

EPPF INVESTMENT PERFORMANCE UPDATE (Q4, 2021)

FUND PERFORMANCE TO 31 December 2021

THE FUND'S ASSETS

The assets of the Fund on 31 December 2021 have grown to R184.4 billion from R153.9 billion a year ago, which is a noticeable improvement from the lowest point of R114 billion on 23 March 2020, due to the COVID-19 market sell-off. The funding ratio, which is the ratio of assets divided by liabilities remains healthy and above 100% (145% as of 30 June 2021), meaning that the Fund's assets are more than sufficient to cover all the Fund's liabilities, including contingency reserves, as they fall due. A strong funding ratio well above 100% indicates a sustainable Fund.

THE FUND'S RETURNS

The Fund's 1-year return of 22.0% was materially above the Consumer Price Index ("CPI") return of 5.9% as well as the long-term absolute target of CPI + 4.5% (10.4%). This was driven by the rebound of major asset classes post COVID-19 strict lockdowns.

Over the year to December 2021, the Fund's domestic listed equity underperformed its benchmark marginally, domestic listed nominal bonds and domestic listed property outperformed their benchmarks by 1.3% and 0.1%, respectively, while domestic inflation-linked bonds marginally underperformed. International developed market equities, Africa ex-SA equities, China Onshore equities, and emerging markets equities, all underperformed their benchmarks by 0.1%, 2.0%, 4.1%, and 1.4%, respectively. When we consider a long-term perspective to December 2021, which is most appropriate for a pension fund with long-dated liabilities, we note that the Fund's 10-year return of 11.8% is higher than the Fund's absolute target of CPI + 4.5% (10.4%).

THE FUND'S TOP EQUITY AND BOND POSITIONS (31 DECEMBER 2021)

Equity Holdings		Asset Class	Weight	
1	Prosus	Equity	2.71%	
2	Anglo American	Equity	2.29%	
3	Naspers	Equity	2.06%	
4	MTN Group	Equity	1.98%	
5	Firstrand Limited	Equity	1.71%	
6	British American Tobacco PLC	Equity	1.30%	
7	Standard Bank Group	Equity	1.23%	
8	Impala Platinum Hlds	Equity	1.22%	
9	NEPI Rockcastle PLC	Equity	1.05%	
10	Growthpoint Prop Ltd	Equity	0.96%	
	Total		16.51%	

	Bond Holdings	Asset Class	Weight	
	10050 0 50/ 044050	Inflation Links d David	4.500/	
1	12050 2.5% 311250	Inflation Linked Bond	4.56%	
2	12046 2.5% 310346	Inflation Linked Bond	3.91%	
3	12038 2.25% 310138	Inflation Linked Bond	1.53%	
4	R2048 8.75% 280248	Nominal Bond	1.08%	
5	R2044 8.75% 310144	Nominal Bond	0.58%	
6	R210 2.60% 310328	Inflation Linked Bond	0.55%	
7	R2037 8.50% 310137	Nominal Bond	0.46%	
8	R202 3.45% 071233	Inflation Linked Bond	0.42%	
9	R2032 8.25% 310332	Nominal Bond	0.41%	
10	12033 1.8750% 280233	Inflation Linked Bond	0.38%	
	Total		13.89%	

THE FUND'S APPOINTMENTS AND UNLISTED INVESTMENTS FOR QUARTER 4, CALENDAR YEAR 2021

There were no appointments and no new unlisted investments made in quarter four.

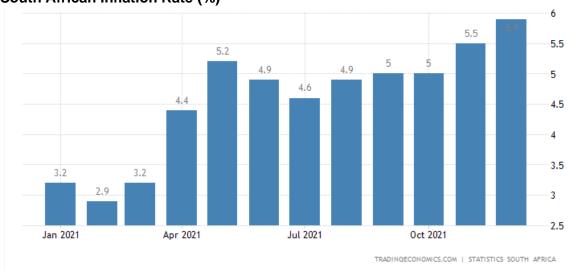
ECONOMIC GROWTH

South Africa's gross domestic product (GDP) decreased by 1.5% in the third quarter of 2021 after four consecutive quarters of growth. The fourth wave was very sharp, but surprisingly short, prompting the government to ease rather than tighten restrictions. This brought welcome relief considering weak consumer confidence and the larger-than-expected contraction in the economy in Q3. Four out of ten industries reported negative growth rates in the third quarter, led by trade, catering, accommodation, manufacturing and agricultural, forestry, and fishing. Year-on-year, the economy advanced 2.9% falling short of expectations.

INFLATION AND INTEREST RATES

Inflation in December 2021 recorded a twelve-month high of 5.9%, a touch near the upper inflation bound. Rising inflation is a global phenomenon as global demand returns to outstrip supply, exasperated by supply gridlocks. Quarter four recorded the first rate-hike since the SARB ended its monetary easing of 275 basis points during the height of COVID19. Repo rate was at 3.75% by December 2021 and is expected to rise further locally and in other markets, to curb runaway inflation.





LOCAL EQUITIES AND CURRENCY

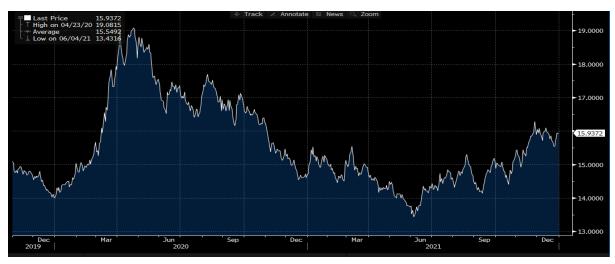
South African Capped SWIX equities

The local equity market continues its persistent rebound from the lows of March 2020, as have the global equity markets. The success of the rollout of the vaccine programme has been the main driver of the global economy currently.



South African Rand against the US Dollar

The Rand, like other emerging market currencies reliant on commodities, is strong due to strong commodity prices and capital inflows. The USD/ZAR exchange rate weakened to around 19.00 in March/April 2020 but continues to recover the losses and shows good relative performance against the emerging market basket, it closed at R15.93 to the dollar on the 31st December 2021.



The above two graphs are sourced from Bloomberg.

GLOBAL MARKETS

The Fed announced the tapering of its asset purchases at the November 2021 Federal Open Market committee (FOMC) meeting at the expected pace of US\$10bn in US Treasury securities and US\$5bn in Mortgage-Backed Securities (MBS). December 2021 saw renewed impetus behind the hawkish shift in global monetary policy as Omicron fears receded and inflation pressures persisted. The Fed's dot plot lifted from projecting one hike to three hikes for 2022, with the Fed funds futures curve pricing in a full hike for April 2022.

CONCLUSION

The assets of the Fund are expected to continue to outperform their respective benchmark in the upcoming 2022 but with caution, as the tightening cycle is in full swing across local and global economies due to inflationary pressures.

Looking ahead, the next South African Monetary Policy Committee meeting will preced the State of the Nations Address and Budget Speech which take place in February 2022, and the US FOMC meeting. That is a lot of event risk in quarter one of 2022 as the calendar year takes off. The SARB has already started raising rates and is widely expected to raise interest rates higher in 2022 and the Federal Reserve is expected to raise interest rates in March 2022, which will likely result in a weaker domestic US currency.

Appendix I below contains table 1: the current year's asset allocation and investment returns, table 2: the current year's benchmark of the various asset classes the Fund invests in and the outperformance (alpha) of the Fund in those asset classes, table 3: the previous year's asset allocation and investment returns and table 4: the current year's benchmark of the various asset classes the Fund invests in and the outperformance (alpha) of the Fund in those asset classes.

Appendix I

Table 1	Current Year						
31 Dec 2021	SAA	AA Actual	Market Value Rand M	Return in	Return % [net of fees]	B/mark Perf. %	
Cash	2.0%	1.0%	1,771	136	3.7%	3.8%	
Nominal Bonds	5.0%	5.5%	10,200	900	9.8%	8.4%	
Inflation Linked Bonds	15.5%	13.3%	24,531	6163	21.6%	21.9%	
Listed Property	6.5%	6.4%	11,731	4639	38.7%	38.6%	
Domestic Listed Equities	37.0%	42.9%	79,090	18146	26.6%	26.9%	
DM Listed Equities	19.0%	20.2%	37,202	10025	28.6%	28.8%	
GEM Listed Equities	6.0%	5.0%	9,296	489	4.4%	5.9%	
International Property	2.0%	0.0%	0	0	0.0%	0.0%	
Africa Listed Equities	4.0%	1.8%	3,357	1329	18.0%	20.4%	
China A Equities	3.0%	3.9%	7,267	465	8.4%	13.0%	
Total	100.0%	100.0%	184,444	42,292	22.0%	24.2%	

Table 2		Alpha				
31 Dec 2021	Benchmark	1 year	3 years	5 years	10 years	
Cash	STeFi Composite Index	-0.2%	0.3%	-0.3%	-0.4%	
Nominal Bonds	BESA All Bond Index	1.3%	0.4%	0.6%	0.5%	
Inflation Linked Bonds	EPPF Liability Driven Index	-0.3%	-2.2%	-1.5%	-1.3%	
Listed Property	All Property Index (ALPI)	0.1%	1.6%	1.3%	1.1%	
Domestic Listed Equities	Capped SWIX Equity excl. ALPI	-0.2%	-0.2%	-1.6%	-0.6%	
DM Listed Equities	MSCI All Country World Index	-0.1%	-0.8%	-0.1%	-0.5%	
GEM Listed Equities	MSCI Emerging Market Index	-1.4%	1.2%			
International Property	FTSE EPRA/NAREIT					
Africa Listed Equities	MSCI EFM Africa ex ZA	-2.0%	-6.4%	-3.4%	-4.7%	
China A Equities	MSCI China A Onshore	-4.1%				
Total		-1.8%	-0.8%			

Table 3	Previous Year					
31 Dec 2020	SAA	AA Actual	Market Value Rand M	Return in Rand M	Return % [net of fees]	B/mark Perf. %
Cash	2.0%	2.9%	4,482	165	5.4%	5.4%
Nominal Bonds	5.0%	5.8%	8,921	654	8.5%	8.7%
Inflation Linked Bonds	14.0%	13.0%	20,037	-122	-0.6%	4.0%
Listed Property	7.0%	3.6%	5,510	-3,587	-33.3%	-35.5%
Domestic Listed Equities	37.0%	35.4%	54,534	1,186	2.1%	2.9%
DM Listed Equities	21.0%	25.8%	39,755	6,032	18.7%	22.1%
GEM Listed Equities	6.0%	5.7%	8,761	2,396	26.0%	24.3%
International Property						
Africa Listed Equities	5.0%	3.3%	5,095	-170	-2.2%	0.0%
China A Equities	3.0%	4.4%	6,805	-	0.0%	0.0%
Total	100.0%	100.0%	153,900	6,555	7.1%	7.3%

Table 4		Alpha			
31 Dec 2020	Benchmark	1 year	3 years	5 years	10 years
Cash	STeFi Composite Index	0.1%	1.6%	1.3%	1.1%
Nominal Bonds	BESA All Bond Index	-0.1%	0.3%	0.3%	0.4%
Inflation Linked Bonds	EPPF Liability Driven Index	-4.3%	-2.3%	-1.5%	-1.4%
Listed Property	All Property Index (ALPI)	3.5%	2.1%	1.3%	
Domestic Listed Equities	Capped SWIX Equity excl. ALPI	-0.8%	-0.6%	-0.7%	-1.6%
DM Listed Equities	MSCI All Country World Index	-2.8%	-0.4%	-0.6%	0.0%
GEM Listed Equities	MSCI Emerging Market Index	1.4%	2.3%		
International Property	FTSE EPRA/NAREIT				
Africa Listed Equities MSCI EFM Africa ex ZA		-2.2%	-4.8%	-5.2%	
China A Equities	MSCI China A Onshore	0.0%			
Total		-0.2%	0.3%		

AA: Asset Allocation
SAA: Strategic Asset Allocation
Rand M: South African Rand million
B/mark Perf.: Benchmark Performance
DM: Developed Markets
GEM: Global Emerging Markets
EFM: Emerging and Frontier Markets
Ex ZA: Excluding South Africa