INDUSTRY GUIDE TO THE EPPF **2022**

STRATEGIC PRIORITIES AND REGULATORY UPDATE

The Fund's primary objective is to earn a net real return of at least 4.5% a year over periods of three years and longer. The strategic asset allocation is designed with the intention of achieving this long-term outlook.

In the recent past, key regulatory changes have had a direct impact on the way we invest members' hard-earned money. These changes are detailed in Regulation 28 of the Pension Funds Act, which imposes several quantitative limits to promote diversification and management of investment risks.

The latest iteration of Regulation 28 allows retirement funds to invest a maximum of 45% of total investments offshore. It also collapses the old split between the rest of the world and Africa (excluding South Africa) to which investment limits of 30% and 10% respectively applied. Retirement funds are at liberty to apportion the 45% as they wish among world regions. The Fund currently invests approximately 4% of its assets in Africa (excluding South Africa) and 30% invested in the rest of the world, with the balance in South Africa.

To encourage retirement funds' participation in South Africa's development, Regulation 28 now allows investment in infrastructure to a maximum of 45%. Infrastructure includes any asset class that entails physical assets designed to provide social and economic utilities or benefit for the public. Renewable energy (wind and solar farms), toll roads, water reticulation, waste management, warehouses and other real estate with long leases fall in this category.

The EPPF will always maintain a diversified portfolio across asset classes and geographies to allow efficient return enhancement while managing risk. The increase in allocation to offshore markets will give the Fund many options should opportunities become available. In the short term, there is no intention to utilise the maximum allocation of 45% of total investments to global markets for two reasons:

In the short term we expect South African assets to outperform offshore assets. The Fund's purpose is to pay benefits due which are in South Africa rands. Therefore, it is important to match assets and liabilities by nature, term and currency. The continuous allocation to global markets, while potentially good for return enhancement, introduces the risk of a mismatch between incoming and outgoing cashflows.

Here are the EPPF's longer-term strategic objectives:

- Improving investment performance through increasing the Fund's allocation to passive strategies, optimising the allocations to primaries and co-investments in private markets, and driving efficiencies in our capital allocations to external asset managers.
- Preparing for changes in membership demographics and introducing new products to cater for all our members – active members, retired beneficiaries and deferred beneficiaries.
- Maintaining and strengthening the Fund's position on responsible investing, which directs us to take into account investment impact in terms of environmental and social benefits, good governance practices, impact reporting, climate change policies and advancing women in the asset management industry.
- Growth of internal human capability, specifically in terms of leadership development and regulatory compliance.

Return on investment

Annualised Fund returns relative to targets at 30 June 2022

	1 year %	3 years %	5 years %	7 years %	10 years %	15 years %	20 years %
Fund return	4.44	7.72	6.96	6.73	9.59	9.26	11.81
CPI + 4.5%	7.42*	8.55	9.18	9.47	9.66	10.13	9.86
Return relative to target	(2.78)	(0.76)	(2.03)	(2.51)	(0.06)	(0.80)	1.78

* *The one-year target is the CPI rate.*

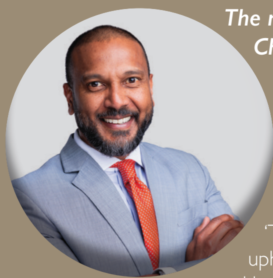
ON COURSE

Chairman Caroline Henry says the Board is well established in its oversight of the Fund's day-to-day operations.

'It was a period in which the market was capricious, to put it poetically, with an unexpectedly strong rebound resulting from the initial COVID recovery, followed by moderation of this overcorrection – and then the renewed assault on markets and increased inflationary pressure due to the war in eastern Europe in the fourth quarter of our financial year.'

'However, the Fund not only stayed the course, but stayed very much on course, capitalising on its proven, robust approach to asset management and emerging stronger, wiser and more determined to grow its funds and satisfy its stakeholders in the months and years to come.'

A STEADY SHIP



The message from Chief Executive Officer Shafeeq Abrahams gives assurance that it is a steady ship in stormy seas.

'The current market upheaval is unavoidable and is a reality faced by every economy and investor. The Fund has concentrated on enhancing our risk management capabilities and ensuring the necessary resilience and diversification of our investment portfolio, both by asset class and geography, to make the best of an unfortunate situation.'

'Recent amendments to Regulation 28 of the Pension Funds Act, which increase the limits on both infrastructure investment and foreign investment, afford retirement funds more flexibility and choice. The Fund welcomes these amendments as they increase the range of investment opportunities available, and support its diversification efforts. However, in formulating its investment objectives and strategic asset allocation, the Fund will continue to maintain a liability driven approach while maximising risk adjusted returns.'

ASSET CLASS PERFORMANCE

As indicated in the CEO's report, the Fund has underperformed against its absolute return target of CPI + 4.5% due largely to significant volatility in markets and a sharp increase in inflation.

The table on page 79 sets out the benchmark performance of various asset classes over different time periods.

It is important to note that over the five-year period, the only asset classes which met the CPI + 4.5% target were global equity and China A-equity. However, global cash and local inflation-linked bonds outperformed the CPI + 4.5% target for the 12 months to end-June 2022, on the back of the recent rise in inflation. With the total allowable allocation to these asset classes capped at 30%, most of the Fund's capital was invested in asset classes that could not generate returns sufficient to meet the absolute target.

Over seven years, only global equity exceeded the CPI + 4.5% target. The picture was slightly more positive when the monitoring period was extended to a decade, with global equity, emerging market equity and China A equity all meeting or outperforming the absolute target of CPI + 4.5%. However, regulatory requirements imposed an upper limit of just under one-third for offshore investments and limited the Fund's potential exposure to these regions. This resulted in Fund returns underperforming the target of CPI + 4.5% over periods of three years and longer.

Asset class performance

Asset Class	Benchmark	1 year %	3 years %	5 years %	7 years %	10 years %	15 years %	17 years %	18 years %	20 years %
ZAR										
SA cash	SteFi	4.2	5.0	5.9	6.3	6.1	6.8	6.9	6.9	7.4
Nominal bonds	ALBi	1.3	5.8	7.8	7.4	7.2	8.2	7.9	8.6	9.2
Inflation-linked bonds	CILI	10.7	7.2	5.5	5.1	6.3	8.0			
SA equity	SWIX	2.8	5.6	5.9	4.8	8.8	8.5	12.1	13.8	12.4
SA Capped SWIX equity	Capped SWIX	6.9	6.8	5.9	4.6	9.1				
SA listed property	SAPY	0.2	(9.0)	(7.3)	(3.5)	2.7	6.6	9.9	12.2	13.9
All property	ALPI	(0.1)	(9.0)	(7.3)	(3.5)	2.7	6.6	9.9	12.2	13.9
Global equity	MSCI ACWI	(3.3)	11.7	11.9	11.7	16.4	10.8	12.4	12.7	9.7
Emerging equity	MSCI EM	(14.3)	5.7	6.8	7.3	10.3	7.9	11.6	13.2	10.9
China A	MSCI China A	(1.3)	16.3	9.9	2.9	13.8	9.0	18.8	16.7	10.4
International property	FTSE EPRA/NAREIT	0.2	5.5	7.9	9.1					
International cash	Citi 1 Month USD Euro deposit	15.1	5.8	5.8	5.4					
Absolute target	CPI + 4.5%	7.4	8.5	9.2	9.5	9.7	10.1	10.2	10.0	9.9
Strategic benchmark	SAA	3.5	7.9	7.4	6.9	10.5				
USD										
USDZAR	USDZAR	14.7	5.1	4.6	4.4	7.2	5.8	5.4	5.5	2.3
MSCI ACWI (USD)	MSCI ACWI	(15.8)	6.2	7.0	7.0	8.8	4.8	6.6	6.9	7.2
MSCI EM (USD)	MSCI EM	(25.3)	0.6	2.2	2.8	3.1	2.0	5.9	7.3	8.4
MSCI China A (USD)	MSCI China A	(14.0)	10.6	5.1	(1.4)	6.4	3.1	12.7	10.7	7.9
MSCI EFM AFRICA Ex ZA (USD)	MSCI EFM Africa Ex ZA	(15.4)	(2.8)	(2.1)	(2.7)	0.6	(2.1)	2.0	4.1	8.3

PRIVATE MARKETS INVESTMENTS

The EPPF's private markets portfolios include private equity, developmental investments, real assets and private markets incubation. The private markets portfolios have varying degrees of mandate and risk associated with each portfolio. Private markets are a long term asset class with performance results influenced by various factors.

It has been a difficult four years for the asset class as it has been impacted severely by the challenging South African macro-economic environment. There are signs of recovery as demonstrated by the uptick in the short term performance numbers. Private markets offer institutional investors the opportunity to invest in an asset class which has historically outperformed listed equity over the long term in the past. Management has taken measures to improve the performance of the portfolio by diversifying and reducing the J-curve effect in adding various geographies and investment strategies that will produce alpha in the long term.

To see performance of asset classes over two decades see pages 79 of the full Integrated Report.

The Fund has an inhouse investment management capability, which cost R99m in the year under review (2021: R85m). This cost is included in total investment management expenses to facilitate comparison of investment management expenses with those of other funds. The lower cost of managing assets inhouse offsets the high costs of outsourcing asset management. The inhouse investment team has scaled up its resources and capabilities to take on more mandates in line with the Fund's current strategy to lower management fees by bringing external assets in different asset classes – including private markets – inhouse. Savings of R14m were realised for the year to June 2022 due to reallocating certain mandates to the internal team.

Analysis of fees

	30 June 2022 R'000	30 June 2021 R'000
Total AuM	**169 977 886**	166 358 247
External management fees	**640 862**	563 278
Inhouse investment management expenses	**98 961**	84 744
Transaction costs	**30 696**	29 143
Total	**770 520**	677 165

OUR OPERATING ENVIRONMENT

By the end of the review period, economic and social activity had normalised in most countries following COVID-19 lockdowns and this had a positive effect on global growth. However, the conflict between Russia and Ukraine counteracted this and saw countries' globalist visions replaced with nationalist perspectives. Europe, in particular, focused on domestic production of energy rather than relying on Russia.

South Africa is largely shielded from the Russia/Ukraine conflict but, because the Eurozone is such a significant trading partner, the slowdown in Europe has had a negative impact on our domestic growth. This has been somewhat off-set by a surge in commodity prices and coal prices.

Low growth and high unemployment remain key challenges in South Africa.

In the first half of 2022, central banks in most regions hiked interest rates to curb rising inflation and applied other tools to tighten monetary conditions. A fear of global stagflation – stagnant growth with high inflation – took hold. In this context, the calibration of the speed and size of interest rate hikes is crucial because they will further slow growth in the interests of curbing inflation. World economic growth projections for 2022 were revised downward, as was South Africa's.

Despite destabilising effects of historic events – a global pandemic and conflict in eastern Europe – the Fund reported a positive return on investment and a slight growth in assets, and is in a strong financial position. We continue to pursue a three-dimensional approach to investing that balances risk, return and social impact in the belief that the sustainability of the Fund and the prosperity of our broader society are totally intertwined.

Membership, contributions and benefits

In 2022, the Fund had a total of 80 042 members, with slightly more pensioners and other beneficiaries than in-service or active members. Active membership continued its five-year downward trend to end the year at just over 39 200 individuals. This decline of 3.0% was due mainly to Eskom's reduced staff complement. Year-on-year pensioner numbers declined by 0.8%, after several years of slight increases.

Contributions totalling R3.78bn were received during the review period a reduction of 2% relative to 2021. The rates of contribution from members and employers are fixed at 7.3% and 13.5% of the member's salary for members and employers respectively.

Benefits paid and accrued in 2022 totalled R6.81bn, an increase of 14% on the amount paid in the previous year. The amount disbursed in total benefits has increased annually for several years.

WHAT DOES THIS ALL MEAN?

Due to the maturity of the Fund and the reduction in the number of contributing members, benefits paid have outstripped contributions received for a number of years. In 2022, the net cash outflow (excluding income and expenses) rose to R3.0bn, compared to R2.5bn in 2021. However, the healthy cash income generated from assets has covered this gap. In the medium to long term, if there is no growth in active members and contributions, the Fund's ability to make new investments will diminish and growth in assets under management (AuM) will be constrained.

Changing rules for a changing world

AMENDMENTS APPROVED: GREATER PORTABILITY

In the review period, the Financial Sector Conduct Authority (FSCA) approved rule changes that the Fund had submitted the previous year to allow deferred pensioners under the age of 55 years to withdraw their benefits or transfer them to other approved funds. Towards the end of the review period, the Board approved a further rule amendment to allow deferred pensioners over the age of 55 years and under retirement age to withdraw their deferred benefit from the Fund or transfer it to another approved fund. Cumulatively, the rule amendments allow all deferred pensioners under the retirement age of 65 years to withdraw or transfer their deferred benefits from the Fund. This is in line with default regulations that encourage easy portability.

UNDER CONSULTATION: PENSION INCREASES

The Fund carried out a pension increase review which compared our established method for calculating pension increases against other methods in use. An analysis of 20 years' data indicated that the Fund's established method yielded increases in line with headline inflation. The review concluded that such increases were fair and above the market in many instances. However, the review team recommended that EPPF should improve the provision on the minimum pension increase from an absolute rate of 2% to an inflation-linked rate in order to protect members from sharp, but usually short-lived, increases in headline inflation. The proposal, which would involve a rule change and has still to be discussed with members, is for the minimum pension increase to be set at 60% of headline inflation.

LOOKING TO THE FUTURE

The Fund welcomes the proposed "two-pot" retirement system, as announced by National Treasury. This will encourage retirement savings in the long run through a retirement pot, while assisting members to address short-term financial needs by accessing funds in a savings pot. However, the implementation of the two-pot system, particularly for defined benefit funds, is complex and requires careful consideration. The Fund will continue to participate in industry discussions and awaits further clarity from regulatory authorities.

Investing for developmental impact

INVESTMENT MANAGEMENT

The Fund has adopted a three-dimensional investment approach that balances risk, return and impact. Our Developmental Impact Strategy directs us to contribute to the socio-economic transformation of our country by investing where we sustain jobs, stimulate the economy, and advance groups that have been economically disadvantaged – black people, women and young people. We also make targeted investments in some sectors prioritised in South Africa's National Development Plan and the United Nations Sustainable Development Goals.

In 2022, we tracked the impact of eight companies in which the Fund has invested directly and additional investments made through 53 fund managers.

BLACK ECONOMIC EMPOWERMENT

In 2021, in companies where the Fund was directly invested there was 100% B-BBEE compliance, up 17% on the previous year. On average, 64% of management positions were held by black people – 5% more than a year earlier – and 21% of board positions. Where we invested through fund managers, the average B-BBEE rating of companies was level 3.

JOB CREATION

In companies where EPPF has invested directly, 6 054 jobs were supported. Of these, 52% were held by black employees and 28% by young people. Where our investment was through funds, relevant companies provided 48 063 jobs. The rates of black employment and youth employment were 72% and 19% respectively.

ECONOMIC STIMULUS

In terms of boosting the economy, companies in our combined portfolios spent R9.26bn on local procurement, R3.40bn on salaries and contributed taxes worth R1.03bn.

GENDER EQUALITY

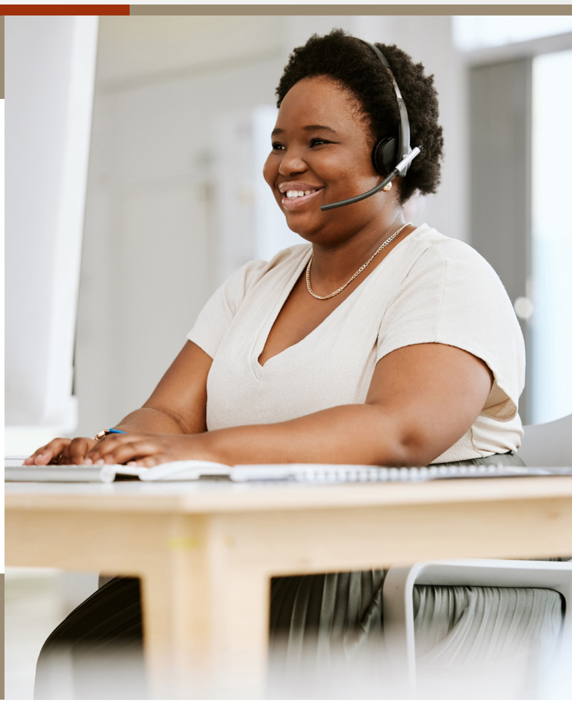
Women held about four out of 10 jobs in companies where the Fund was directly invested and 33% in companies where our investment was through fund managers. Women also held about four out of 10 management jobs in companies where we invested directly, with little year-on-year change.

Here's a taste of the achievements of companies in which we are directly invested:

EPPF investment	Companies and funds	Indicators of impact in 2021
AFFORDABLE HOUSING R550m	Trust for Urban Housing Finance (TUHF) HIS Fund II	**Jobs supported:** 3 624 **Local procurement:** R41m **Housing units delivered:** 9 976 **Housing units occupied/leased:** 8 941

To find out about the impact of our selected companies in the areas of renewable energy, healthcare, public transport and other sectors see pages 45 and 46 of the full Integrated Report.

FUND ADMINISTRATION



ESKOM PENSION AND PROVIDENT FUND
Fund registration number 12/8/564

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The 2022 Integrated Report of the Eskom Pension and Provident Fund is available on www.eppf.co.za and an electronic copy may be requested by mailing info@eppf.co.za.