MEMBER GUIDE TO THE EPPF 2023 INTEGRATED REPORT

Fund prepares for EPPF 2.0

Eskom Pension and Provident Fund **Chief Executive Officer Shafeeq Abrahams** reflects on 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'.

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.

Fund remains on track

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

Eskom Pension and Provident Fund

The Eskom unbundling occupies a great deal of Board time, thought and discussion as we assess both the risk and the potential opportunities. While the 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 in the changing of the rules. 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 its 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.

Our issues management priorities

The Fund identifies issues with the potential to impact substantially on our operations and performance and the interests of our stakeholders. We engage stakeholders proactively about these areas of concern in order sustain trust and preserve relationships.

Issue	EPPF response
Macroeconomic turbulence The SARB expressed concerns about global monetary policy tightening, stubbornly high inflation, global banking system vulnerability, volatile financial markets, and reduced growth projections for South Africa and major economies.	The Fund is well-equipped to address macroeconomic changes, including those associated with Eskom's unbundling and retirement reform. We ensure financial stability through a strong investment strategy and active oversight by our actuary. As a signatory to the United Nations Principles for Responsible Investment, we are committed to accountable corporate citizenship. Our focus in the upcoming year is monitoring the implementation of our economic, social, and environmental (ESG) policy, which prioritises sustainability and balances current needs with those of future generations. In 2023, we focused on building business resilience in the light of ongoing social unrest and energy constraints. While total energy grid failure is unlikely, we revamped our resilience strategy and introduced crisis simulations to enhance our response capabilities.
Legislative reform Two key areas of legislative reform are: The Conduct of Financial Institutions (CoFI) Bill, which consolidates provisions on the conduct of financial institutions and emphasises treating customers fairly. Amendments to the Financial Markets Act to enhance inclusivity and bolster regulatory oversight.	Management believes the Fund has a vital role in advocating for policy and regulatory reform. We engaged regulators, partnered with industry bodies, and educated stakeholders on regulatory changes. We follow a combined risk assurance model and in 2023 enhanced our compliance programme, aligning this with best practice. We improved policies and procedures and introduced new measures to adapt our operating model to evolving regulations.

Issue	EPPF response
Cybersecurity As IT advances and networks grow more complex, cyberthreats multiply. Cybercriminals benefit from digital tools, artificial intelligence, and automation, while IT teams may struggle to keep up. South Africa has seen a notable rise in ransomware attacks in recent years. In December 2022, the Financial Sector Conduct Authority (FSCA) and Pension Funds Adjudicator (PFA) updated minimum standards for cybersecurity, requiring that pension funds acquire tools and processes to prepare for, respond to and recover from cyberattacks.	The Board prioritises cybersecurity risks and has invested significantly in tools and human resources for enhanced security. However, technology advances quickly, and cybercrime keeps pace. The Fund's assurance providers will remain vigilant against cybercrime.

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.

Listening to you

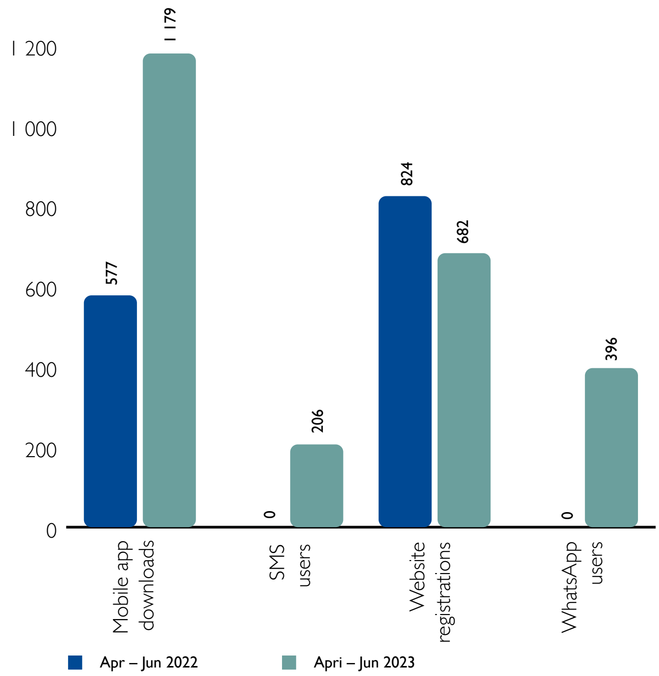
The Fund began the year with a focus on improving communication as a means to meeting members' needs. An audit revealed the need to simplify messages for better member understanding.

We extended the shift to digital and mobile communication that was necessitated by the COVID-19 pandemic, sending a total of 720 000 emails and 370 000 text messages to members between August 2022 and June 2023. The goal was to ensure all members could access messages through their preferred channels.

The Fund provided guidance to members on utilising their preferred communication channels more effectively. Members were informed about the members' portal on the website, various digital options for smartphone users, and USSD functionality for those with cell phones.

We also made a concerted effort to update members' contact details, resulting in 2 789 updated cell phone numbers and 2 279 email addresses. A further 2 303 people provided alternative email addresses.

The Fund revamped its digital newsletters, *Pensioner Talk* and *Power Talk*, based on reader feedback. Readers showed interest in articles on health, taxation, personal finance, and pension-related laws. The newsletters are now not only posted on the website but also emailed to stakeholders for timely access to fresh content.



Customer service centre

Our call centre is a major interface with our members. In 2023 we received 46 658 calls, about 3 900 a month. Since this communication is initiated by our members when they have a specific need for information or a solution to a problem, the responsiveness of the centre is important. Given the peaks and valleys in call volumes, no call centre can answer every incoming call and we aim to respond to 85% of calls received. In 2023, the average rate of calls answered was 76% (2022: 80%). Additional call centre staff were employed in the last quarter and the response rate rose to 95%.

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 these efforts had a positive impact and highlight the need continue to simplify service platforms, engage with members, and explain our processes.

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.

During the year, the Fund approved a rule amendment that specifies annual pension increases will be linked to CPI for the preceding year and may not be less than 60% of CPI. This rule will apply from 2024.