GUIDE TO THE
EPPF 2023 INTEGRATED REPORT

Fund is 'ready' for changes

In his review of the year, Eskom Pension and Provident Fund **Chief Executive Officer Shafeeq Abrahams** welcomes upcoming policy and regulatory changes.

Government's proposed two-pot pension system is stirring interest among our stakeholders. The system will allow pension fund members to access one-third of their future retirement savings during their working life, subject to annual limits, while the remaining two-thirds will be preserved until retirement. The Fund has a dedicated team charged with taking the necessary actions to ensure our readiness.

The Conduct of Financial Institutions (CoFI) Bill is another feature on the regulatory horizon. The bill will affect financial institutions, including retirement funds and its aim is to ensure that customers – that is, Fund members – are treated fairly. Trustees are required to take responsibility for the ethical culture of a fund and to exercise the utmost good faith, care and diligence when dealing with fund assets. While these approaches are already woven into the Fund's fabric and operations, we have assessed the bill's particular requirements and will be ready to comply when the legislation is enacted.

Creating conditions for compliance

Fund **Chairman Caroline Henry** addresses the impact of regulatory changes on the pension industry.

The transformation of the country's social security system has, in recent years, demanded significant policy and legislative adjustments to the pension industry. These have included regulatory upgrades such as the 'twin peaks' approach, which separated regulation of financial stability and market conduct. While increased regulation is aimed at safeguarding and protecting the interests of pension fund members, it also imposes a burden in terms of capacity and resources. Compliance and monitoring requirements are more stringent, and this heightened scrutiny comes with associated costs. Pension funds must adapt to these evolving regulatory landscapes to ensure they continue to effectively manage and protect the financial well-being of their members while managing the operational challenges posed by increased regulatory demands.

During the year, the Board maintained its focus on responsible running of the Fund, keen oversight of operations, and the potential to expand membership. We continued to favour our long-term investment perspective over short-term gains, as we have proven our ability to ride market storms in the knowledge that healthier returns will be the ultimate prize.

Eskom Pension and Provident Fund

Statshot of the year

Assets under management
R189.76bn

(2022: R170bn)

One-year investment return
14.23%

(2022: 4.44%)

Three-year annualised investment return
11.93%

(2022: 7.72%)

Bonuses paid to pensioners
R239m

(2022: R230m)

Pension increases
4%

(2022: 5% for all individual top-ups up to 3.7%)

In-service members
38 718

(2022: 39 224)

Pensioners and beneficiaries
40 761

(2022: 40 593)

Contributions received
R4.01bn

(2022: R3.78bn)

Benefits paid
R6.65bn

(2022: R6.82bn)

Processing times for contributions
2 days

(2022: 5 days)

Percentage of calls answered <3 minutes
76%

(2022: 80%)

Percentage of claims processed <6 weeks
90%

(2022: 72%)

Black empowerment spending
R705m

(2022: R443 million)

Funding level
155%

(2022: 139%)

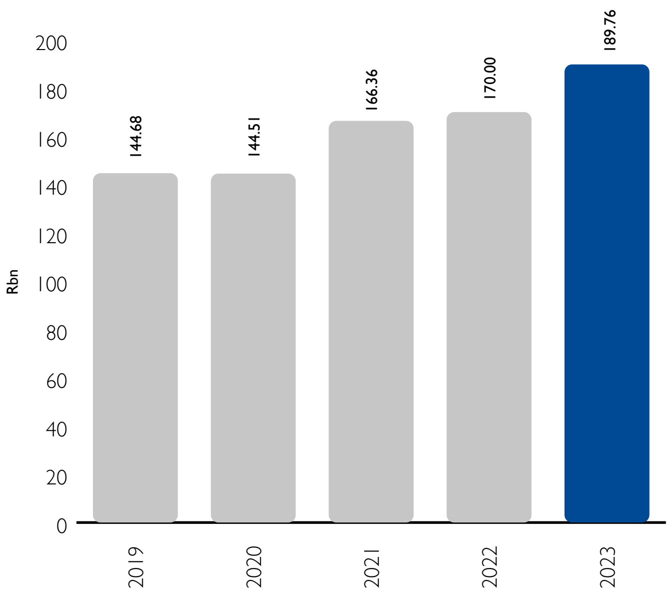
The Fund's investment performance

Market volatility persisted in the short term, impacted by various local and global factors, including energy constraints that weighed negatively on the South African economy, the ongoing conflict in Eastern Europe, the high cost of living, monetary policy tightening, and growing concerns about a slowdown in global growth. Despite the challenges, there was positive momentum in local and global equity markets towards the end of the financial year, which led to a strong recovery of our investment portfolio from a lower base in the prior year.

Assets under management (AuM) closed at R189.76bn (2022: R170.0bn), delivering a one-year investment return of 14.23% (2022: 4.2%). As a long-term investor, the Fund focuses on generating attractive and sustainable long-term risk-adjusted returns.

Net investment income for the year, after deducting expenses of managing investments, increased by 241% and amounted to R23 180m (2022: R6 801m). The substantial increase in net investment is largely attributable to fair value gains on financial assets driven by strong market performance. Included in the fair value gain/loss are foreign exchange gains/losses on translation of the foreign denominated assets at financial reporting date. In the short term, the unrealised fair value gains and losses are volatile, as shown in the five-year trend table below. The Fund continues to generate healthy and stable dividend and interest income.

Five-year trend in Fund assets under management (Rbn)



In 2023, the Fund's total administration costs increased by 14% (2022: 9% decrease). When once-off project costs of R6.5m are excluded, the increase in the core administration cost amounted to 21% (2022: 4%). Major contributors to this increase were staff costs (which rose due to filling of posts that were vacant in 2022, an increased headcount to support our insourcing strategy, and increased performance bonuses off the back of improved investment performance) and consultancy and legal costs. The latter were unusually low in 2022, partly because Eskom reimbursed the Fund for the membership eligibility exercise, while in 2023 there were additional costs for private market due diligence and strategic support.

The Fund's cashflows from contributions and investment income were sufficient to cover all benefits, transfers and expenses paid. The Fund generated a positive net operating cash flow for 2023, although there was a 44% decline in cash flow compared to prior year. The Fund's liquidity requirements are managed dynamically to ensure that, where required, investment assets are liquidated efficiently, timeously and responsibly.

Social justice and long-term sustainability

The Fund's vision of investment as an instrument of social and economic change has evolved and expanded over the years. It began with a commitment to transforming the landscape of South African fund management by creating an incubation programme for black asset managers, particularly women.

The next step was direct investment in companies and funds that supported social and economic programmes to address the crippling inequities that persisted decades after the formal burial of apartheid. We then established systems to measure whether these investments were having positive socio-economic impacts – creating jobs, transforming workplaces and boardrooms, providing opportunities for women and young people, enabling small business, and creating greater equity in access to healthcare, quality education and affordable transport.

Finally, in the past year, the Fund has articulated a new sustainability approach that integrates environmental, social and governance (ESG) considerations into our decision-making processes. This thinking puts life at the centre of everything we do and emphasises meeting present needs without compromising future generations. The goal is to harmonise human needs with the natural world in an equitable manner.

The dire consequences of ignoring environmental challenges are all too evident around the world as floods, fires, heatwaves and droughts increase in frequency and severity. These devastating events have economic consequences and our fiduciary duty to protect our members' assets extends to addressing these risks. We believe it is time to move beyond sustainability to preserving and regenerating the environment.

Our sustainable investment approach has three major components: social justice, economic parity and environmental sustainability. These lie at the heart of the ESG Framework developed during the year to guide the translation of our ESG principles into investment practice.

Shifts in our membership

In 2023, the Fund had 79 479 members (2022: 79 817), about 49% of whom were active members and 51% pensioners and other beneficiaries. Active membership has declined over the years and this trend continued in 2023, with a drop of 1% (2022: 3.1%). The average decline over three years was 2.2% per year and was largely due to a reduction in staff employed by Eskom.

Year-on-year pensioner numbers increased by 0.3% in 2023, whereas 2022 had seen a decline of 0.78%. Over the past five years pensioner numbers have grown marginally by an annual average of 0.9%.

The margin by which the Fund's active members outnumber pensioners and beneficiaries has been shrinking slowly over several years, and since 2021 the weight has shifted so that pensioners and other beneficiaries constitute a slight majority. This membership pattern has an impact on total contributions collected, total benefits paid and the size of increases granted. But it is not the only factor. For instance, in 2023 salary increases of in-service members boosted the value of their contributions and more than compensated for the decline in their numbers.

Fund contributions and benefits

Contributions totalling R4.01bn (2022: R3.78bn) were received during the review period, representing a 6.1% year-on-year increase. Contribution rates are fixed at 7.3% and 13.5% of salary for members and employers respectively. The increase in total contributions in 2023 was a function of salary increases effected by the employer, which resulted in a larger contribution per member.

All employers paid their monthly contributions timeously and these were allocated, on average, within two days of receipt. There were efficiency gains in this area, with allocation taking a day less than in the previous year.

Benefits paid and accrued – including regular pension payments, lumpsums and payments to trust accounts – totalled R6.65bn in 2023, a decrease of nearly 2.4% on the amount of R6.81bn paid in the previous year. There has been a sustained increase in total benefits paid over the past five years.

All our pensioners received an annual CPI-linked increase of 4% from January 2023. Members whose pension payments started on or after 1 January 2022 received pro rata increases based on the month in which their pensions started.

The annual bonus paid in December 2022 was a flat rate of R8 150 per household, amounting to a total of R239m. This exceeded the previous bonus allocation by R9m. Once again, members whose pensions commenced after 1 December 2021 receive pro rata bonuses.

To determine increases and bonuses, we conduct an annual actuarial valuation during which we compare assets and liabilities and consider both the impact of inflation on members and the sustainability of the Fund. While our aim is to grant annual increases equal to CPI, this has not always been possible when Fund sustainability is considered.

Survey: members are happy but there is room to improve

The latest EPPF customer satisfaction survey indicates an improvement in ratings of the Fund across all member categories. While pensioners' and beneficiaries' approval levels are high, in-service and deferred members require further Fund attention.

A total of 7 559 members participated in the survey between July and August 2023.

The net promoter score increased from 25% in 2021 to 52% in 2023. The latter is regarded as an excellent rating.

On a scale of 1 to 10, participants rated the fairness of the Fund at 8.6 and ease of interaction with the Fund at 8.1. Both scores were higher than in 2022 across all member groups. Pensioners and beneficiaries remained the most positive, followed by in-service members and deferred members.

In 2023, the Fund made a real effort to enhance member interaction and the flow of information. The survey results suggest this had a positive impact and highlight the need continue to simplify service platforms, engage with members, and explain our processes.

The Fund's business model

Two core business units, Pension Administration and Investment Management, are responsible for the Fund's strategic and operational delivery and rely on critical support from the following units: Information Technology, Governance, Risk and Assurance, Finance, Human Capital, and the Office of the CEO. The Board of Trustees undertakes oversight of strategy, organisational performance, ethics and risk management.

The Pension Administration Unit delivers member-centric administration services, which include benefit processing, pensioner payroll administration, call centre operation, data management, and member communication and education services.

Investment management is executed through an internal investment team and external managers. The Fund applies prudent and sound investment principles, robust risk management and rigorous governance processes to allocate, manage and oversee the Fund's investment portfolio. The overall objective of the Fund is to deliver sustainable, risk-adjusted long-term returns and achieve better retirement outcomes for our members.

Operations occur within a particular organisational model:

- Risk-pooling across generations is a fundamental feature, with income constantly being generated by in-service members and benefits disbursed to pensioners and other beneficiaries.

- Lines of accountability are strong, from management to the Board and from the Board to member and pensioner constituencies that elect our trustees.

New strategic focus from 2025

For the past four years we have been building a fund that puts members at its centre and is positioned for future growth. In 2024 this building phase will conclude and, over the next five years, we will pour our energies into creating a multi-employer fund. Success will demand that we remain responsive to environmental triggers that impact on our journey.

These are: Eskom's unbundling; legal and regulatory changes; the prevailing political, social and economic landscape; technological advances; and member demographics and preferences.

To mitigate the impact of these factors, we have identified strategic focus areas which coalesce into five major themes:

(1) Creating peace of mind for our members regarding the sustainability of the Fund

We will ensure a financially sustainable pension fund that delivers its promise of stable, inflation-indexed annuities as they become due.

(2) Serving our members with care, empathy and excellence

We will focus our leadership and corporate culture initiatives on member-centricity, empathy and service excellence. We will create member value and report on this, improving communication to ensure greater transparency and improved understanding by members. This effort will apply particularly to investment performance and decision-making, costs, risks, and sustainability reporting.

(3) Positively affecting our communities and stakeholders

Our comprehensive sustainability investment strategy outlines the Fund's commitment to driving sustainability, key principles and intended outcomes. The strategy is based on interaction with stakeholders, aligned with investment mandates, and adheres to best practice in sustainability investment reporting.

(4) Leading effectively

As one of the largest FSCA-regulated retirement funds in South Africa, the EPPF must remain at the forefront of local and global developments. We must demonstrate thought leadership, governance role modelling, and an ability to influence stakeholders and shape discourse. We will continue to make the necessary investment in our people for them to fulfil this role.

(5) Securing our future

To remain relevant, we need to adjust to the changing employer environment, members' needs, and the operating landscape by reviewing our fund type and service model to become a multi-employer organisation under the new Eskom configuration.

Impact of Eskom's unbundling

Although Eskom's unbundling was not a top risk in 2023, the Fund regards it as an emerging risk that will grow in significance. Despite government's support for Eskom through debt relief and loans, the Fund considers it imperative to plan for the future participation of multiple employers and the introduction of a defined contribution option. A project on the defined contribution option is in process and an analysis has been conducted of the probable impact of a defined contribution money purchase component on the Fund's financial position.

Fund administration

Eskom pension and provident fund
Fund registration number 12/8/564

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