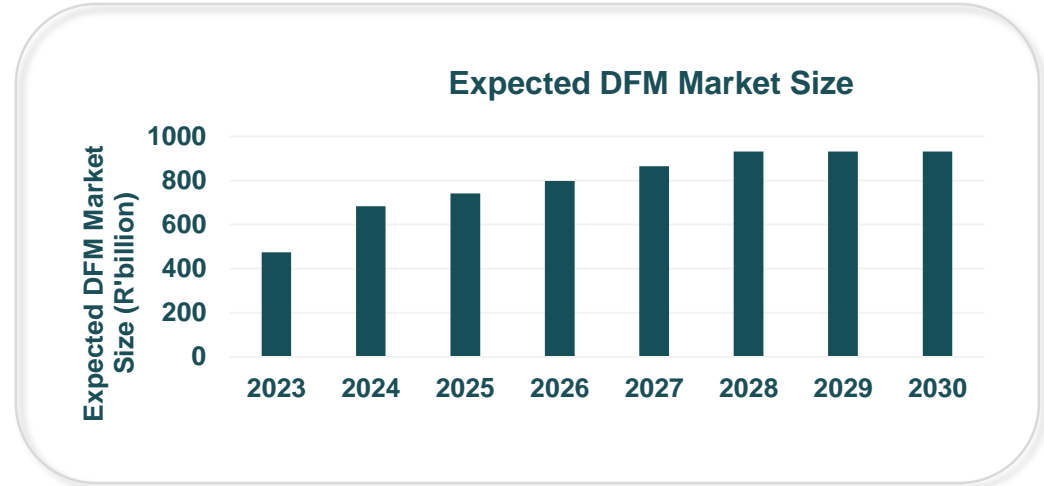
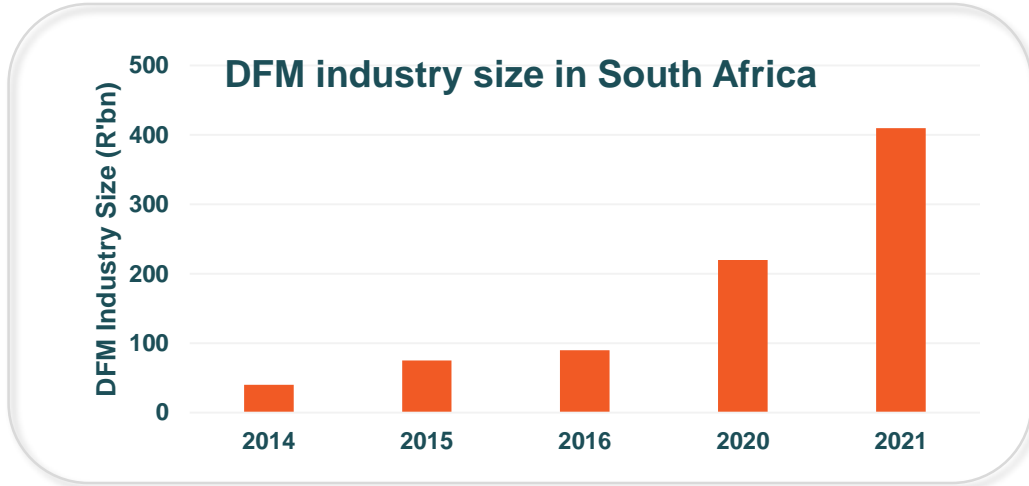
An extension of an IFA practice

Transfer of investment management from IFA to DFM

Asset consulting support

Advisor can focus on the client

The rise of DFM Market

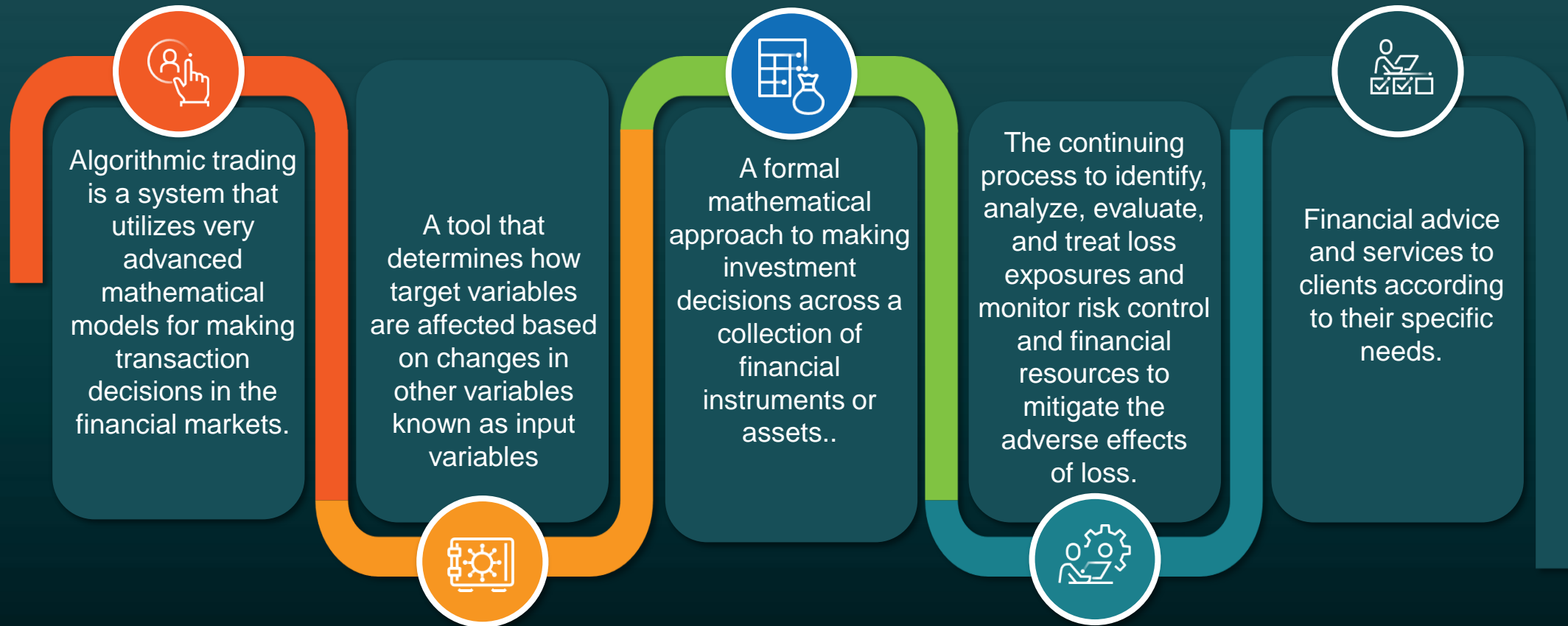


Asset Split Type	2022	2023	2024	2025	2026	2027
% of IFAs Who Have Appointed DFM (Asset Weighted) / % Of These Advisors' books In DFM Solutions	50%/50%	60%/60%	60%/65%	60%/70%	65%/70%	70%/70%

Source: Collaboration Exchange and Alex Forbes I

The use of Artificial Intelligence in asset management industry

How AI is being Incorporated in the investment industry (1)

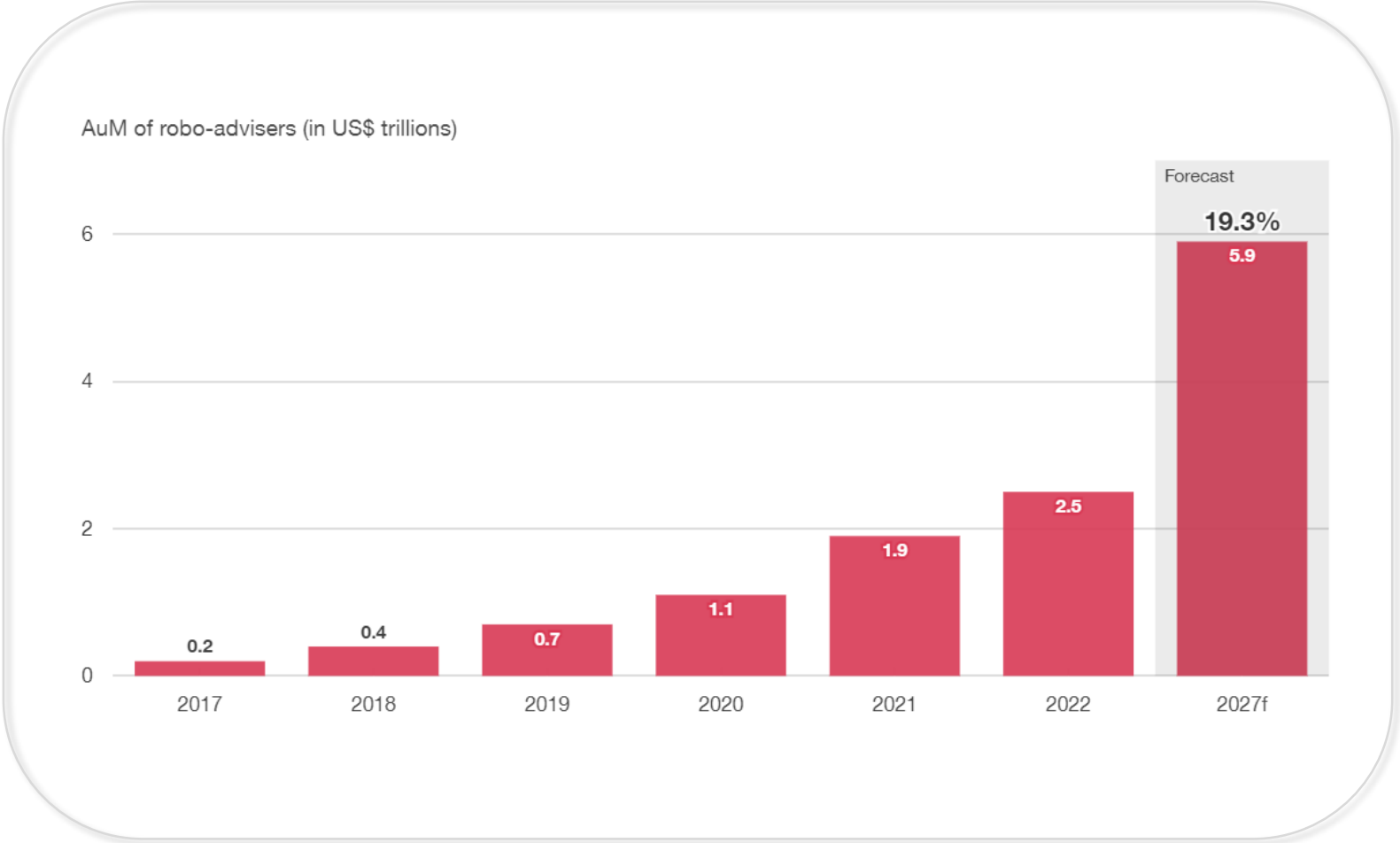


Source: CFA Institute



Robo-advice is gaining momentum—and doing so at speed

AuM of robo-advisers (in US\$ trillions)



AI brings significant advantages

However challenges must be acknowledged:

Incomplete Data Set:

Quality data is crucial for accurate predictions, and any gaps can lead to incorrect assessments.

Machine learning requires extensive data sets for optimal learning and prediction accuracy.

Large Data Set to Train:

Bias:

The quality and availability of the data set influence algorithmic bias, potentially leading to skewed outcomes.

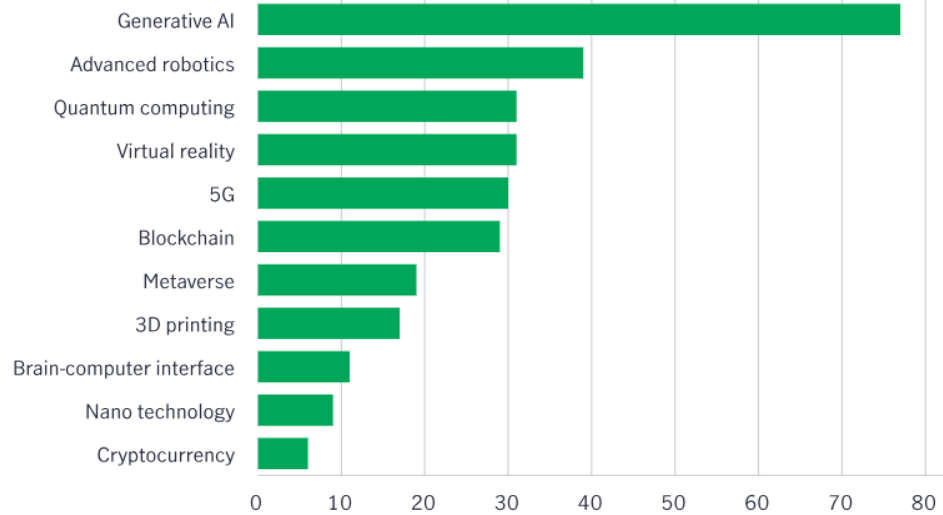
Inappropriate data sets may result in unexpected events with severe consequences.

Black Swan Events:



Generative AI

Business leaders rank generative AI as the most transformative technology



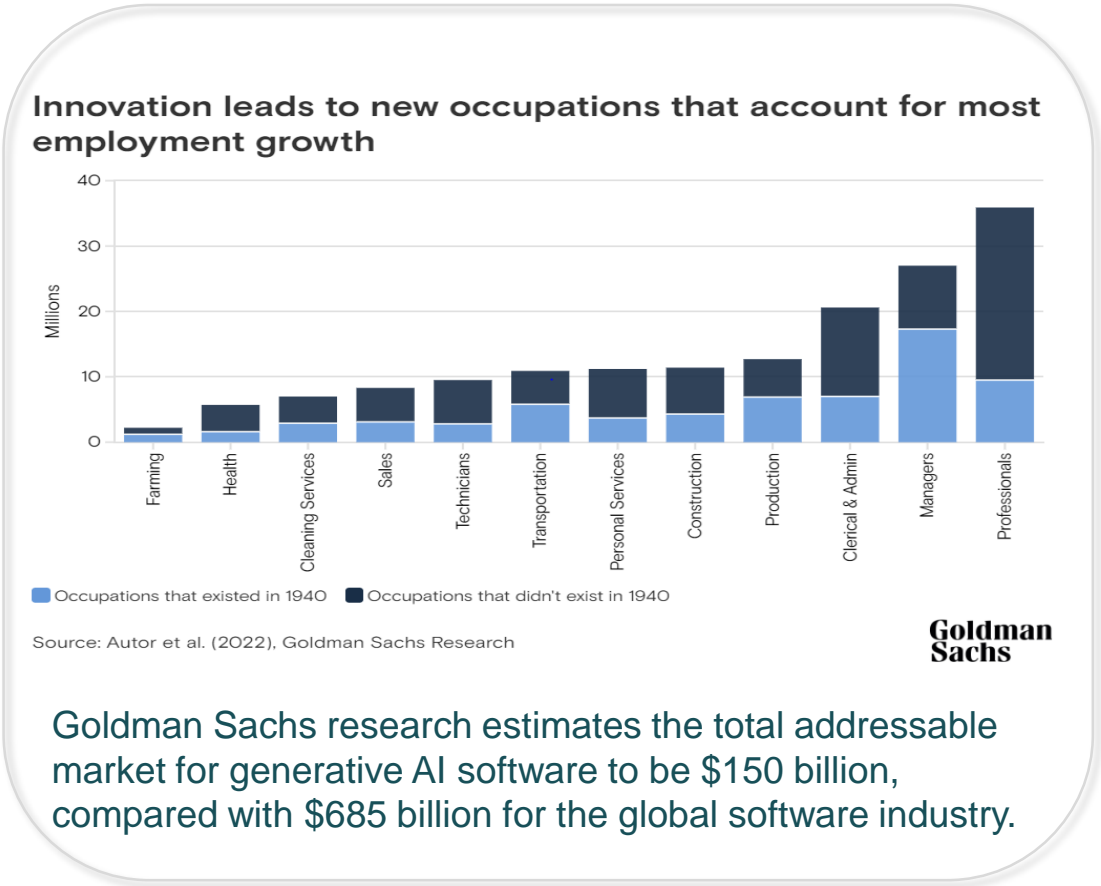
Source: KPMG generative AI survey: info.kpmg.us/news-perspectives/technology-innovation/kpmg-generative-ai-2023.html, March 2023.

Generative AI is a type of artificial intelligence technology that can produce various types of content, including text, imagery, audio and synthetic data

Generative AI's potential is massive and might increase global GDP by as much as 7%, or nearly \$7 trillion, in the next decade



Generative AI



Goldman Sachs research estimates the total addressable market for generative AI software to be \$150 billion, compared with \$685 billion for the global software industry.

Impact on employment market

- Shifts in workflows triggered by AI advances could expose the equivalent of 300 million full-time jobs to automation
- Jobs displaced by automation have historically been offset by the creation of new jobs, and the emergence of new occupations following technological innovations accounts for the vast majority of long-run employment growth

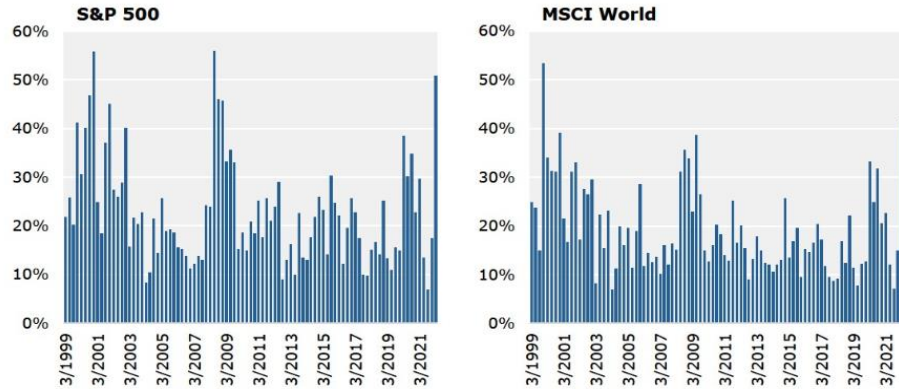
Alternatives

Themes and opportunities



Global Hedge Fund themes

DIFFERENCE IN BEST- AND WORST-PERFORMING QUARTERLY SECTOR RETURN
March 31, 1999 – March 31, 2022

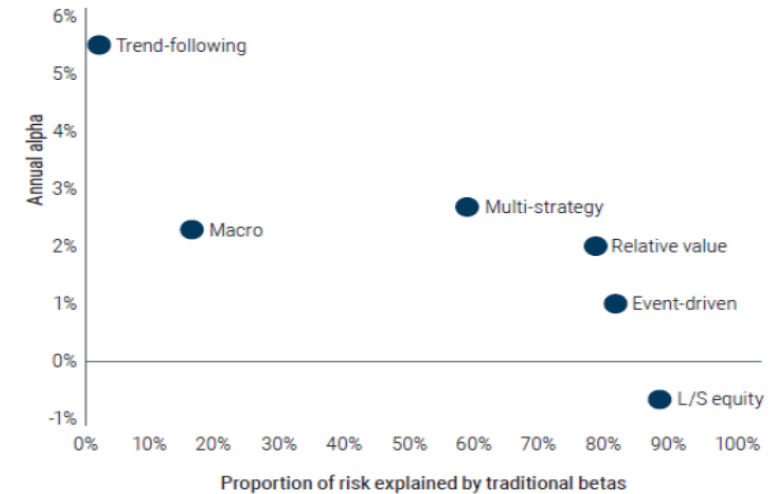


Source: FactSet. Past performance does not predict future returns. Performance includes the reinvestment of dividends and other earnings.

Greater dispersions in equity market returns has created a greater opportunity set for agile and opportunistic strategies such as hedge funds

Over the long term lower beta exposure in hedge funds has resulted in higher long term alpha

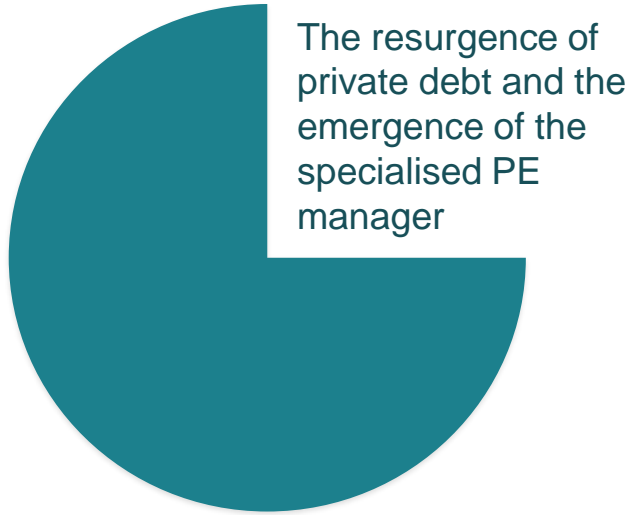
Figure 1: Lower-beta diversifying strategies have realized higher long-term alpha



Source: PIMCO and Bloomberg as of 31 December 2022. **Past performance is not a guarantee or a reliable indicator of future results.**

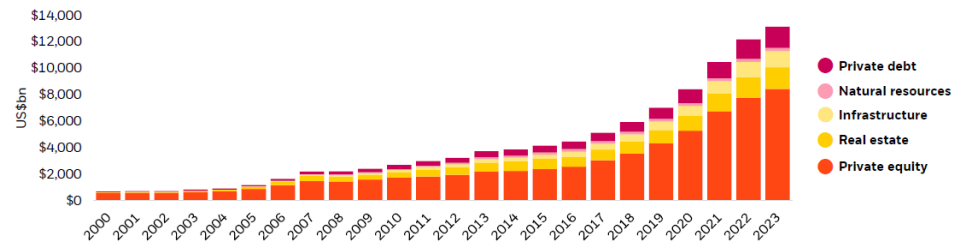
Based on monthly returns from 31 December 2007 – 31 December 2022. Proxies: L/S equity = HFRI Equity Hedge Index; event-driven = HFRI Event-Driven Index; macro = HFRI Macro Index; relative value = HFRI Relative Value Index; multi-strategy = Credit Suisse Multi-Strategy Index; trend-following = SG Trend Index. Statistics are based on regression analysis of hedge fund index returns against four major asset classes (equity, interest rates, credit, and commodities). Proxies for asset classes being regressed: equity = S&P 500 Index; interest rates = Bloomberg Bellwether 10-year Swap Total Return Index; credit = Bloomberg US Credit Index (Duration Hedged); commodities = Bloomberg Commodity Index.

Global private markets

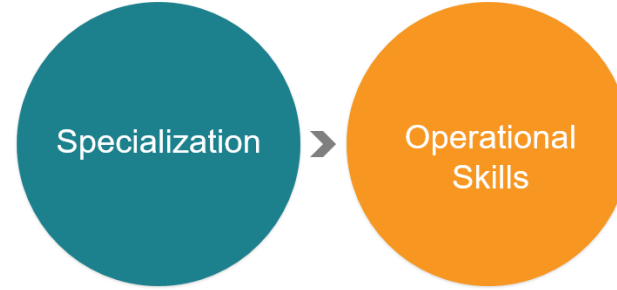


An increasingly essential asset

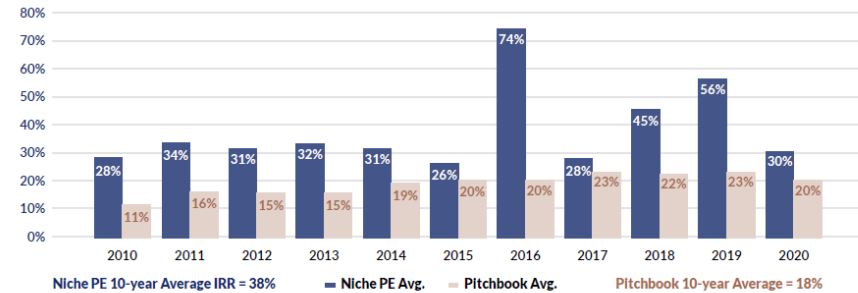
Private debt now represents 12% of alternative assets under management (unrealized value and dry powder)²



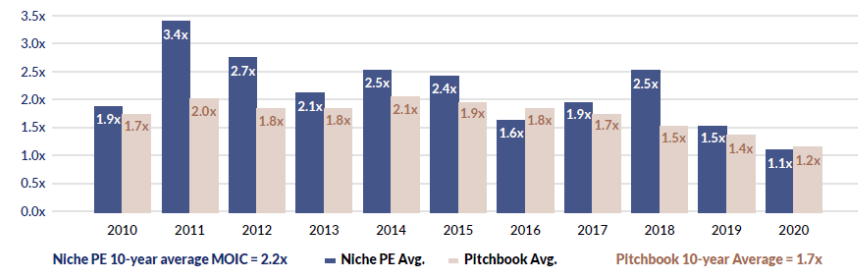
Source: 1. Preqin 2. BlackRock Preqin. As of each calendar year-end. 2023 is as of March 2023 (most recent available). To avoid double counting of available capital and unrealized value, fund of funds and secondaries are excluded.



IRR: Niche PE Index™ vs. Pitchbook Benchmark



MOIC: Niche PE Index™ vs. Pitchbook Benchmark



Global infrastructure



Resiliency

- Stubbornly high inflation, along with the recent volatility in stock and bond markets, has revealed the inherent strengths of many infrastructure investments
- Cash-flows that are less tied to economic cycles than other asset classes
- Long-term inflation linked returns
- Self liquidation in a tough exit environment



Decarbonisation

- Infrastructure investment over the next 20 years will undoubtedly be shaped by decarbonisation and the transition to net zero.
- Currently demand for net-zero assets is materially greater than the supply of suitable investments



Consolidation in fibre broadband

- As market liquidity dries up larger companies have been able to obtain greater financing, whilst smaller entities have not found it easy to attract capital.
- In developed markets there has been evidence of decreased equity appetite from investors and overbuild in urban areas resulting in an unsustainable amount of network providers.
- The UK alone currently has over 100 alternative networks

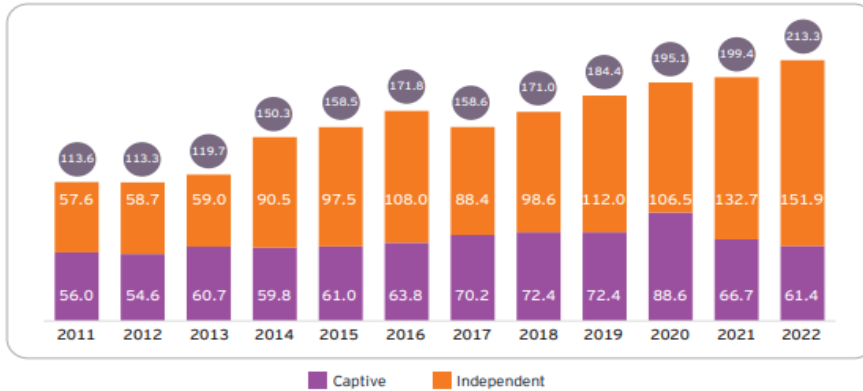


Local Hedge Fund themes

Item	Comment
Lower Gross Equity Exposures & Protection Strategies	<ul style="list-style-type: none"> • Volatile market environment experienced in 2023 expanding into 2024 • Lower than historic gross equity exposures • Managers have maintained the put protection taken out on the portfolio's.
Increase in FI exposure	<ul style="list-style-type: none"> • Relative to previous years exposure to fixed income instruments has increased across hedge fund managers given the low growth, high interest rate environment. • This is further evidencing the wide toolset that hedge fund managers will opportunistically leverage in their mandates. • Over Q3 of 2023 managers have been rotating out of local bonds into developed market bonds both as a function of attractiveness on a risk/return basis as well as potential recession protection
Trade off between downside protection and upside capture	<ul style="list-style-type: none"> • Over 2022 hedge funds protected well as the market priced in the fed's rate hiking cycle • Late 2022 the bear market rally left hedge funds lagging the market, in line with expectation • This is something to be cognizant of as post the negative equity market in H1 2024 as the funds have provided protection over the volatile 2023 period
Offshore Exposure	<ul style="list-style-type: none"> • Given the negative local macro outlook further exacerbated by loadshedding and the uncertainty of the upcoming election. Managers are expected to continue to venture into offshore markets largely utilising put protection to supplement stock selection their skills

Local private markets

Funds under management by type of PE fund, 2011-2022 (R bn)



What are your top strategic priorities aside from asset growth?



* For the EY Global PE Survey, PE firm's with FUM < \$2.5bn have been considered for comparison.

Transformation of PE Firms' teams

72% Proportion of PE firms that see "ensuring an inclusive culture" as the most important talent management priority outside of retention. Hiring/recruiting ranked as the 2nd priority with 46% of respondents, although it was voted as most important by global PE firms.

Providing flexible work arrangements was the most important retention strategy outside of compensation by both Southern African and global PE firms.

42% Proportion of PE firms with a Board having more than 30% women representation, up from 28% in last year's survey.

71% PE firms that had a B-BBEE score of Level 1 (42%) or Level 2 (29%), up from 56% in 2021.

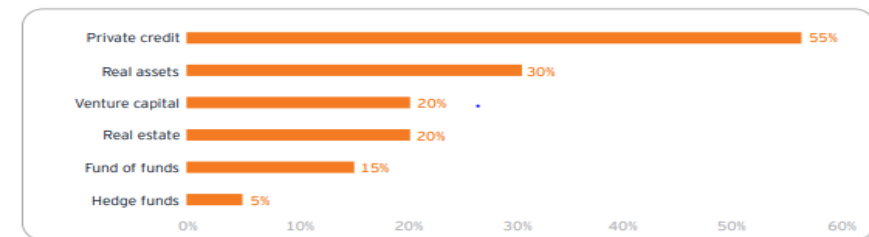
60% PE firms with more than 50% black ownership, up from 51% in 2021.

28% PE firms with more than 30% black female ownership, in line with 29% in 2021.

25% Proportion of the PE sector's FUM managed by B-BBEE Level 1 fund managers.

Diversification of FUM and the investor base

Aside from PE, which products do you offer to clients?



The percentages above are calculated based on PE firms that answered this question and thus is based on those that have a diversified asset base. 59% of PE firms did not provide an answer. The most popular diversification strategy being considered by Southern African PE firms continues to be private credit, followed by real assets, venture capital and real estate.

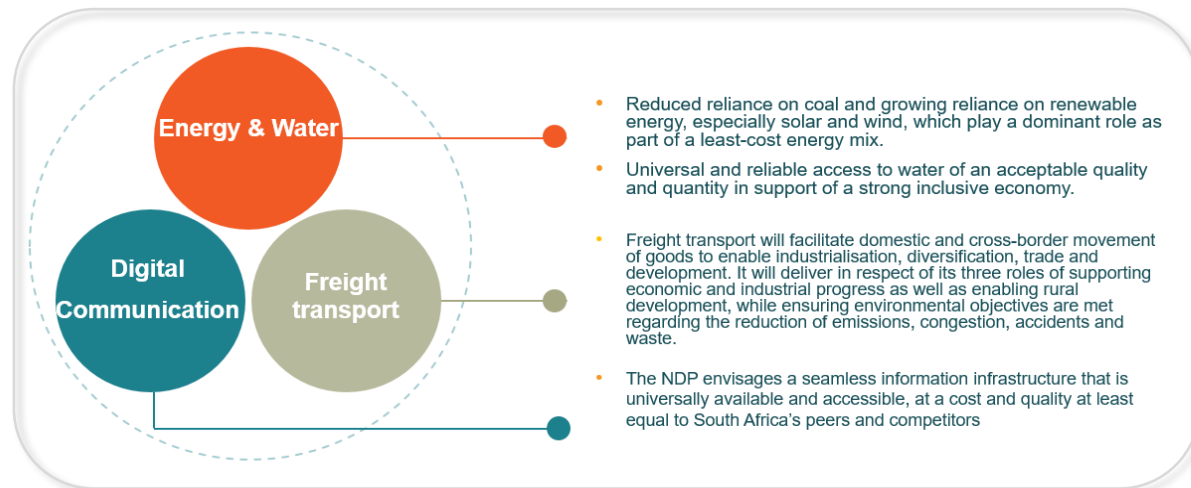
Source: SAVCA Private Equity Survey 2023



Local infrastructure | NDP prioritisation of infrastructure



The cost of delivering infrastructure to meet NDP development objectives is estimated to exceed R6 trillion between 2016 and 2040, with energy and transport accounting for over 72% of this spend.



“The NDP 2030 aims for 30% of GDP to be invested in capital¹². To achieve this objective, public sector investment must increase from 5.4% of GDP in 2019 to 10% of GDP in 2030, while private sector investment in infrastructure must increase from 12.5% of GDP in 2019 to 20% of GDP in 2030¹². Between 2009 and 2019, public sector capital expenditures averaged 6.7% of GDP, while private sector capital expenditures averaged 12.8% of GDP. Total investment is not only well below the NDP 2030 target, but it has also been declining over the past few years¹².”

Responsible Investing

Local and global themes





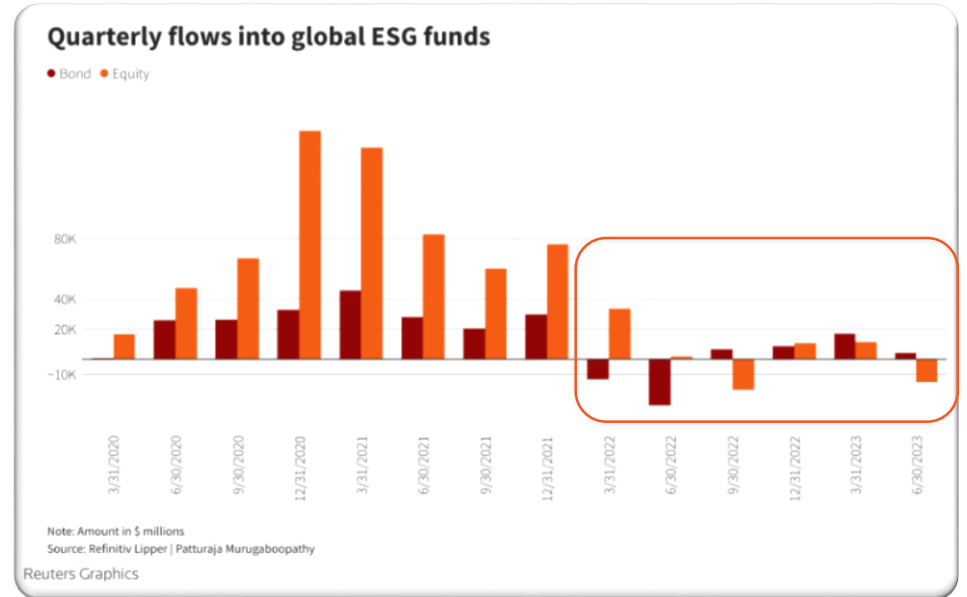
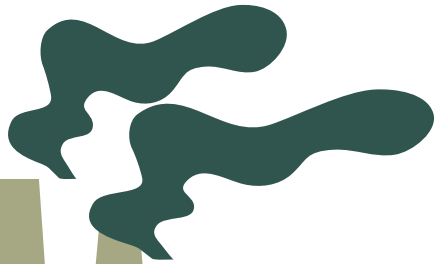
Clearing the smoke from the Global “Anti ESG” camp

Reasons for ESG Pullback



Impact on Asset flows

- Change in Interest rates
- Relative performance of energy and commodity assets
- Asset class volatility
- Greenwashing claims
- Political theatre in the USA



Net outflows in bond and equities in 2023

Questions raised about the efficacy of ESG and Sustainability

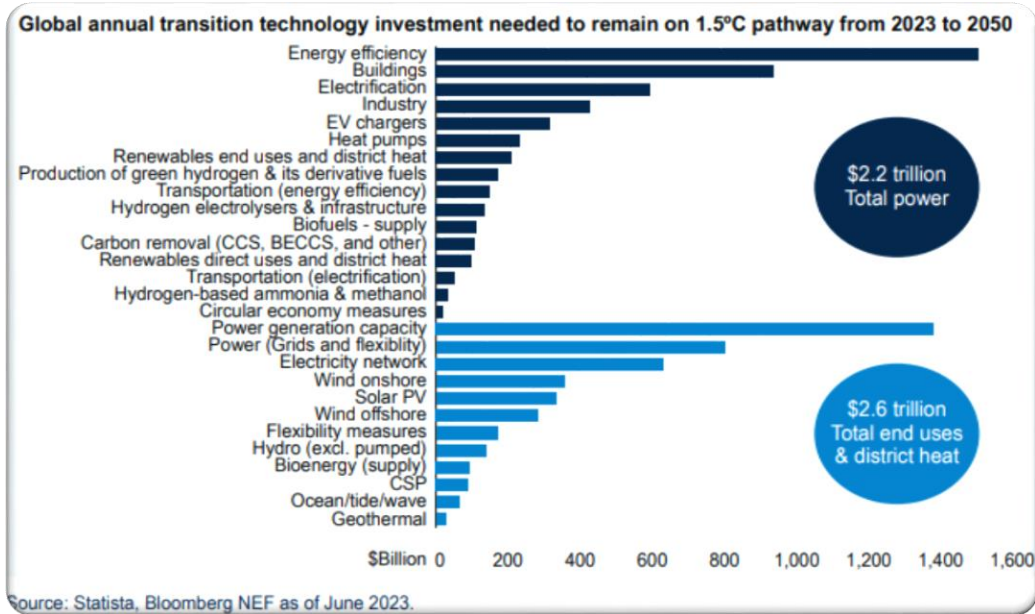


Early stages of a multi decade megatrend being laid

Regulation & Reform agenda



Setting the foundation for a multi-decade energy transition



2023



2050 and Beyond

Temporary setback paves the way for transition finance long term need

Energy transition time line



Sovereign Sustainability in South Africa

Immediate Risks to SA Sustainability

- Energy Reform – Stable and Clean Electricity supply
- Infrastructure (water) – Scarce resource being wasted through crumbling infrastructure or contamination
- Slow growth – impacting revenue generation
- Debt to GDP - Fiscal and Eskom
- Logistics – transportation of minerals

Impact to economy

Nedbank Sees Sovereign Health as Biggest Risk for Africa

Ramaphosa's Investment Czar Says South African Infrastructure in Dire State

- South Africa's power, ports, rail systems are deteriorating
- Government doesn't have the skills, policies to arrest decline



Are the Sustainability challenges to grave to address?



Sovereign response - *Energy transition in South Africa*

Structural Reform Agenda



Financing the Just Transition efforts



- 19 Core areas of focus
- Quarterly reporting made available to the public
- Electricity, Water, Transport, Digital communications & more

in alignment with South Africa's

National Development Plan Just Transition Framework

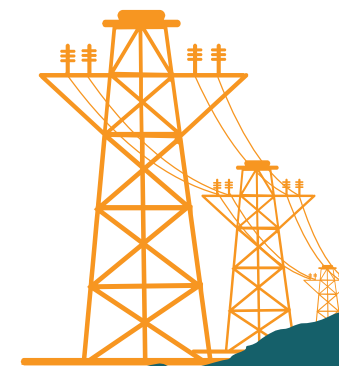
Funding requirements 2023–2027	ZAR billion (US\$ billion)	
Electricity Sector	711.4	(47.2)
New Energy Vehicle (NEV) Sector	128.1	(8.5)
Green Hydrogen (GH ₂) Sector	319.0	(21.2)
Skills development	2.7	(0.18)
Municipal capacity	319.1	(21.3)
TOTAL	1 480	(98.7)

WASHINGTON, October 25, 2023 — The World Bank Board supports the Government of South Africa's efforts to promote long-term energy security and a low carbon transition with a \$1 billion Development Policy Loan (DPL). The loan endorses a significant and strategic response to South Africa's ongoing energy crisis, and the country's goal of transitioning to a just and low carbon economy.

SA must build 6,000km of power lines in three years, says Ramokgopa

Electricity minister says Eskom needs to move faster than envisaged in its transmission plan

Source : Business Day Jan 2024



Temporary setback paves the way for Transition finance long term need



Thank you

Investments

