REGULATOR'S GUIDE TO THE EPPF **2022**

FUND EMERGES SOUND IN A STORMY CLIMATE

The message from Chief Executive Officer Shafeeq Abrahams provides a sharp snapshot of the Fund's performance in another year where global events dictated our fortunes.

'During the first half of the financial year, the worldwide rollout of COVID-19 vaccinations and easing of restrictions led to a market recovery across major investment asset classes. However, the second half of the year witnessed the Russia/Ukraine conflict, China's zero-COVID lockdown, and the associated supply chain disruption, price instability, record inflation, and steep hikes in interest rate domestically and abroad. These conspired to take the wind out of the world economy's sails. And the Fund was not spared.'

'Despite the asset value dropping from a peak of about R184bn in December 2021 to about R170bn at financial year-end, the Fund managed a one-year return of 4.44% (2021: 17.63%). This is 2.78% below the one-year CPI target of 7.42% but 0.89% above the strategic asset allocation benchmark of 3.52%. The three-year investment return of 7.72% was 0.76% below the benchmark of CPI + 4.5% (2021: 0.53% below).'

'With assets under management valued at about R170bn at 30 June 2022, compared to R166bn at 30 June 2021, the Fund remained financially sound. Its funding ratio at 30 June 2022 was 139% (2021: 145%).'

'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.

'Following the 2021 actuarial valuation, the Board approved an increase of 5% for all pensioners effective from 1 January 2022, with top-up increases of up to 3.7% for those whose increases had been below CPI in the period since January 2001. This maintained the trend of inflation-aligned increases every year for two decades. More than R230m was paid out in bonuses, down from R319m in 2020 when a special COVID-19 relief payment was included.'

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.

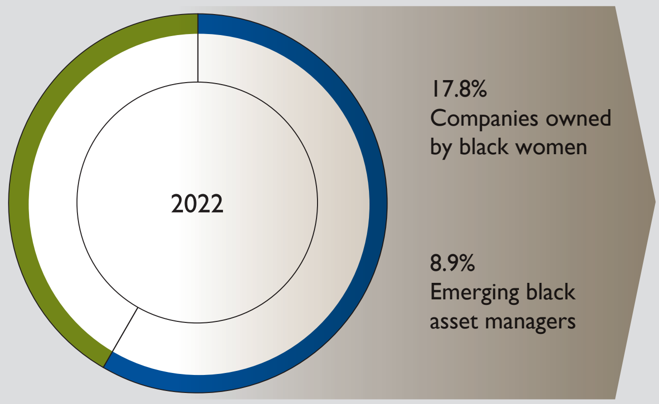
UNDER CONSULTATION: PENSION INCREASES

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.

ALLOCATION OF DOMESTIC MANDATES TO BLACK ASSET MANAGERS



	%
Black asset managers	58.4
Other domestic managers	41.6

"GIVEN THE SIZE OF OUR FUND WE HAVE A VAST ASSET MANAGER NETWORK. OVER THE YEARS, WE HAVE EMPOWERED MANY BLACK-OWNED AND EMERGING INVESTMENT MANAGERS IN A STRATEGY THE SPREAD OF OUR PORTFOLIO ACROSS MANAGERS CONTINUES TO FULFIL OUR OBJECTIVE OF BUILDING CAPACITY IN THE INDUSTRY AND SETTING UP DESIGNATED GROUPS FOR FUTURE SUCCESS. THIS IS DONE BY CONSCIOUSLY BALANCING THE DEVELOPMENT MANDATE WITH THE BUSINESS IMPERATIVE. – CHAIRMAN CAROLINE HENRY

Addressing Fund solvency and costs

In her comprehensive report, Chief Financial Officer Thandie Mashego reflects – among other things – on Fund solvency and the challenge of containing general and investment costs.

SOLVENCY OF THE FUND

The Fund has maintained a healthy solvency position over the years, backed by a solid actuarial surplus which amounted to R47.4bn in 2022 (2021: R51.0bn) after providing for contingency reserves. The funding level declined to 139% at end of June 2022, from 145% in the prior year. Key factors contributing to the decline in the funding level were:

- The increase in total contingency reserves.
- Lower-than-expected investment returns for the financial year.

Actuarial liabilities decreased from R103.0bn in 2021 to R99.0bn in 2022, while contingency reserves increased by 93% to R21.8bn from R11.3bn in the prior year. This was primarily due to an increase of R10.7bn in the in-service reserve from a zero base in the prior year

INVESTMENT MANAGEMENT EXPENSES

Total expenses incurred in managing investments amounted to R771m (2021: R677m), representing a year-on-year increase of 13.88% (2021: 18.1%).

The increase in investment management fees was due to high asset under management (AuM) reported for most of the financial year, combined with increased allocation to private markets which attract slightly higher fees.

The Fund has an inhouse investment management capability, which cost R99m in the year under review (2021: R85m) and is included in total investment management expenses. The inhouse investment team has scaled up its capabilities to take on more mandates in line with the Fund's current strategy to lower management fees by bringing external assets inhouse. Savings of R14m were realised for the year to June 2022 due to reallocating certain mandates to the internal team.

TOTAL ADMINISTRATION COSTS

In 2022, the Fund's total administration costs decreased by 10% (2021: 2.36% increase). When once-off project costs of R15.6m are excluded, the increase in the core administration cost amounted to 3% (2021: 4%) which was in line with inflation.

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.

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.

What our members think of us

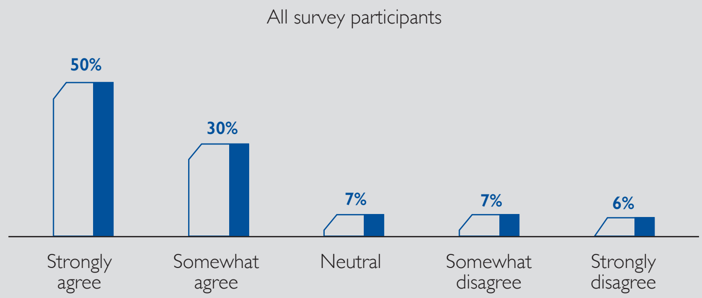
After a major member survey in 2021, the Fund undertook smaller dipstick research – with 730 respondents – in 2022. Attitudes to the EPPF are generally favourable but there is room for improvement, especially among in-service and deferred members.

How many members agreed that interactions with the Fund were easy?

Opinion differed by member group:

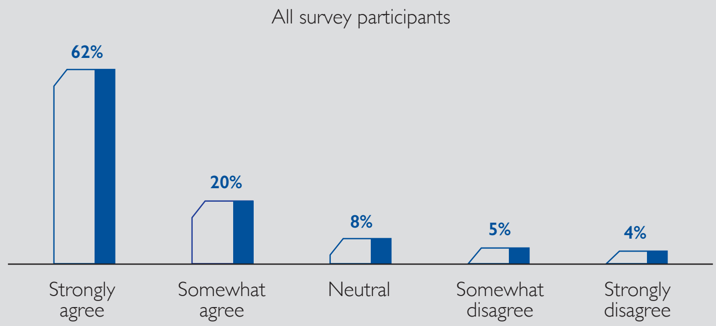
Among pensioners 84% were on the positive side of the spectrum.

Among in-service members 64% were on the positive side. This figure fell to 47% among deferred members, who recorded a high rate of neutral (21%) and negative ratings (33%).



Did members consider that the Fund treated them fairly?

The overall scoring on fairness was high, with pensioners and beneficiaries once again holding the most positive attitudes, and in-service and deferred members following, in that order. About one-fifth of the latter groups recorded a neutral response.



The Fund strives to respond promptly to queries and complaints. In the current review period, the Fund closed all Pensions Fund Adjudicator (PFA) matters lodged in earlier financial years. In the current financial year, as indicated below, the Fund received 23 new complaints lodged with the PFA and resolved 19 of these within the year. The Fund attended to 155 queries on unclaimed benefits referred by the FSCA and awaits the regulator's confirmation in respect of 60. The main reasons for complaints and queries were:

- Late processing of payments.
- Dissatisfaction with calculation of benefits.
- Contestation in relation to death benefits.

Queries or complaints received by the Fund or lodged with relevant regulators

Nature of complaint/query	Number received	Resolved	Pending
Referred from PFA	23	19	4
Referred from FSCA	155	95	60
Divorce	800	800	0
Maintenance	26*	26	0
Life partnerships	65	48	17
Death benefit queries	19	19	0
PAIA queries	6	4	2
POPIA queries	3	3	0
General queries	320	320	0

* *Including seven subpoenas*

ANNUAL INCREASE

In accordance with our commitment to member-centricity, the Fund carried out a pension increase review following concerns about pensioner increases. Together with the Fund actuary and two additional actuaries we evaluated 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 considered it necessary to improve the provision on the minimum pension increase from an absolute rate of 2% to an inflation-linked rate. The intention was to protect members from sharp, but usually short-lived, increases in headline inflation. The proposal, which is still to be consulted with members, is for the minimum percentage pension increase to be set at 60% of headline inflation.

The process is expected to be finalised in November 2022.

REPAYMENT ORDER AGAINST BRIAN MOLEFE

Former Eskom CEO Brian Molefe was admitted to the EPPF as a member in September 2015, on the basis of information submitted by Eskom, and paid out about R10m by the Fund when he retired early from Eskom.

A court challenge was subsequently brought by Solidarity, the Democratic Alliance and the Economic Freedom Fighters who contended Mr Molefe was ineligible for an EPPF pension because he had not been a permanent employee of Eskom. The High Court ruled that Mr Molefe was ineligible to be a member of the Fund and directed him to refund the amount paid to him in benefits.

Fund Chairman Caroline Henry summed up the latest developments in her message: "During the year, following court delays exacerbated by COVID, the High Court ordered that former Eskom head Brian Molefe, having unlawfully benefited from the pension scheme, must repay the EPPF the money he received from the Fund plus interest accrued from 31 October 2019. The Fund will, in this process of recovery, off-set a portion of this amount against funds transferred by Mr Molefe's previous retirement savings to the Fund. The Fund has repaid Eskom the R30m it received from the employer to fund Mr Molefe's early retirement. Immediately following the order, Mr Molefe filed an appeal which was subsequently dismissed.."

Eligibility audit nears completion

For several years, the Fund has been engaged in establishing the eligibility for membership of many thousands of members who joined the Fund prior to 2017. The purpose was to establish whether all members fulfilled the membership criteria in terms of the rules of the Fund.

The review of member records at Eskom Holdings has now been completed. In cases where there was no evidence of eligibility on record, Eskom invited individuals to submit evidence. The Fund will confirm the membership of individuals who can demonstrate they were permanent employees. Those who remain ineligible will have the option of participating in a court application for a declaratory order regularising their position. Alternatively, they may request the Fund to reverse their purported membership together with applicable contributions.

The membership audit has also been completed at Eskom Rotek Industries (ERI). An application to the court for a declaratory order on unresolved membership will also be instituted for ERI.

FUND ADMINISTRATION

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

REGISTERED OFFICE OF THE FUND
Isivuno House, EPPF Office Park
24 Georgian Crescent East, Bryanston East, 2191

POSTAL ADDRESS
Private Bag X50, Bryanston, 2021, South Africa

CONTACT DETAILS
Telephone: +27 11 709 7400
Fax: +27 11 709 7554
Share Call/Toll-free: 0800 114 548

WEBSITE
www.eppf.co.za

BENEFIT ADMINISTRATOR
Self-administered

EXTERNAL AUDITOR
BDO South Africa Incorporated
6th Floor, 123 Hertzog Boulevard, Foreshore
Cape Town, 7925

CO-SOURCED INTERNAL AUDITORS
Nexia SAB&T
119 Witch-Hazel Avenue, Highveld Technopark
Centurion, 0157

ACTUARIES
Towers Watson Proprietary Limited
Private Bag X30,
Rondebosch, 7701

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.