INDUSTRY GUIDE TO THE
EPPF 2023 INTEGRATED REPORT

Fund prepares for EPPF 2.0

Eskom Pension and Provident Fund **Chief Executive Officer Shafeeq Abrahams** reviews the Fund's 2023 performance in the light of its current strategic goals and its direction for the next five-year planning cycle.

As we approach the final stretch of our five-year strategy, Vision 2024, the activities in the year under review have brought us closer to our ultimate goal of establishing a member-centric fund primed for future growth. We regard Vision 2024 as our 'build' phase, in which we established our technology platforms, enhanced our digital capability, strengthened our investment processes, acquired additional skills, and embedded strong governance processes. All this has geared us to take the Fund to the next level: our 'EPPF 2.0'.

In the past year, our assets under management grew from R170bn to R190bn, a remarkable feat in a lacklustre market. We registered a one-year return of 14.23% and outperformed our consumer price index (CPI) target by 8.40%. We also exceeded the market benchmark for our strategic asset allocation by 0.28%. Our three-year rolling investment return of 11.93% outperformed our target of CPI +4.5% by 1.40%.

The Fund's annual actuarial valuation, which measures assets and liabilities in the light of the goal of long-term sustainability, grew from 139% in 2022 to 155%. This provides our members with the necessary comfort and peace of mind that the Fund continues to be financially secure.

Our commitment to listening, learning and expanding member engagement platforms also enabled us to address a greater number of queries. Our various digital channels are designed to make it almost effortless for members to interact with the Fund and we are encouraged by the growth in use of these tools. During the year we saw 11 069 new users across our digital channels and recorded 48 390 interactions on our WhatsApp and USSD channels.

As we close out Vision 2024, we have undertaken preparatory work for our next five-year strategy, titled EPPF 2.0. In this process, we have identified the following key objectives to guide the strategic direction over the next five years:

- Create peace of mind for our members by ensuring the sustainability of the Fund.
- Serve our members with care, empathy and excellence.
- Lead effectively.
- Impact positively on our communities and stakeholders.
- Secure our future.

Opportunity knocks

Fund **Chairman Caroline Henry** considers that the Fund's sustainable results should build confidence in its ability to turn Eskom's unbundling into an opportunity.

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.

The Eskom unbundling occupies a great deal of Board time, thought and discussion as we assess both the risk and the potential opportunities. While Fund rules would need to be modified to accommodate a change from a single employer to a multi-employer scenario, we do not anticipate any complexity with this process. The EPPF is considering the possibility of expanding its pensioner and active member pool, leveraging its existing infrastructure, capacity and capabilities to accommodate the entities resulting from the unbundling. This strategic move presents opportunities that both the Board and the executive team will explore, ultimately leading to a larger membership base, which in turn can yield economies of scale and other advantages for members.

Eskom Pension and Provident Fund

Fund remains on track

Chief Financial Officer Thandie Mashego contends that good investment, management and governance practices can make a critical difference even in stormy of economic seas.

Over the past year, we have navigated a dynamic landscape marked by persistently challenging economic conditions, regulatory changes, and geopolitical events affecting local and global markets.

Despite persistently challenging economic conditions during the year under review, the Fund has managed to maintain robust and resilient financial results and solvency, supported by sound funding levels and improved investment returns.

We acknowledge the challenges faced by our members stemming from the ongoing electricity supply crisis, heightened inflationary projections, global political uncertainty, and sustained macro-economic fluctuations in our markets. We remain confident that our commitment to effective governance, risk management and investment practices, and the cultivation of a cost-efficient culture will continue to support our strategic and tactical objectives through these challenging times, thereby ensuring sustainability of the Fund and delivery on our promises to members.

Turbulence moderates by year end

Sonja Saunderson, Chief Investment Officer, provides insight into market conditions that impacted the Fund's investment returns.

Over the past year, the global economy encountered various challenges. The conflict in Ukraine led to energy and food price increases, contributing to rising inflation worldwide. Central banks responded by raising interest rates to curb inflation and global GDP growth decelerated because of the above factors. The International Monetary Fund (IMF) revised its 2023 global GDP growth forecast down to 3%.

Within South Africa, the market environment was turbulent. The war in Ukraine contributed to rising energy and food prices which affected households and businesses adversely. Inflation surged, reaching 7.8% in July 2022 (StatsSA) and prompting the South African Reserve Bank (SARB) to raise interest rates multiple times. The SARB projected in May that GDP growth for 2023 would be 0.3%. Political uncertainty further affected market sentiment.

Although challenges persist, there were some positive indicators. Inflation was trending downward by December and fell to within the SARB's target range by mid-2023. The unemployment rate declined slightly in the second quarter of 2023 to a level last seen at the start of 2021.

The past year showed improved performance and the Fund managed to beat its inflation target for the three years ending June 2023. The Fund benefited from exposure to higher growth assets like local and global equities and local listed property. '

Focus on private markets

The Fund's private markets mandate is to invest through three portfolios:

- Private equity, within which we allocate to buyout, growth and venture capital.
- Real assets, which comprise core, core-plus and value-add.
- Developmental impact portfolios, where we prioritise investments that address South Africa's development needs, including healthcare, education and the growth of rural and township economies.

The Fund's allocation to private markets, as at 30 June 2023, represented 6% of total assets under management. This allocation, within the limits prescribed by Regulation 28 of the Pensions Fund Act, is determined by the ability of private assets to meet specified return targets, generate steady cashflows and positively impact the communities we live in.

Our investments in real estate and infrastructure generate stable cashflows that keep up with inflation, while our developmental impact investments in healthcare, education and the rural economy contribute to eradicating the legacy of racially based spatial planning.

The EPPF has billions of rands in exposure to renewable energy, with scope to do significantly more in solar, wind and hydrogen. The Renewable Independent Power Producer Programme (REIPPP) is perhaps South Africa's best partnership between the state and private investors, attracting significant local and international investment, contributing to economic growth, and creating jobs. As a member of the Net Zero Asset Owner Alliance, it is the Fund's duty to encourage partners to de-carbonise and to invest in sectors that actively support the race to net zero emissions by 2050.

Important features of our private markets programme are:

- Our current endeavours to create a listed infrastructure vehicle, in partnership with the Asset Owners Forum, to provide finance for public and private infrastructure developments.
- The continued success of our R2bn Private Markets Manager Development Programme, which supports the growth and sustainability of black-owned and -managed private markets fund managers.
- The adoption of an environmental, social and governance (ESG) investing framework to support our more profound appreciation of what sustainable investing entails.

Funding ratio

The funding ratio is the primary indicator of risk in the retirement fund industry. It indicates the extent to which a fund has sufficient funds to cover its liabilities to members as these become due. The Fund has maintained a healthy funding ratio over the years and 2023 once again saw a favourable figure of 155%.

Return on investment

The past year presented unique investment challenges and opportunities. Domestically, the unreliable energy supply impacted various sectors, resulting in reduced sales and profitability. However, we maintained an optimistic view in the light of China's economic reopening in the wake of Covid-19, anticipating a positive impact on global equity markets.

The Fund achieved improved performance and managed to beat its inflation target for the three years ending June 2023. We benefited from exposure to higher growth assets like local and global equities and local listed property.

Annualised Fund returns relative to targets at 30 June 2023

	1 year %	3 years %	5 years %	7 years %	10 years %	15 years %	20 years %
Fund return	14.23	11.93	8.35	7.34	9.26	10.13	12.62
CPI + 4.5%	5.37	10.38	9.36	9.35	9.66	9.69	9.78
Return relative to target*	8.40	1.40	(0.92)	(1.84)	(0.36)	0.40	2.58

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

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.

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.