



2017 ANNUAL REPORT

Invested in our
members



ABOUT THIS REPORT

THE THEME OF THIS REPORT IS

INVESTED IN OUR MEMBERS

'INVESTED IN OUR MEMBERS' IS OUR SLOGAN AND WE BELIEVE THAT ITS USE IN THE CONTEXT OF THIS REPORT SUCCINCTLY CAPTURES OUR RENEWED EFFORTS IN FOCUSING ON OUR MEMBERS. IT ALSO REAFFIRMS OUR REASON FOR BEING IN EXISTENCE, AND OUR ONGOING COMMITMENT TO BEING THE MOST ADMIRABLE FUND IN SOUTH AFRICA.

This report to our stakeholders outlines the issues, activities, relationships, interactions and performance of the Eskom Pension and Provident Fund (the Fund or EPPF) within its operating and investing context during the period 1 July 2016 to 30 June 2017. The aim of the report is to provide all stakeholders with a balanced and integrated insight into the ability of the Fund to create value in the short, medium and long term.

The scope of the report is progressive, building on the prior period and represents another step in the gradual move towards the presentation of a fully integrated report. Material issues have been identified and reported upon.

REPORTING SCOPE AND BOUNDARY

This report covers the financial year period from 1 July 2016 to 30 June 2017 and focuses on the material matters as outlined further on in this report. We define material matters for reporting purposes as those issues that substantially affect our ability to create and sustain value over the short, medium and long term.

REPORTING PRINCIPLES AND APPROACH

The information provided in this annual report has been guided by best practice requirements. These include the:

- Pension Funds Act No 24 of 1956 (the Act)
- King III Code of Governance Reporting Principles 2009 (King III)
- Regulatory Reporting Requirements for Retirement Funds in South Africa
- Circular PFI30 issued by the Registrar of Pension Funds

ASSURANCE

The Fund applies a combined assurance approach with four levels of defence:

- Management of the Fund oversees the daily internal controls and implements the risk management strategy of the Board of Fund.
- The internal legal, risk and compliance functions ensure that the Fund adheres to the requirements of applicable legislative frameworks.

- Our internal auditor function assesses the effectiveness of the internal controls and risk management. The Audit and Risk Committee of the Fund applies a coordinated approach to the combined assurance provided. The Board of Fund, also known as the Board of Trustees (the Board) serves as the ultimate fiduciary control.
- Our external auditors, PricewaterhouseCoopers, express an opinion on our regulatory annual financial statements. The Fund's valuator, Willis Towers Watson, provides assurance on the solvency and sustainability of the Fund. External legal counsel and consulting actuaries are used when it is deemed appropriate.

FORWARD-LOOKING STATEMENTS

Certain forward-looking statements are made in the report, in particular, the statements with regard to the impact on the Fund's strategy of geopolitical developments as well as global and domestic economic conditions, investments and performance. These forward-looking statements thus involve both known and as yet unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by the forward-looking statements we have made.

STATEMENT OF RESPONSIBILITY

The Board is responsible for overseeing the integrity of this annual report and acknowledges its responsibility in this regard. The Board has applied its collective mind in the presentation and preparation of this report and believes it is a fair representation of the performance of the Fund and its material matters.

The Board accordingly approved this annual report on 7 May 2018.

NAVIGATION



PAGE REFERENCES

Refers readers to information elsewhere in this report



WEBSITE

Indicates that additional information is available on our website



The annual report is available on www.eppf.co.za email info@eppf.co.za for an electronic copy

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ABOUT THE FUND

OUR HIGHLIGHTS

CONTRIBUTIONS FOR THE YEAR

R3 679m

R132.6bn

IN ASSETS UNDER MANAGEMENT

46 905

ACTIVE MEMBERS

118%

SOLVENCY RATIO

33 071

PENSIONERS AND BENEFICIARIES

R1 307m

PAYMENTS IN LUMP SUM BENEFITS TO
PENSIONERS AND BENEFICIARIES

R2 688m

ANNUAL PENSION PAYMENTS

6.1%

PENSION INCREASE EFFECTED ON
1 JANUARY 2017

R133.3bn

OF TOTAL ASSETS INCLUDING PLANT
AND EQUIPMENT, CASH AND ARREAR
CONTRIBUTIONS

R167m

BONUS PAYMENTS MADE TO
PENSIONERS AND BENEFICIARIES
ON 1 DECEMBER 2016

WHO WE ARE

The Fund is registered as a self administered defined benefit (DB) pension fund in terms of the Pension Funds Act of 1956. We are one of the largest self-administered retirement funds in South Africa.



The Fund is an independent provider of retirement benefits, providing administrative and asset-management services to the Fund itself, Eskom Holdings SOC Limited and its subsidiaries, from which our members are exclusively drawn.

We provide exemplary administrative and member aftercare services and manage the investments of retirement funds in order to optimise the benefits delivered to fund members. We do this by multi-managing internal and external providers and delivering a quality and cost-effective service in order to establish and maintain a viable and financially successful business.

OUR FORMULA FOR SUCCESS

In striving to be the most admired pension fund in South Africa, and to be truly invested in our members, we adhere to and depend upon living up to our formula for success in line with our values. We are committed to:

- Teamwork and collaboration
- Attracting, developing and retaining talent
- A can-do attitude
- Proactive planning and organisation
- Integrity, honesty and respect
- Diligent compliance and governance
- Outstanding customer focus
- Strong leadership and management

OUR FORMULA FOR SUCCESS



OUR FUND

Our financial, human, manufactured, intellectual, social and relationship and natural capitals facilitate every aspect of our business and our ability to maximise our investments for the benefits of our members.

FINANCIAL CAPITAL: This comprises the contributions from our members, which enable us to sustainably grow our assets and our organisation.

HUMAN CAPITAL: This resides in our employees, who are also members of the Fund and have a strong alignment with the rest of the EPPF members. In addition, the attraction and retention of talent is a core value in our Formula for Success, and is demonstrated not only by the calibre of our staff, but by our commitment to their development.

MANUFACTURED CAPITAL: This comprises our governance, business processes, leading systems as well as our physical and Information Technology infrastructure that together enable us to manage the organisation in a prudent and professional manner.

INTELLECTUAL CAPITAL: This lies in the Fund's reputation; institutional knowledge and experience are intangible assets that have been built over time and have instilled confidence in us among our stakeholders.

SOCIAL AND RELATIONSHIP CAPITAL: This comprises the relationships that we have with our key stakeholders – our members, employees, the Board, the Financial Services Board (FSB), Eskom, our service providers and the retirement fund industry.

NATURAL CAPITAL: This is the effect of our operations on the environment.

OUR FUND

- Was established in 1950 and registered as a privately administered pension fund on 21 April 1958, in terms of the Pension Funds Act of 1956 and approved as a pension fund in terms of the Income Tax Act of 1962
- Is one of the largest FSB-regulated retirement funds in South Africa
- Has a benefit structure that offers members the following:
 - Withdrawal benefit
 - Retirement benefit
 - Ill-health or disability benefit
 - Death benefit

 See summary of benefits from page 48.

- Has 46 905 active/contributing members, 33 071 pensioners (including child pensioners), 3 399 other beneficiaries, 2 654 deferred pensioners and 1 988 unclaimed benefits
- Has an employee contribution rate of 7.30% and an employer contribution rate of 13.50%
- Maintains its Head Office in Bryanston, Johannesburg, South Africa and has walk-in centres and satellite offices in:
 - Emalahleni in Mpumalanga
 - Bellville in the Western Cape
 - East London in the Eastern Cape
- Has R132.6 billion in assets under management
- Has an actuarial funding level of 118% (also known as the solvency ratio)

DIGITISATION OF ARCHIVED DATA

The dawn of the Fourth Industrial Revolution has seen the Fund also looking towards the digital age and innovative technologies. We have spent an immense amount of time and effort during the period under review in digitising historical documentation previously preserved on microfilm and microfiche. This has made the information easier to preserve, access and share, and has eliminated an otherwise insurmountable risk by embracing new technologies. This digitisation of historical and critical data has significantly re-engineered how the Fund archives its data. This has resulted in reduced effort, time and especially cost in retrieving information that can assist us in resolving queries from members and beneficiaries. There is a growing trend driving the EPPF towards becoming an insight-driven organisation embedding analysis, data and reasoning into decision-making where the impact is exponential. This analysis will also assist us in further understanding our members and their needs and incorporating these insights into the way we operate in the future.

TRANSFORMATION

Broad-based black economic empowerment (B-BBEE)

Transformation continues to be a focus of what we do at the Fund. Both as a business and as a provider of the best possible service that we can achieve for our members, we strive to contribute towards a more equitable balance in the socio-economic landscape.

Apart from our procurement policy, which outlines our approach to procuring goods and services from black and women-owned enterprises, we are committed to also transforming our workplace and investing in skills development in order to make our employee profile more representative and reflective of the national development goals.

INDUSTRY ACCOLADE

In October 2017, the Fund was nominated for an award organised and conferred by the Association of Black Securities and Investment Professionals, a lead advocate for inclusive growth and transformation in the financial services sector and the economy.

THE EPPF IS THE SECOND LARGEST RETIREMENT FUND IN ASSET SIZE IN THE COUNTRY, WITH **R132.6 BILLION** IN ASSETS UNDER MANAGEMENT AS AT 30 JUNE 2017.



These awards are aimed at acknowledging, among others, retirement funds, asset managers, collective investment schemes, stockbrokers, investment banks, development finance institutions, women-owned companies, corporate treasurers, chief executive officers, chief financial officers and other industry leaders in South Africa.

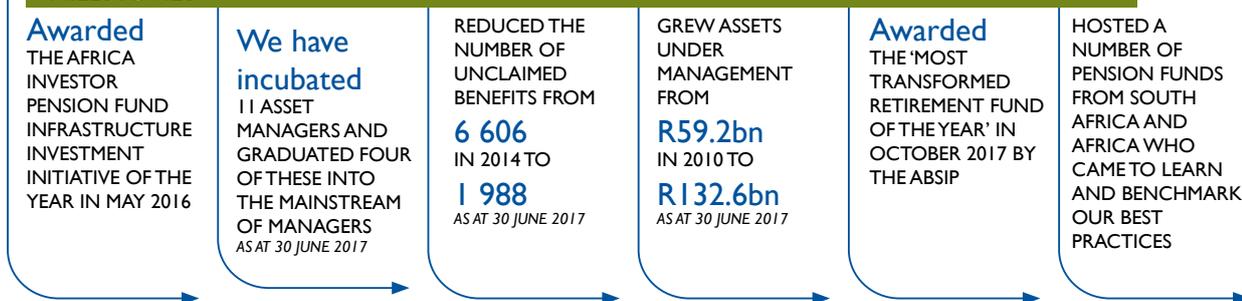
The EPPF was named 'The Most Transformed Retirement Fund of the Year' based on the following criteria:

- The existence and implementation of a transformation policy with the objective of supporting those black asset managers who are meeting the needs of the retirement fund in terms of delivering on the investment objective
- The percentage of the Fund's total assets that is allocated to black asset managers
- The number of black asset managers supported by the Fund
- The compliance and alignment of the Fund's Investment Policy Statement with the B-BBEE codes

OUR JOURNEY

Over the years, the Fund has been on a journey evolving towards becoming the most admired pension fund in South Africa. It is a journey that has been marked by singular success and incremental achievements in technology, processes and systems. The strategic projects and objectives that have characterised this journey have all been founded on our customer-centric approach and our determination to be an industry leader in realising our strategy for the benefit of our members.

MILESTONES



OUR LEADERSHIP



THE FUND CONTINUES TO WORK ON POSITIONING ITSELF TOWARDS ITS AMBITION TO BECOME THE 'MOST ADMIRABLE PENSION FUND IN SOUTH AFRICA' AND CONTINUES TO BE TRULY FOCUSED ON ITS MEMBERS. IN THIS REGARD, OUTSTANDING WORK HAS BEEN DONE DURING THE PERIOD UNDER REVIEW TO COMMENCE OUR MEMBER-CENTRIC APPROACH IN LINE WITH OUR SLOGAN: INVESTED IN OUR MEMBERS.



Ms Mantuka Maisela
Chairman



MESSAGE FROM THE CHAIRMAN

CHAIRMAN'S REPORT

I am pleased to present to you the Eskom Pension and Provident Fund's Annual Report for the financial year ended 30 June 2017. The 2017 financial year was an eventful one characterised by various successes and challenges in a tough and volatile economic environment. This set of circumstances was met head-on and mitigated effectively despite the current Board of Fund being in the first year of its term.

During the period under review, I was appointed as Chairman of the Board effective 1 February 2017, having joined the Board as an independent employer-appointed trustee in June 2016. I am privileged to be leading a Board that continues to navigate this increasingly challenging environment by driving a stern governance and investment approach.

The Fund remains stable

The volatility of the Rand as well as the deteriorating domestic macro-economic environment was rather difficult for the investment markets. We also met some operational challenges such as the matter of the former Group Chief Executive Officer (GCEO) of Eskom Holdings SOC Limited (Eskom).

DESPITE ALL THESE TRIALS AND TRIBULATIONS, THERE WERE A NUMBER OF POSITIVE DEVELOPMENTS. THE FUND REMAINED STABLE AND ACHIEVED COMMENDABLE MILESTONES WHICH FORM PART OF ITS STRATEGIC OBJECTIVES.

This included a positive investment return for the year at 2.68%; although this is below the long-term target, it was an accomplishment considering the tough economic conditions. This percentage shift has nevertheless increased the funding level since the previous valuation and further saw growth in the surplus, with a contribution surplus of 0.60% amounting to R101 million. The Fund maintains a sound financial position in that its assets continue to be sufficient to cover liabilities and all required contingency plans, while increasing a number of operational imperatives.

In the same period, the Fund was also able to effect pensioner increases that slightly exceeded the rate of inflation (CPI) as well as continue to pay the discretionary annual bonus to all pensioners.

CHAIRMAN'S REPORT

CONTINUED

Performance during a weakening economy

The Fund's assets under management increased to R132.6 billion as at 30 June 2017 from R129.9 billion at the end of the previous financial year. Although the one-year growth was below the long-term target of CPI+ 4.5%, it is pleasing that the return was positive, enabling the Fund to preserve capital.

This was achieved in the context of low economic growth, a weakening Rand and downgrades by key rating agencies. However, our investment strategy and positioning proved resilient and enabled the Fund to deliver a positive return nonetheless.

With the outlook remaining negative, we remain cautious with the Fund's investment activities under rigorous management by the investment team. This happens with appropriate oversight from the Strategic Investment Committee as well as the Board.

Solvency

At the forefront of the Fund's main objectives is to ensure that it is able to honour the benefits promised to members, pensioners and other beneficiaries, i.e. the 'liabilities' of the Fund. To achieve this, the Fund must continue to make sure that it maintains sufficient assets to pay these benefits as and when they become due. This is why it is important that the Fund remains solvent on an ongoing basis.

The Pension Funds Act requires that an actuarial valuation be done on the Fund every three years in order to assess whether its assets are adequate to honour its liabilities. The Fund has chosen to conduct these valuations annually in order to enable the Board to proactively manage any risks to its solvency. It is pleasing to note that the Fund is actuarially healthy and solvent with the solvency level improving to 118% as at 30 June 2017 from 106% in the previous year. This indicates a positive improvement in the security of benefits in the Fund.

Fund restructuring

Nominal progress was made during the year under review towards the Fund restructuring initiative. However, this remains an important strategic imperative as it would assist in ensuring the long-term sustainability of the Fund. We will continue to engage the employer and other stakeholders to move this conversation forward.

The Fund continues to work on positioning itself towards its ambition to become 'the most admired pension fund in South Africa' continues to be truly focused on its members. In this regard, outstanding work has been done during the period under review to commence our member-centric approach in line with our slogan: *Invested in our members*. This will see our key stakeholder group, our members, prioritised in all strategic undertakings.

Other matters

Key to the issues during the review period is the matter regarding the pension pay-out of the former GCEO of Eskom. In relation to this matter, I would like to pronounce with conviction that the Fund is a transparent organisation which operates within the ambit of stringent Fund Rules, governance structures and independent regulators. As one of the leading and exemplary funds in the country, we are comforted in that we exercised due diligence in the application of the Fund Rules where the pension pay-out matter is concerned.

Due to further developments in this matter, and in the interest of safeguarding the Fund and benefits of all members, we have sought legal advice and are subsequently dealing with this matter with the guidance of legal counsel. The Fund is committed to remaining ethical and co-operative in its interactions with all regulators and law enforcement entities that are currently attending to the matter. Due to this unprecedented experience, the Fund has embarked on a thorough review of its Rules to further mitigate future potential risk in our benefit administration processes and Fund operations as a whole.

Chief Executive and Principal Officer

It is with mixed feelings that I bid farewell to the Fund's current Chief Executive and Principal Officer, Mr Sibusiso Luthuli, as he will be leaving the Fund during the next financial year following an illustrious eight years with the Fund. During his tenure, he oversaw an exponential growth in the Fund's assets under management from R51.6 billion when he joined to the current R132.6 billion. During his time at the helm, Mr Luthuli played a significant role in driving a number of innovative initiatives that have seen the Fund achieve numerous milestones. These include the concluding of the IT Transformation Programme, introducing of a risk budgeting framework, driving transformation in the investment industry through the incubation of black asset managers and affirming the Fund's leadership role in the industry.

ON BEHALF OF THE BOARD AND THE FUND,
I WOULD LIKE TO THANK MR LUTHULI
FOR HIS DEDICATION AND SELFLESS
CONTRIBUTION TO THE FUND AND
WISH HIM ALL THE BEST IN HIS FUTURE
ENDEAVOURS.



Acknowledgements

Had it not been for a strong Board, management and the Fund's staff, it would have been nearly impossible to overcome the challenges that we met in the FY2017 – because of the dedicated team of professionals on our team, we have managed to turn some of these difficulties into opportunities.

I further want to thank the Fund's executive team who have demonstrated nothing but exceptional delivery on the mandate from the Board. The numerous projects, as you will see throughout this report, have improved the manner in which the Fund executes its day-to-day business.

I also thank our colleagues at Eskom who continue to work with us to ensure that we are able to deliver services to our members. My gratitude extends to the Financial Services Board as well as the Pension Funds Adjudicator whose ongoing interaction is invaluable

in our quest to do our best for our members and pensioners while remaining firmly within the boundaries of the law. The incredible support of our service providers has also not gone unnoticed as they enable the Fund to ensure that we live up to our promises.

I am grateful for these support structures and their combined skills and expertise in steering the Fund into a new era, moving towards becoming the most admired pension fund in the country and remaining fully invested in our members.

Ms Mantuka Maisela
Chairman of the Board

7 May 2018



MESSAGE FROM THE CHIEF EXECUTIVE

CHIEF EXECUTIVE'S REPORT

The financial year ended 30 June 2017 has been a difficult and challenging one. The Fund continued to operate in a generally low-return environment and this has required careful monitoring and vigilance on the part of the management team and the Board of Fund. Nonetheless, as evidenced by our valuation for the period, we have managed to post positive returns for the year, something that some funds in the industry have not succeeded in doing. We have managed our assets robustly, further proving that the systems and structures we have put in place over the past few years have worked well in protecting our portfolios.

In keeping with its commitment to Broad-Based Black Economic Empowerment (B-BBEE), the Fund continues to strive to conduct business with suppliers between Levels 1 – 3 and this is currently at 73%. Significantly, the Fund is succeeding in its investments industry transformation through allocating the Fund's assets with investment managers in this band of B-BBEE levels.

Economic outlook

Within the financial year, tumultuous global and local events defined the economic tone with negative and, in some instances, positive consequences for industries – the retirement fund industry being no exception.

Brent crude oil prices were highly volatile, experiencing a valley-like movement between the end of 2016 and June 2017, partly affected by hurricanes in the United States. These movements, together with a slightly weaker Rand, resulted in fuel prices rising, further worsening market conditions.

At the same time, we saw the Federal Open Market Committee (FOMC) in the United States increase interest rates twice in the period under review. The South African economy, and specifically the investment community, responded to these policy announcements with panic, further making industries vulnerable, with investment returns experiencing some negative backlash.

Locally, there was a lot of uncertainty with government working hard to stave off a further sovereign credit rating downgrade from Moody's, which placed the local economy a notch above junk status. Fitch and Standard & Poor's on the other hand arrived at a different conclusion, downgrading the local economy to junk motivated by a stagnant economy and what was seen as a rash cabinet reshuffle. The bond and currency markets, during the period under review, overlooked the new ratings announcements as they had already predicted this outcome and pre-mitigated it.

Political instability did not help much in reassuring the markets with information leaks and serious allegations about 'state capture'. The controversies have led to interest in further investigations by the authorities with pressure from opposition parties and civil society organisations. There was mobilisation against these, leading to a few lost business days due to marches and protests.

On a positive note, during FY2017 the markets appreciated the dissipation of the effects of drought that battered the agricultural industry, and consequently the economy since 2015. Farmers expected some relief and a bumper crop in the latter part of 2016. As result of this positive outlook, there has been an easing off of food inflation, which is a bigger component of the headline inflation basket. This further saw inflation dropping inside the upper band of the inflation target, reaching a low of 4.6% in the winter of 2017 and is predicted to perform positively into 2018.

Internal environment

In FY2017, the Fund saw a reduction in its membership base from 85 645 to 84 405, a reversal to 2015 figures where it had 84 748 members. The placement of a moratorium on recruitment at Eskom contributed to the lower membership figures in the period under review.

In the same period, however, the Fund grew its assets under management base to R132.6 billion as at 30 June 2017 from R129.8 billion in the previous period, while indicating an upward trajectory for the foreseeable future. This is despite the volatility in global and local capital markets and other external and internal factors.

The Fund has also made headway in the area of communications with several developments to increase reach and enhance engagements with our members, notwithstanding the challenges of the Communications Manager and the Communications Practitioner leaving during FY2017. The Fund continued to demonstrate its member-centric commitment by increasing our regional footprint with new offices. We now have a walk-in centre in Emalahleni, Mpumalanga, as well as a satellite offices in Belville in the Western Cape and East London in the Eastern Cape, with a plan to have a satellite office in Durban, KwaZulu-Natal opening in the new financial year. A project to enhance the functionality of our website and call centre systems is under way and geared to go live during FY2018. Through these initiatives, we are expanding our mediums of communication to align ourselves with fast-growing technology demands and we will continue to seek best practice standards in how we communicate better, thus remaining invested in our members.

In terms of governance, it has been a productive year in working with our new Board, and the Fund benefited greatly from their involvement and diligence in exercising their duties and responsibilities. During this period, Ms Mantuka Maisela was appointed as the Chairman of the Board of Trustees.

March 2018 also sees the end of my tenure as Chief Executive and Principal Officer of the Fund. It is gratifying to be able to look back on the eight years I have been in the lead as a period of continuous growth and innovation. Throughout this extended period, the executive team and indeed all our employees have shown great commitment in implementing the strategic objectives of the Fund. These efforts are evident in our achievements over the years.

We have also expanded our investment footprint into Africa and introduced new asset classes. Our continued investment in select private equity opportunities and other investment approaches have not only been successful, but profitable as well.

Our staff complement has also grown concurrently to a little over 100 employees. The Fund enjoyed positive developments in the human resources area, achieving the ability to attract and retain the calibre of people and skill sets required to optimally service our members. We strive to become more competitive and position ourselves as an employer of choice.

The 2016/2017 Internal Audit Plan has been completed with the three-year rolling internal audit and the Internal Audit Charter approved by the Audit and Risk Committee. Furthermore, the external audit for the year ending 30 June 2017 was successfully completed on time.

The Fund has continued to drive transformation as a key strategic, business and social imperative. We believe that we have been able

to exert some considerable influence on the industry in general. During the financial year, the Fund was nominated as the most transformed pension fund by the Association of Black Securities and Investment Professionals, an award it subsequently won, and we also won the Africa Investor award.

Key priorities for the year ending 30 June 2017

We continued to manage our risks effectively and robustly during the financial year, although there were some exceptional demands made on us in this area. A development that captured some intense media scrutiny and public interest was the pension pay-out made to the former Eskom GCEO. Although this placed an unprecedented spotlight on the Fund, we believe that our actions were fully consonant with our Rules and all applicable regulations. Although the matter is still under review with the relevant regulators and governing bodies, our confidence in our transparency and the correctness of our actions remains.

The Fund also experienced some issues concerning pensioner payroll tax deductions during the year under review. This, coupled with fraudulent debit order deductions from sources outside of the Fund, constituted a challenge which our management team tackled and resolved efficiently.

Conclusion

As I prepare to take my leave after the stimulating and challenging eight years I have spent at the Fund, I do so with a combination of reflection, excitement and a degree of sadness. We have been able to make great strides in terms of transforming the Fund, making it an exciting place to work, creating efficiencies and serving our members.

While I am proud to be able to record some significant advances as part of the legacy I am leaving at the Fund, I acknowledge the immense support, assistance and commitment on the part of all our staff. They have worked tirelessly towards all the achievements and accolades that we have attained; every single employee has made a contribution.

I would also like express my gratitude to both the current and past Board of Fund for its support and belief in my abilities as Chief Executive and Principal Officer. I believe that the Fund is well positioned to overcome both global and local challenges, which are generally faced by all industries. At the same time, the Fund has systems and structures in place to mitigate the risks that threaten its continuous growth and retention of market leadership. I am comforted in the knowledge that our members will always take priority in all considerations of the Fund and that we will always meet our liabilities to them.

In addition, I would like to thank our members. It is their confidence in our management of their money that enables us to work with added conviction. Our members are, and will continue to be, at the centre of everything we do.

Finally, but by no means least, I want to thank my family for their generous encouragement and support as I have had to meet the day-to-day demands of my position. I am grateful for their willingness to support me wholeheartedly as I took on this role that I have occupied with such fulfilment.

Sibusiso Luthuli CA(SA)

Chief Executive and Principal Officer

29 March 2018

THE BOARD OF FUND

The Fund conforms to the governance principles contained in the Code of Corporate Practices as reflected in King III and confirms that in all material respects the Fund has complied for the period under review.

EMPLOYER APPOINTED



MS MANTUKA MAISELA

Employer appointed
Board of Trustees (Chairman)
Human Resources and Remuneration Committee (Member)
Legal and Governance Committee (Member)

Qualifications:
Master of Management
Postgraduate Diploma in Management
Leadership Development Programme
Production Management



MR MANDLA MALEKA

Employer appointed
Board of Trustees (Member)
Audit and Risk Committee (Chairman)
Strategic Investment Committee (Member)

Qualifications:
Bachelor of Economics (Honours)
Master of Economics
Executive Development Programme



MS DAWN JACKSON

Employer appointed
Board of Trustees (Member)
Legal and Governance Committee (Chairman)
Audit and Risk Committee (Member)

Qualifications:
Teacher's Diploma
Bachelor of Arts
Bachelor of Law (LLB)



MS MAYA NAIDOO

Employer appointed
Board of Trustees (Member)
Strategic Investment Committee (Member)
Audit and Risk Committee (Member)

Qualifications:
Master of Commerce
Chartered Accountant (SA)



DR CYNTHIA KHUMALO

Employer appointed
Board of Trustees (Member)
Human Resources and Remuneration Committee (Member)
Legal and Governance Committee (Member)

Qualifications:
Masters in Business Leadership
PhD in Social Work
Master of Arts Social Science (Mental Health)
BA Social Science (Honours)



MR MUVENDA KHOMOLA

Employer appointed
Board of Trustees (Member)
Benefits Committee (Member)
Legal and Governance Committee (Member)

Qualifications:
Chartered Accountant (SA)
Master of Science in Project Management
BCom Accounting (Hons)
BCom Economics

 BOARD OF FUND



Audit and Risk Committee

Strategic Investment Committee

Human Resources and Remuneration Committee

Benefits Committee

Medical Panel

Legal and Governance Committee



REPRESENTATION



6

Employer appointed

5

Member elected

2

Pensioner elected

GENDER



7



6

3
White
males

5
Black
females

3
Black
males

2
Indian
females

13
MEMBERS

RACE

MEMBER ELECTED

MR ALLEN JOHN MORGAN

Pensioner elected
Board of Trustees (Member)
Strategic Investment Committee (Member)
Audit and Risk Committee (Member)

Qualifications:

BSc B. Eng
Electrical Engineer's Certificate of Competency
Management Development Programme
Executive Development Programme



MS THEMBEKA FLAVIONA MADLALA

Member elected
Re-elected trustee
Board of Trustees (Member)
Human Resources and Remuneration Committee (Chairman)
Audit and Risk Committee (Member)

Qualifications:

Master of Business Administration (MBA)
Middle Management Programme
BTech (Quality Management)
Electrical Engineering (Pr Techni Eng)
Postgraduate Certificate in Project Management
Institute of Internal Auditors (IIA)



MR IVAN SMITH

Member elected – Solidarity
Re-elected trustee
Board of Trustees (Member)
Benefits Committee (Chairman)
Human Resources and Remuneration Committee (Member)

Qualifications:

Management Development Programme



MR BEN STEYN

Pensioner elected
Board of Trustees (Member)
Benefits Committee (Member)
Legal and Governance Committee (Member)

Qualifications:

Bachelor of Admin (Honours) – Industrial Psychology

Master of Business Administration (MBA)
Accounting, Income Tax and Auditing – FPI Diploma
Advanced Certificate in Leadership
Certificate in Futures and Options
Certificate in Financial Derivatives



MS HELEN DIATILE

Member elected – NUM
Board of Trustees (Member)
Strategic Investment Committee (Member)
Human Resources and Remuneration Committee (Member) – Elected June 2016

Qualifications:

Certificate of Management
Master of Business Administration (MBA)
Project Management



MS PAULINA NDELELA

Member elected – Numsa
Board of Trustees (Member)
Benefits Committee (Member)
Legal and Governance Committee (Member) – Elected June 2016

Qualifications:

N3/N4 Business Studies
N5 Secretarial (Commerce)
N6 Computer Science



MR KHEHLA SHANDU

Member elected
Board of Trustees (Member)
Benefits Committee (Member)
Audit and Risk Committee (Member) – Elected June 2016

Qualifications:

BTech (Electrical Engineering)
Master of Business Administration (MBA)
Certificate: Registered Persons Examinations – Equity Markets



EXECUTIVE COMMITTEE MEMBERS



MR SIBUSISO LUTHULI CA(SA)

Chief Executive and Principal Officer
 Joined the Fund in April 2010

Qualifications:
 Bachelor of Commerce in Accounting
 Postgraduate Diploma in Accounting
 Chartered Accountant (SA)



MS NOPASIKA LILA CA(SA)

Chief Financial Officer
 Joined the Fund in December 2010

Qualifications:
 Chartered Accountant (SA)
 Postgraduate Certificate in Corporate Governance
 Higher Certificate in Financial Markets and Instruments
 Management Development Programme
 Leadership Programme



MR NDABEZINHLE MKHIZE CAIA, CFA

Chief Investment Officer
 Joined the Fund in May 2014

Qualifications:
 Bachelor of Science in Actuarial Science
 Chartered Financial Analyst (CFA)
 Chartered Alternative Investment Analyst (CAIA)



MR KISHORE JOEY SANKAR

Retirement Fund Operations Manager
 Joined the Fund in July 2014

Qualifications:
 Bachelor of Commerce in Management
 Master of Information Technology
 Prince 2 and Information Technology Infrastructure Library (ITIL) Practitioner

GENDER



2

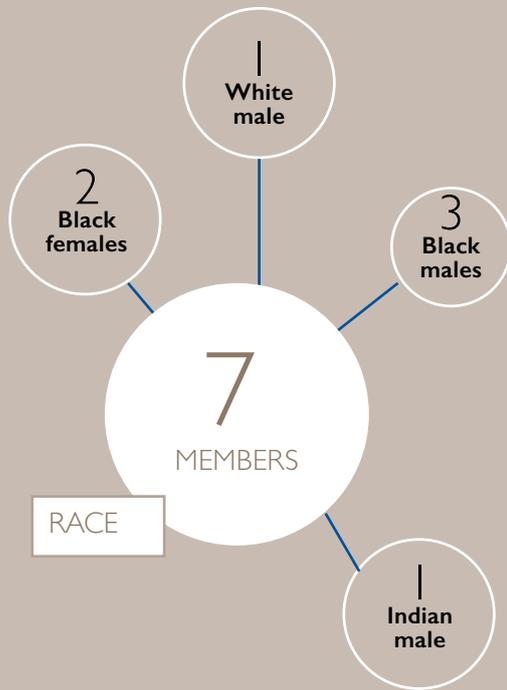


5

MANAGEMENT COMMITTEES

- EXECUTIVE COMMITTEE
- HEALTH AND SAFETY COMMITTEE
- INFORMATION TECHNOLOGY STEERING COMMITTEE
- INTERNAL INVESTMENT COMMITTEE
- PROCUREMENT COMMITTEE
- RISK AND COMPLIANCE MANAGEMENT COMMITTEE
- MANAGEMENT BENEFITS COMMITTEE





MR AYANDA GAQA, CFP® CFE

Risk and Compliance Manager
Joined the Fund in July 2007

Qualifications:

Bachelor of Technology in Internal Auditing
Postgraduate Diploma in Financial Planning
Certified Financial Planner®
Compliance Practitioner
Certified Fraud Examiner



MR WILLEM FICK

Information Technology Manager
Joined the Fund in July 2017

Qualifications:

Bachelor of Engineering – Industrial
Honours in Industrial Engineering



MS SHYLESS NKUNA

Human Resources Manager
Joined the Fund in April 2017

Qualifications:

Bachelor of Arts in Psychology
Bachelor of Arts Honours in Psychology
Registered Psychometrist (Health Professions Council of South Africa)
Master of Commerce in Business Management



LEGAL AND CORPORATE SECRETARIAT MANAGER

Vacant



OUR STRATEGY



THE REAL MECHANISM FOR
CORPORATE GOVERNANCE
IS THE ACTIVE INVOLVEMENT
OF THE OWNERS.



Louis Gerstner



50%
OF SENIOR
MANAGEMENT IS
WOMEN, EXCEEDING
THE TARGET OF 33%

 Read more
on page 32.

OVERVIEW

Strategically, the Fund is committed to managing its assets in a prudent manner in order to:

- Meet and honour its long-term obligations to its members
- Improve the value of its member proposition
- Engage with relevant stakeholders to look at options to restructure from a defined benefit fund to introduce a defined contribution fund as part of ensuring the Fund's long-term sustainability
- As part of our long-term strategy, adopt a multi-fund administrator capability

IN ORDER TO BE SUSTAINABLE IN THE SHORT, MEDIUM AND LONG TERM IN A WORLD OF COMPLEXITY, VOLATILITY, AMBIGUITY AND UNCERTAINTY, WE HAVE EMBARKED ON OUR BUSINESS-TO-BUSINESS (B2B) INITIATIVE AS A STRATEGIC NECESSITY. WE HAVE IDENTIFIED THE B2B FUNDAMENTALS IN EACH OF OUR INTEGRATED AREAS OF OPERATIONS AND SERVICE.

Investment returns and financial sustainability

We have relied heavily on the lever of investment returns in excess of the required actuarial rate of return to ensure the financial sustainability of the Fund. (For more on investments, see under Our Business and Our Performance on pages 28 and 35 respectively.)

Communication and channels

The 2017 communication plan was devised to ensure a more holistic approach that addresses organisational branding, and member, pensioner and Fund employee communications

requirements. (For more on communications, see under Our Stakeholders on page 24.)

People and capabilities

Over the past four years we have significantly changed both our business and operating models. This change requires the Fund to invest in the alignment of individual values and organisational culture. The Fund's desired outcomes will be achieved by attracting appropriately skilled people and by investing in the development and retention of the skilled people we already have within the Fund.

Processes and efficiencies

As we progress through different business cycles within our new systems (member administration, investment administration, risk-budgeting framework and risk management), constant learning takes place towards improving internal controls, and streamlining and optimising functions and processes.

Governance and risk management

In line with best practice, we are enhancing our combined assurance model and we have recently approved a revised Enterprise-wide Risk Management (ERM) policy. We have also established internal audit capabilities and are in the process of rolling out a risk management tool, and implementing the business continuity management programme on the back of the Business Continuity Management Policy. (For more on the internal audit function, see under Internal Audit on page 47.)

Since our new Board assumed office, its members have been on an induction and training programme to assist them in understanding and discharging their fiduciary duties. (For more on the Board, see under Our Corporate Governance on page 44.)

In formulating the 2017 key strategic objectives for the Fund, management considered the fundamentals of our vision and mission and developed objectives that will assist the Fund in best achieving those goals.

OUR FOUR KEY STRATEGIC OBJECTIVES

45%

INVESTMENT RETURNS

40%

TARGET OPERATING MODEL (TOM)

Information Technology 10%
Channel strategy 10%
Operational Efficiency 10%
Fund Restructuring 10%

10%

PEOPLE DEVELOPMENT

5%

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

Measures of success and balanced scorecard

INTERNAL EFFICIENCY	These KEY measures keep on improving efficiency
MEMBERS	These measures ensure we focus on KEEPING CUSTOMERS SATISFIED
FINANCIAL	These measures ensure attention is focused on financial health of operations
PEOPLE	These measures ensure a long-term focus to ensure we give attention to building strategic capability



In addition, we believe that these key strategic objectives will assist us in achieving the primary goals of:

- Managing the assets of the Fund responsibly
- Providing an efficient administration of benefits
- Effectively communicating with our members
- Conducting our business in a cost-effective manner
- Entrenching member-centricity to improve processes, the member journey and the Fund's overall performance



MATERIAL MATTERS



A SALIENT FEATURE OF OUR DEVELOPING ECONOMY IS THE AGEING OF OUR POPULATION. THE EFFECT OF THIS IS THAT BY LIVING IN RETIREMENT FOR LONGER, PENSIONS AND OTHER RETIREMENT BENEFITS ARE BEING PAID OUT FOR LONGER AFTER CONTRIBUTIONS CEASE. THIS PHENOMENON NEEDS TO BE JUDICIOUSLY MANAGED AND AS SUCH HAS BECOME A MATERIAL MATTER FOR OUR BUSINESS.





FUND SUSTAINABILITY

The sustainability of the Fund remains a significant matter for both the Board and the employer. Discussions on the best strategy to ensure that the Fund remains solvent are still on the agenda, with the conversion from Defined Benefit to Defined Contribution being reviewed as a possible long-term solution. With that said, the Fund remains solvent at 118% as at 30 June 2017, and has managed to achieve a positive shift to the contribution shortfall.

INVESTMENTS

Our investment philosophy, policies and principles guide us in our decision-making with regards to how we invest and grow our assets. These decisions have also been impacted by other factors that affect investment returns and our overall performance:

- The downgrading of the South African economy
- Inflation
- Changes in the internal and external environments

A positive return was achieved during the year under review, albeit below our investment target of CPI + 4.5%. (For more on how we invest, see under Our Performance from page 35.)

FORMER ESKOM GCEO PENSION PAY-OUT

During the year under review there was a material matter that drew significant media attention, and which we had to address because of the resulting concern by our members. This case involved the pension pay-out for the former Eskom GCEO, Mr Brian Molefe.

The former Eskom GCEO was admitted to membership of the Fund with effect from 14 September 2015 on the basis of employment information received from Eskom indicating that he was a permanent executive employee in the 'F' band. He

remained a member of the Fund until he retired in terms of Rule 28 of the Fund's Rules on 31 December 2016 following the purchase of additional years of service on his behalf by Eskom in terms of Rule 21(4). Accordingly, he became a pensioner of the Fund with effect from 1 January 2017. The cost of his early retirement and additional service was calculated as amounting to R30.1 million, which was paid to the Fund by Eskom.

In terms of the Rules of the Fund, only permanent employees are eligible for membership of the Fund. Subsequent to the retirement of the GCEO, the Fund became aware that notwithstanding the information provided by the employer relevant to the GCEO, he was not a permanent employee of Eskom. There are currently court applications pertaining to the GCEO's re-employment at Eskom and the purchase of additional service by Eskom as well as the granting of early retirement. The Fund has discontinued the payment of monthly pensions to the GCEO subject to the finalisation of the court process.

We would like to assure our members that we have and will continue to cooperate with the relevant law enforcement and regulatory bodies tasked to look into the matter and we will remain ethical and transparent in all our endeavours.

In light of these developments and legal advice received, the Fund is conducting a review of the employment status of all members of the Fund, including the Fund's own employees. The outcome of the investigation may impact the classification of employees as members (as reported on page 32). The Fund is in the process of addressing the matter and this will be reflected in future reports.

OUR APPROACH



WE RECOGNISE OUR FIDUCIARY OBLIGATION TO ACT AS AN ACTIVE AND RESPONSIBLE OWNER TO SAFEGUARD AND GROW THE FUND'S ASSETS IN ORDER TO DELIVER SUSTAINABLE LONG-TERM PERFORMANCE TO OUR BENEFICIARIES. IN DOING SO, WE RECOGNISE TOO THAT ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ISSUES HAVE A MATERIAL EFFECT ON THE LONG-TERM PERFORMANCE AND SUSTAINABILITY OF RETURNS GENERATED BY THE COMPANIES IN WHICH WE INVEST. ACTIVE OWNERSHIP IS A MEANS OF MANAGING THIS RISK AND SAFEGUARDING THE FUND'S INVESTMENTS.



ACTIVE OWNERSHIP

Responsible ownership

With these factors in mind, we embrace an all-inclusive and responsible approach across all our investments as opposed to merely a section of our portfolio. To us, responsible investing means investing in a manner that takes into account the impact of our investments on the wider society, and on the natural environment as it is affected both today and in the future. It means integrating ESG factors into the way we manage our investments.

In accordance with this responsible ownership strategy, it was during FY2010 that we first adopted a revised EPPF Proxy Voting Policy and Guidelines in order to direct the discharge of our ownership obligations. At the beginning of 2012, we appointed InkunziESG, a specialist responsible-ownership consultant, to assist us in actively implementing and managing our proxy voting and engagement activities.

We then advanced our active ownership focus by adopting an Engagement Policy and a Focus Engagement Programme for 2012. This engagement policy and programme completed our responsible investing approach in line with the United Nations Principles for Responsible Investment (UNPRI), to which the Fund became a signatory in 2010.

Proxy voting and corporate engagement are the two pillars of responsible ownership and this Annual Responsible Ownership Disclosure is a record of the Fund's active ownership activities for the financial year ended 30 June 2017. That report, in conjunction with the quarterly Proxy Voting Reports and Disclosures (Q1, Q2, Q3, Q4), are made in line with Principle 5 of the Code for Responsible Investing in South Africa (CRISA), which states: "Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments." It further resonates with UNPRI's Principle 6: "We will each report on our activities and progress towards implementing the principles."

Policies, principles and processes

As a signatory to UNPRI, we operate within a clear framework for implementing our activities and processes. In line with Regulation 28 of the Act, our overarching responsible investing goal is embedded in the Fund's Investment Policy Statement.

The detailed EPPF Proxy Voting Policy and Guidelines, along with the Engagement Policy, set out the guidelines for the Fund's activities. Each year, we adopt a focused engagement programme as a means of evaluating and benchmarking the impact and effect of our responsible investing efforts. The Engagement Programme: 2016/2017 outlines the goals, activities and objectives for the year under review.

UNPRI assessment

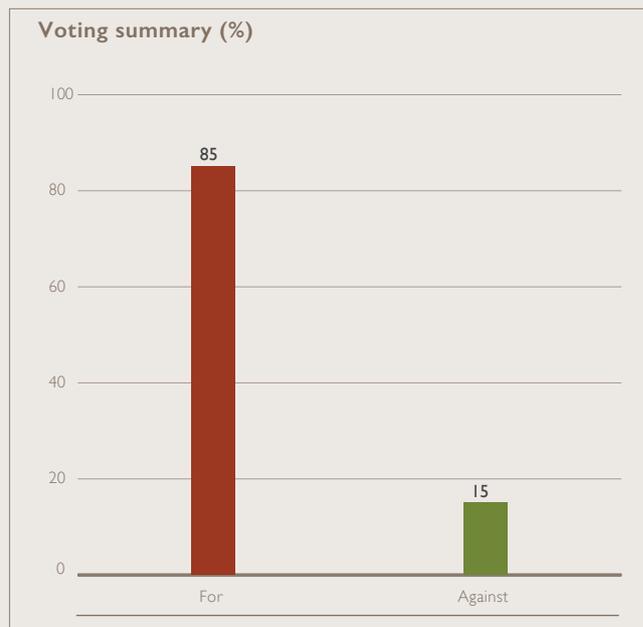
We utilise UNPRI's six guiding principles to provide a framework within which we can measure our responsible investing policies, programmes and implementation against those of global institutional investors and, in 2017, we again participated in the UNPRI Assessment. The positive reviews we received from the assessment are an indication of the robustness of our responsible investing implementation.

Proxy voting

This section outlines the Fund's proxy voting activities for the financial year ending 30 June 2017.

We believe that active proxy voting is an essential part of our fiduciary and responsible ownership duty. Voting at companies' shareholder meetings is one of the key means by which we exert influence on companies in which we are invested and exercise our fiduciary responsibilities. The Fund's proxy voting activities were guided by the current EPPF Proxy Voting Policy and Guidelines.

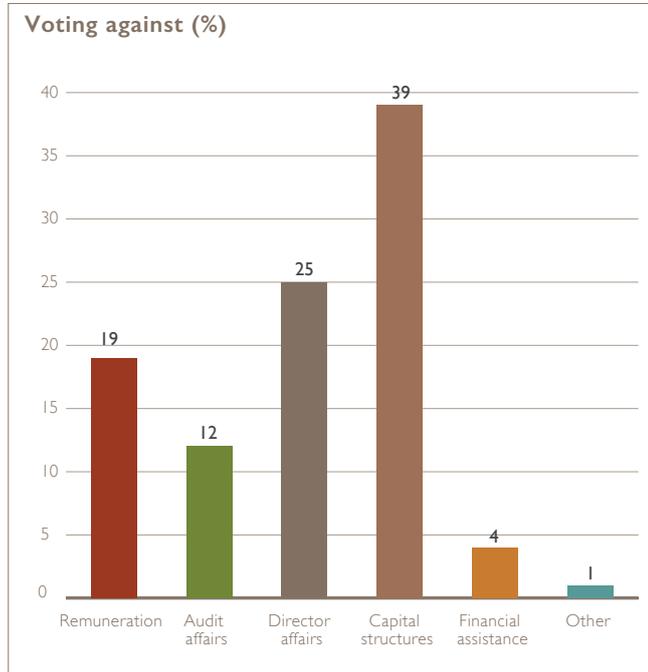
In keeping with our commitment to disclose our responsible investing activities, this report provides a detailed review and analysis of our activities.



The Fund voted on 3 914 resolutions for the year under review. It opposed 15% of the resolutions and supported management in 85% of the instances.

Votes against

The Fund opposed resolutions on remuneration, audit affairs, director affairs, capital structure and financial assistance. Remuneration continued to be an active voting item with the Fund opposing excessive pay structures and remuneration policies that are not aligned to company performance.

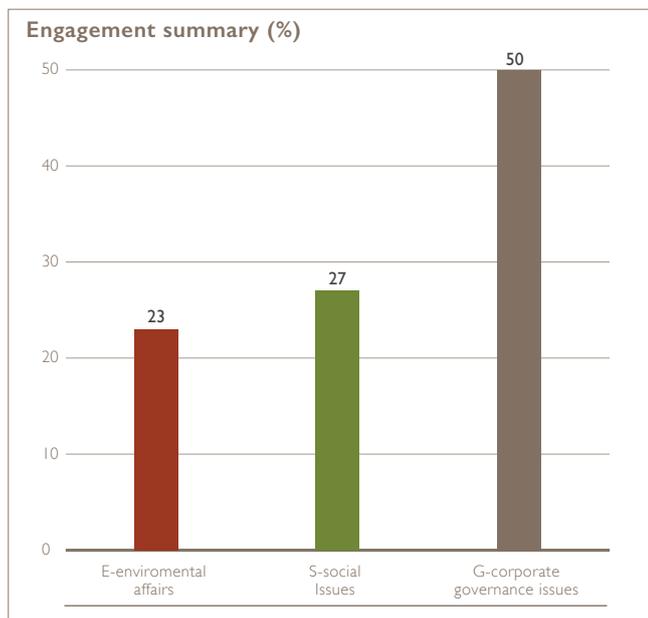


Voting themes

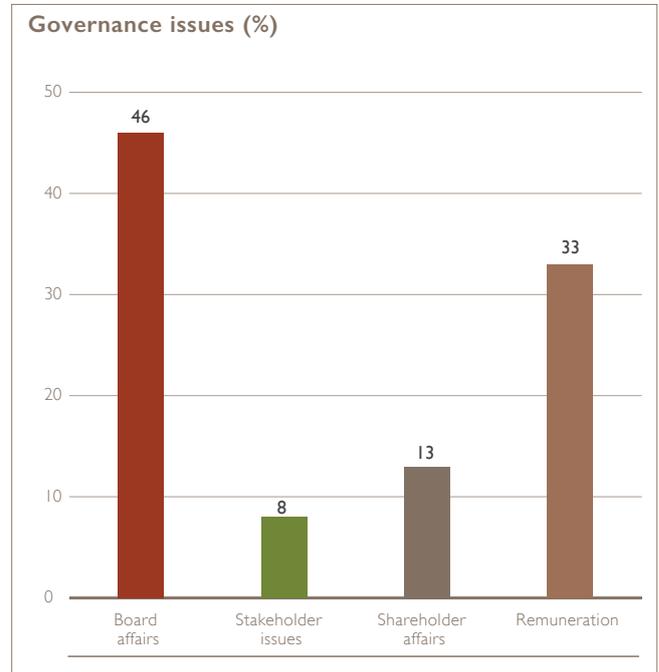
Director-related resolutions dominated the voting period with 63% of the voting roll. Audit issues featured highly on the agenda with 17% of the vote.

ENGAGEMENT SUMMARY AND HIGHLIGHTS

The Fund reviews its engagement programme and engagement focus areas annually. Executive remuneration, ESG risks in construction and mining sectors, and broad corporate governance weaknesses were the engagement focus areas for the year under review. The Fund participated in the following engagements in FY2017.



Thirty companies were engaged on a variety of ESG issues. Corporate governance issues relating to remuneration, board structure and independence constituted most of the engagement (50%), see breakdown of issues in graph below. Of the issues raised, 27% were of a social nature while environmental issues made up the remaining 23%.



OUR STAKEHOLDERS

We place great importance on our relationships with our stakeholders. This is in accordance with both our corporate communication strategy and aspects of King III and King IV principles, which stipulate that an inclusive approach should be adopted which takes into account and balances the legitimate and reasonable needs, interests and expectations of stakeholders. Our engagement with our stakeholders is also a reflection of the value we place on them in constituting our social and relationship capital.

In engaging with our stakeholders we take a proactive approach and we realise this by focusing on three key objectives:

- **Reinforcing** the role we play with regard to each of our stakeholders
- **Creating and sustaining** a positive image and consolidating our reputation
- **Encouraging** two-way participation with our key stakeholders

AS THE PROVIDER AND ADMINISTRATOR OF PENSION AND PROVIDENT BENEFITS, WE UNDERSTAND THAT OUR PRIMARY STAKEHOLDER GROUP COMPRISES OUR MEMBERS INCLUDING IN-SERVICE MEMBERS, DEFERRED MEMBERS AND PENSIONERS.

In efforts to improve our engagement with our stakeholders, we established regional satellite offices to facilitate and increase our face-to-face interactions. We also introduced a new call centre telephony system, and enhanced our website. In addition to those proactive steps, we have instituted a crisis communication policy, and key role players in the Fund have been trained in this regard.

These initiatives, together with the introduction of three additional languages of communication in our print channels, have all helped us build our brand in the hearts and minds of our members and other stakeholders. The ultimate aim of these efforts, over and above our fundamental commitment to serving our members, is to build the most admired pension fund in South Africa.

There are a number of channels which we utilise in order to maximise the effectiveness and reach of our communications with our stakeholders.

Stakeholders, messaging and communication channels

Stakeholder	Engagement	Channel of engagement
Our members	We utilise telephonic, electronic, print and face-to-face interactions to engage with all of our members who are employed by Eskom Holdings SOC Limited and its subsidiaries.	<ul style="list-style-type: none"> • Website • Telephony (SMS) • Newsletters • Annual report • Call centre • Member and pensioner presentations/roadshows • Walk-in centres and satellite offices in Johannesburg, Bellville, East London and Emalahleni
Our employees	We engage with our employees not only as members but also as ambassadors of the EPPF, and as such they are one of our most important stakeholder groups.	<ul style="list-style-type: none"> • Internal communication platforms • Quarterly business update events • Annual Board and staff events • Newsletters • Annual report
Our pensioners	We utilise telephonic, electronic, print and face-to-face interactions to engage with our pensioners.	<ul style="list-style-type: none"> • Website • Telephony (SMS) • Newsletters • Annual report • Call centre • Member and pensioner presentations/roadshows • Walk-in centres and satellite offices in Johannesburg, Bellville, East London and Emalahleni
Regulators	We abide by the recommendations that have been set out by the FSB, and the regulations of the Act. We engage with both the FSB and the South African Reserve Bank (SARB) through various channels including the submission of our annual reports and regular due diligence visits.	<ul style="list-style-type: none"> • Annual reports and fund valuation reports • Compliance, due diligence visits • Rule registration and amendments • Stakeholder meetings with the office of the Pension Funds Adjudicator • Retirement fund industry information circulars • Industry body events
Industry	<p>The Fund holds membership in the following funds industry organisations within South Africa:</p> <ul style="list-style-type: none"> • Batseta • Pension Lawyers Association • Institute of Retirement Funds • Association for Savings and Investment South Africa <p>We share our skills with and transfer our knowledge to other pension funds via these platforms when requested.</p>	<ul style="list-style-type: none"> • Website • Annual report • Institute of Retirement Funds membership • Pension Lawyers Association membership • Batseta membership (including the Fund's Principal Officer's position as Vice-Chairman) • Association for Savings and Investment South Africa membership
Employer	Eskom, its subsidiaries and the EPPF are the only employers to whom the Fund provides pension administration services. We keep these employers informed of developments within the Fund through our annual report, our website and regular meetings.	<ul style="list-style-type: none"> • Quarterly operational meetings • Ad hoc consultations or presentations on issues of mutual interest • Annual report
Board of Fund	The Board's main responsibility is to provide strategic direction for the organisation in the interest of all our members. Management engages with the Board on a regular basis through Board and Board committee meetings.	<ul style="list-style-type: none"> • Quarterly Board meetings • Board committee meetings • Annual Board and staff events • Regular communication
Service providers	Our service providers are carefully selected, using criteria recommended by our procurement policy. We hold regular meetings with them in order to keep the flow of information constant throughout our contract period with them.	<ul style="list-style-type: none"> • Presentations to the Procurement Committee • Service Level Agreements • Annual report • Regular communication

RISK MANAGEMENT AND COMPLIANCE

Managing risk is one of the most important imperatives in how we manage the Fund. We are mindful of the fact that not everything will always go according to what we have planned. We therefore continuously review the way we do things as well as our processes and procedures in order to identify what can go wrong so that we can proactively and appropriately manage the risks.

The Board has approved an Enterprise-wide Risk Management Policy (ERMP) as well as a Compliance Policy that together set out the framework by means of which risks, including regulatory risks, are managed.

The main functional areas which look after member and pensioner affairs, from data maintenance to benefit processing, are the Investment Management Unit, which implements our investment strategy, and Retirement Fund Operations. These are ably supported by other support functions such as Finance, Information Technology, Human Resources and Risk and Compliance, which ensure that risks inherent in these areas are appropriately managed.

Coupled with this is a robust business continuity strategy and process which we have put in place to ensure that in the event of a disaster, Fund business is able to continue. To this end, a disaster recovery site has been established to provide workspace and technology to achieve this objective.

Our Risk and Compliance functions are organised and maintained in such a way that they cut across all the functional areas, thereby assisting all departments and the Fund as a whole in ensuring not only that risks are proactively managed in order to prevent their occurrence, but that regulatory requirements are complied with.

Our approach to risk management and compliance is that those on the front line are the first line of defence. The process owners – those processing the benefits and those making the investments – are the primary risk managers. In this way, everyone at the EPPF is a 'risk manager', thus ensuring that where 'action' occurs, risks are appropriately managed. This takes place under the monitoring of the Executive Committee while the Board oversees, and remains responsible for, the overall management of risk.

Independent assurance on the effectiveness of the management of risk within the Fund is provided to the Audit and Risk Committee as well as to the Board by our internal and external auditors.

Following the Board's approval of a revised ERM Policy, our risk-budgeting framework and risk management have been enhanced with new systems. This was coupled with the implementation of a risk management tool which enables us to quantify risk in real time. The Fund have thus been able to undertake a valuation of our assets against our liabilities annually, rather than in the three-year cycles as prescribed by the regulations. We are also able to understand at a deeper level the nature of the risk to which we

are exposed, as our technology now allows us to pick up similar risk drivers, even where the investments appear to be diverse. This has enabled us to deal with real risk as opposed to inferring risk from investment labels alone.

Among our new technologies is our Governance Risk Compliance tool known as BarnOwl. This is a fully integrated ERM compliance and audit software solution that provides a single platform for all risk and compliance and audit functions. It was implemented operationally on 30 June 2017.

During the year under review we conducted:

- Five regulatory training sessions
- Four Business Continuity Management workshops
- Four Risk Register reviews
- Four policy reviews

BECAUSE WE ARE A DEFINED BENEFIT FUND, WE VIEW RISK AND OPPORTUNITY FROM THE SAME PERSPECTIVE. WE ARE CONTINUALLY ENGAGED IN REFINING OUR ABILITY TO IMPLEMENT RISK BUDGETING. IT IS IMPERATIVE FOR US TO KNOW THE RISK WE ARE WILLING TO TAKE SO THAT WE CAN VIEW OUR INVESTMENT OPPORTUNITIES FROM THE PERSPECTIVE OF ASSETS AND LIABILITIES FROM THE SHORT TERM RIGHT THROUGH TO THE LONG TERM, WELL PAST THE MIDDLE OF THE 21ST CENTURY.

We therefore see risk as something to be managed, not avoided, and we allocate resources to it accordingly. Managing risk in terms of our risk budget enables us to accomplish our sustainability programme, for example, when we allocate investments to emerging stockbroking firms. (For more on B-BBEE, see under Transformation on page 4.) We also employ a Risk Compliance Officer who ensures that we allocate within regulatory and risk budget limits.

WE ENGAGE IN AN INTEGRATED MODE OF THINKING ABOUT RISK. WE HAVE EMBARKED ON AN ENDEAVOUR TO BE THOUGHT LEADERS SO THAT WE CAN CONCEPTUALISE BOTH RISK AND ASSET ALLOCATION AT THE SAME TIME – ACCEPTING RISK AS BOTH AN OPPORTUNITY AND A THREAT. IN CREATING VALUE, WE VIEW RISK AS BEING AT THE CORE OF WHAT WE DO, WITH ASSETS TO ONE SIDE AND LIABILITIES TO THE OTHER.

It is our ability to understand, budget for, and manage this reality that enables us to serve our members with confidence and engender the trust they have in our custody of their funds. As such, our reformed view of risk sits at the nexus of our financial, human, manufactured, intellectual and social and relationship capital.



Our top five risks

Risk priority	Risk name	Risk description
1	Failure to address the long-term sustainability of the Fund	Inability to identify and implement a sustainable solution to address the long-term sustainability of the Fund
2	Failure to achieve real investment returns of 4.5% over a three-year rolling period	Failure to achieve real investment return objective of 4.5% over a one-year period and a rolling three-year period
3	Failure of assets to match liabilities (being under-funded)	Inability of assets to cover the liabilities as calculated by the actuary, i.e. insolvency of the Fund Inability to meet cash flow needs; forced to disinvest assets; insufficient pensioner reserve; failure to meet CPI return objective requirement
4	Failure to deploy/implement IT strategy	Failure to timeously implement projects and realise business benefit
5	Ineffective stakeholder management	Failure to effectively manage the Fund's various stakeholders Inability to obtain buy-in required to implement strategic projects' imperatives

FRAUD

The risk of fraud is a reality that all organisations have to deal with, especially those engaged in financial services like ours. We therefore remain vigilant in order to ensure that those who seek to access benefits that do not belong to them do not succeed. We have strengthened controls as well as checks and balances in all our key processing areas so that we are able to process all benefits accurately.

We adopt a zero-tolerance approach to fraud and malpractice regardless of where it originates. In line with the laws of the country, all perpetrators of fraud are reported to the police so that the law can take its course. Should any of our staff be found to be involved, applicable disciplinary processes will be instituted. Those found guilty are dealt with appropriately and are removed from the organisation.

OUR BUSINESS MODEL

OUR INPUTS

WE MAKE USE OF AN ARRAY OF CAPITAL INPUTS TO CREATE VALUE

-  Contributions from members and the employer
-  The implementation of sound governance and internal systems and processes
-  Reputation, knowledge, talented people
-  Strong partnerships and relationships
-  Responsible and sustainable investment

VALUE CREATION PROCESS

WE MAXIMISE AND INTEGRATE OUR LINKS WITH OUR ASSET MANAGERS, OUR PARTNERSHIPS, OUR CULTURE OF COLLABORATION AND TRANSFORMATION, AND OUR CORE VALUE OF CUSTOMER-CENTRICITY

- Promote the Fund
- Provide advice and assistance to members
- Listen to and act on the needs both of our members and the employer
- Diligently identify and manage risk
- Evaluate and manage our business partners, investment options and insurances
- Devise and implement products and services
- Comply with regulatory requirements
- Advocate on behalf of our members

OUR INVESTMENT ENVIRONMENT

We identify and respond to issues in our external environment, such as increased longevity and changes in the nature of work, global trends affecting investment returns and choices and regulatory requirements and changes. (For more on external and internal factors impacting performance and investment policy, see under Our Performance from page 36.)

OUR INPUTS

We utilise the six capitals to create value. These begin with the financial capital obtained from contributions from members and the employer. Our human capital resides with our employees and Fund members, while our governance, business processes, systems and physical and IT infrastructure together comprise our manufactured capital. Our intellectual capital lies in our reputation, institutional knowledge, experience, expertise and technology, and our social and relationship capital in the relationships we maintain with our key stakeholders. Our responsible ownership approach drives us to strive to invest responsibly, constructively and sustainably.

HOW WE CREATE VALUE

THE EPPF CREATES VALUE FOR ITS MEMBERS BY POOLING AND INVESTING THEIR CONTRIBUTIONS, RETURNING THE PROFIT WE MAKE TO THEM AND PROVIDING SOLUTIONS TO HELP THEM SUCCESSFULLY ACHIEVE THEIR RETIREMENT GOALS.

OUR OUTPUTS

OUR INPUTS ARE TRANSFORMED AND DIRECTED THROUGH THE VALUE-CREATION PROCESS TOWARDS INNOVATIVE LONG-TERM INVESTMENTS

- Innovative, long-term, risk-weighted investments
- Investment streams, insurance and tailored advice for our members
- Support and solutions both for members and the employer

OUR OUTCOMES

WE PROVIDE STRONG LONG-TERM RETURNS AND CONTRIBUTE TO A STRONGER ECONOMY AND SUSTAINABLE DEVELOPMENT



Delivery on the requirements of our members and the employer



The attraction, engagement, and retention of talented people



The improvement and implementation of our internal systems and governance framework

THE VALUE-CREATION PROCESS

Our partnerships, our collaborative culture and our core value of customer-centricity direct and transform our inputs to create value for members.

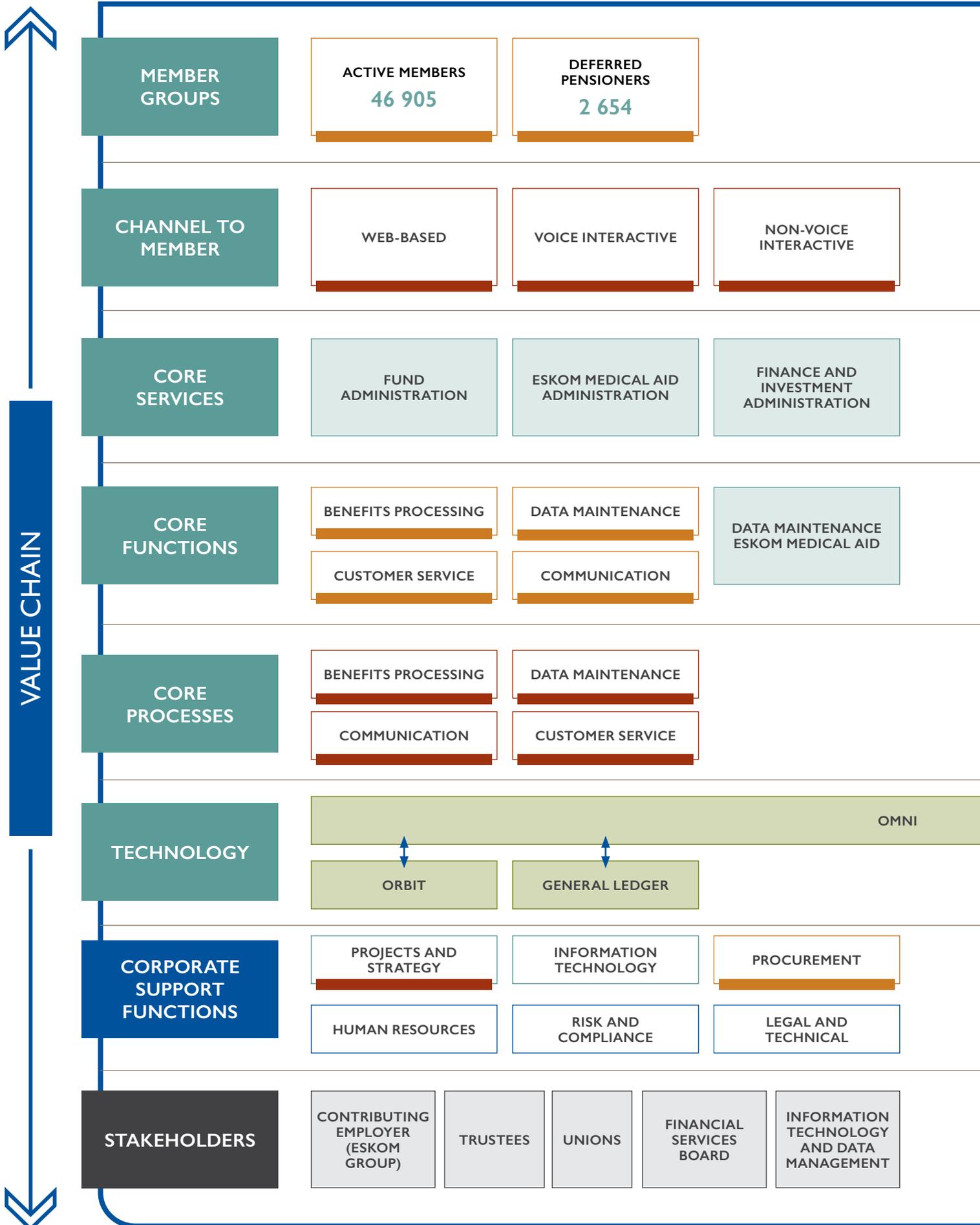
OUR OUTPUTS

We transform the six capitals through innovative, long-term investments by investing sustainably in the real economy. By tailoring our products, services and solutions, and providing advice, insurance and support, we meet the needs of our members and the employer.

OUR OUTCOMES

We provide strong, long-term returns to members while contributing to a stronger economy and sustainable development. We satisfy the requirements of our members and the employer by attracting, retaining and engaging talented people and continuing to evolve and improve our internal systems and governance framework.

The salient features of the TOM are illustrated in the graphic below.



OPERATING FRAMEWORK

PENSIONERS 33 071	BENEFICIARIES 3 399	UNCLAIMED BENEFITS 1 988
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INVESTMENT
MANAGEMENT

FINANCE AND
INVESTMENT
ADMINISTRATION

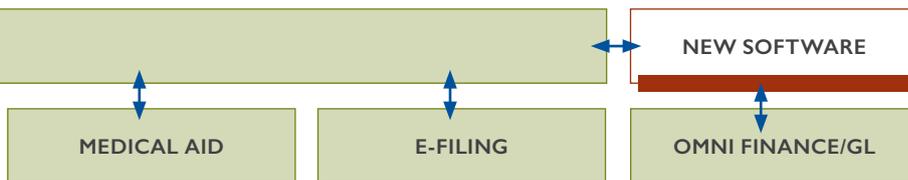
INVESTMENT
MANAGEMENT

PAYROLL

INVESTMENT
ADMINISTRATION

FINANCIAL
STATEMENT CLOSE

INVESTMENT
MANAGEMENT



FINANCE

TREASURY

CORPORATE
SECRETARIAT

ASSETS MANAGEMENT

SOUTH
AFRICAN
REVENUE
SERVICES

SOUTH
AFRICAN
RESERVE
BANK

BANKS

OUTSOURCED
SERVICES

OTHER
INDUSTRY
AFFILIATES

MUTUALLY
INTEGRATED

MEDIUM IMPACT

HIGH IMPACT

INCLUDES OUTSOURCED
FUNCTIONS

TARGET OPERATING MODEL (TOM)

With this structure in place, during FY2017 we embarked on a series of changes to our operating model in pursuit of a TOM that can deliver improved performance on our strategic and operational objectives. Three interventions were undertaken:

- **Embed and optimise:** These initiatives focus on opportunities identified during the As-Is Assessment and Benchmarking exercise which we conducted. The proposed initiatives will complement and/or leverage the implementation and optimisation of our new OMNI IT platform.
- **Channel Strategy:** The Channel Strategy focuses on opportunities arising from pursuing a deliberate and systematic Channel Strategy for members. Due to the implementation of the new OMNI IT platform, more efficient and effective channel configurations are becoming available. (For more on strategy, see under Our Strategy from page 16.)
- **Defined Benefit to Defined Contribution:** This initiative explores the Operating Model requirements during the transition of the EPPF from a DB fund to one that can also operate as a DC fund.

INFORMATION TECHNOLOGY AND DATA MANAGEMENT

OUR PEOPLE

DURING THE YEAR UNDER REVIEW WE CONTINUED WITH A NUMBER OF HUMAN RESOURCES-RELATED INITIATIVES TO CONSOLIDATE OUR HUMAN AND INTELLECTUAL CAPITALS THROUGH OUR STRATEGIC DETERMINATION TO EMPLOY, RETAIN AND DEVELOP THE BEST PEOPLE.

Strategic focus areas

The digital era is already disrupting the world of work where change is rapid and ongoing and transforms industries. For Human Resources (HR), this disruption necessitates new ways of thinking about our human capital.

In doing so, we identified and assessed HR capabilities and our ability to attract and retain talent, and minimised regrettable staff losses. This was done with the goal of attaining a higher level of staff competency. We continued to entrench our Blueprint Formula

for Success as part of our efforts to position the Fund as an employer of choice.

The Formula for Success is the organisational “blueprint” or method of creating and establishing the desired DNA of our organisation. This DNA defines the culture and standard by which the organisation has chosen to operate and every stakeholder in that organisation will then live and breathe that blueprint to ensure success.

The initiative has focused on striving to ensure that our culture remains open, respectful and transparent as this will leave little scope for arrogant and self-centred behaviour to grow or hidden agendas to flourish.

In a vindication of our pursuit of a high-performance culture, there were no significant audit findings. We further established principles for identifying scarce and critical skills. The majority of the Fund’s employment equity targets were met, with the exception of those for women in middle management and people with disabilities. The Fund will continue placing greater effort in rectifying these shortcomings as part of our revised Employment Equity targets.

Employment equity		Targets 2017	Actual performance 2017
Top management	African	N/A	100%
	Women	N/A	0%
Senior management	African	60%	100%
	Women	33%	50%
Middle management (Professionally qualified and experienced specialists)	African	75%	80%
	Women	45%	40%
Junior management (Skilled technical and academically qualified workers, supervisors, foremen and superintendents)	African	88%	82%
	Women	60%	68%
People with disabilities		5%	3%

New employment equity targets will be set for FY2018. These will take into account ‘designated groups’. This term refers either to:

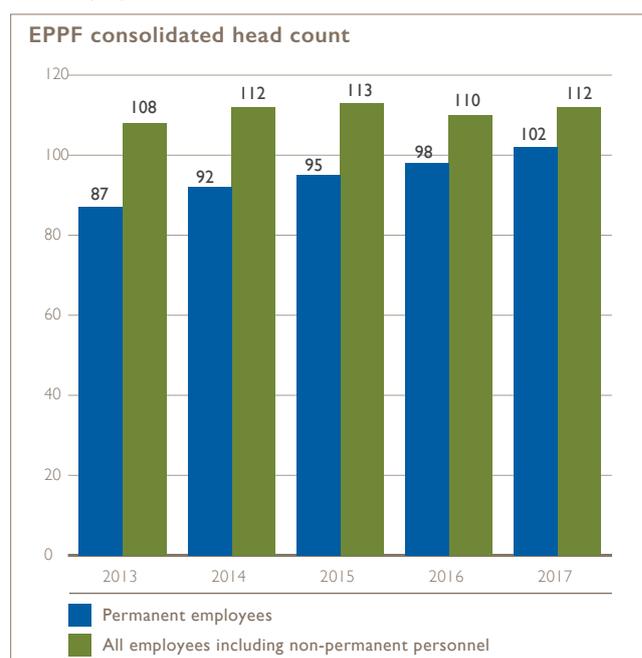
- African people, women and people with disabilities who are citizens of the Republic of South Africa by birth or descent; or
- People who became citizens of the Republic of South Africa by naturalisation before 27 April 1994 and who would have been entitled to acquire citizenship by naturalisation prior to that date, but who were precluded from doing so by apartheid policies.

Our commitment to developing capabilities was demonstrated in initiatives such as our support for a candidate in obtaining a CFA Charter, and the development of leadership through Wits Business School.

South African Institute of Chartered Accountants (SAICA) training

The Fund has obtained accreditation to operate as an approved SAICA training office. Trainees (internal and external candidates) undertake the three-year training programme and on completion of all requirements, they can obtain the CA(SA) designation. Three candidates were approved for the programme beginning 1 July 2017. Both the Chief Financial Officer and Financial Manager completed Assessor Training as well as assessments for Assessor Accreditation.

Our employee numbers are illustrated in the chart below.



OUR TECHNOLOGY

INFORMATION TECHNOLOGY (IT) FORMS A SIGNIFICANT PART OF OUR INTELLECTUAL AND HUMAN CAPITALS. AS THE CRITICAL ROLE OF IT MANAGER WAS NOT FILLED DURING THE YEAR UNDER REVIEW, THE UNIT FOUND ITSELF STRETCHED IN FULFILLING ITS MANDATE.

Our IT operational model

The IT Strategy was drafted and approved, and a number of initiatives and projects were completed during the year under review:

- The annual Omni Plus Disaster Recovery (DR) test was successfully conducted. In addition, the Business Continuity SA DR site was implemented and the first formal test was scheduled for early in the next financial year
- An IT awareness campaign was conducted which touched on IT policies and cybersecurity in order to ensure that users understand the environment better, and are more aware of risks they may incur in their day-to-day activities
- An Enterprise Architecture project was initiated with the aim of designing the EPPF of the future, and a core focus of this will be to design and implement a new future-proof IT landscape which will allow the Fund to migrate from non-performing IT vendors
- A Mobile Device Management solution was rolled out to enable the safe use of private mobile devices for work purposes such as e-mail, with continuing effort made to ensure the adoption of this facility

Process efficiencies

During the year under review we continued to enhance our Vendor Management capability by taking a more proactive approach in dealing with vendors. This included regular monthly meetings, bringing some functions that were previously provided in-house, and in general being far less lenient with regard to unacceptable vendor performance.

A number of projects were initiated to increase our efficiencies:

- Encryption of devices was mandated and implemented
- Penetration testing and vulnerability assessments were conducted for the first time with potential security weaknesses identified and addressed
- It was decided that in order to obtain better capital efficiency, our server environment would be virtualised, thereby allowing multiple applications to be run across fewer physical servers
- A solution was implemented to perform ongoing server monitoring, allowing for reports to be visualised and tailored to company requirements
- An assessment of the EPPF network was conducted, and a decision was taken to upgrade the current infrastructure. A vendor has been appointed, with the project scheduled to commence early in the 2018 financial year.

OUR PROCUREMENT

THE MARKET ACTIVITY OF BLACK BROKERAGE FIRMS HAS BEEN VERY LOW HISTORICALLY. OVER THE LAST FEW YEARS, ALTHOUGH MARKET TRADING ACTIVITY AND PERFORMANCE HAVE INCREASED, THERE HAS BEEN VIRTUALLY NO CHANGE IN BLACK BROKERAGE FIRM ALLOCATIONS. WHILE THE FIRST BLACK BROKERAGE FIRM WAS REGISTERED IN 1996, EVIDENCE SHOWS THAT OVER THE ENSUING DECADE, THE NUMBER OF BLACK BROKERAGE FIRMS HAS IN FACT DECLINED.

We believe that we have a role to play in transforming this segment by:

- Contracting asset managers to assign a minimum allocation to black brokerage firms
- Monitoring and measuring transformation
- Encouraging dialogue around transformation in the brokerage space

In taking this commitment to the next level, we have defined what we term 'socially desirable' investments. We believe that such investments offer a significant opportunity to effect meaningful transformation.

Development Investments Policy (DIP)

Our DIP directs our strategy in contributing to South Africa's social and economic development through high-impact, targeted investments. Among others, the policy ensures that:

- The Fund requires companies that it appoints to facilitate socially desirable investments and transactions to comply with the same transformation criteria as its private equity managers, i.e. a Level 4 B-BBEE rating requirement and preference for more than 50% black ownership. This is, however, assessed on a case-by-case basis
- Black small and medium-sized enterprises (SME) support is one of the focus areas of our DIP:
 - Preference is given to 'medium' enterprises as defined by the National Small Business Amendment Act, No 26 of 2003
 - Preference is given to black small enterprises as defined by the B-BBEE codes of conduct

In addition, we believe that medium enterprises have the most potential to contribute to sustainable economic development and job creation.

 For more on transformation and B-BBEE, see under Transformation on page 4.

OUR PERFORMANCE



WE RECOGNISE OUR FIDUCIARY OBLIGATION TO ACT AS AN ACTIVE AND RESPONSIBLE OWNER TO SAFEGUARD AND GROW THE FUND'S ASSETS IN ORDER TO DELIVER SUSTAINABLE LONG-TERM PERFORMANCE TO OUR BENEFICIARIES. IN DOING SO, WE RECOGNISE TOO THAT ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES HAVE A MATERIAL EFFECT ON THE LONG-TERM PERFORMANCE AND SUSTAINABILITY OF RETURNS GENERATED BY THE COMPANIES IN WHICH WE INVEST.





OVERVIEW

In creating value for our members, the Fund's performance is more meaningfully looked at over rolling three-year, five-year and 10-year investment time horizons. These viewpoints show varying returns against our targets, with five-year and 10-year rolling periods yielding satisfactory returns. Nonetheless, during the year under review, and despite the growth, the Fund has not met its target.

OUR FINANCES

Costs at a glance

In managing our finances in a cost-conscious manner, as at 30 June 2017, our administration operating costs were 8.3% below budget resulting in a favourable variance in budgeted costs versus actual monies spent.

	Actual R'000	Budget R'000	Variance R'000	Variance %
Personnel costs	96 516	102 622	6 106	5.9
IT services	34 266	38 715	4 449	11.5
Other costs	54 772	61 013	6 241	10.2
Total	185 554	202 350	16 796	8.3

Investment environment

THE FINANCIAL YEAR ENDING 30 JUNE 2017 WAS AN EVENTFUL ONE, CHARACTERISED BY BOTH GLOBAL AND LOCAL EVENTS THAT CAUSED MARKET VOLATILITY. SUCH EVENTS PRESENTED BOTH OPPORTUNITIES AS WELL AS CHALLENGES, BUT OVERALL THEY CREATED DIFFICULT CONDITIONS FOR INVESTORS SEEKING TO GENERATE HEALTHY INVESTMENT RETURNS.

The second half of the financial year was further impacted by local political uncertainty. Inflation, as a major driver, decelerated since the start of the 2017 calendar year, trending below the 6% upper band. In addition, inflation deceleration encouraged calls for interest rate cuts by the South African Reserve Bank.

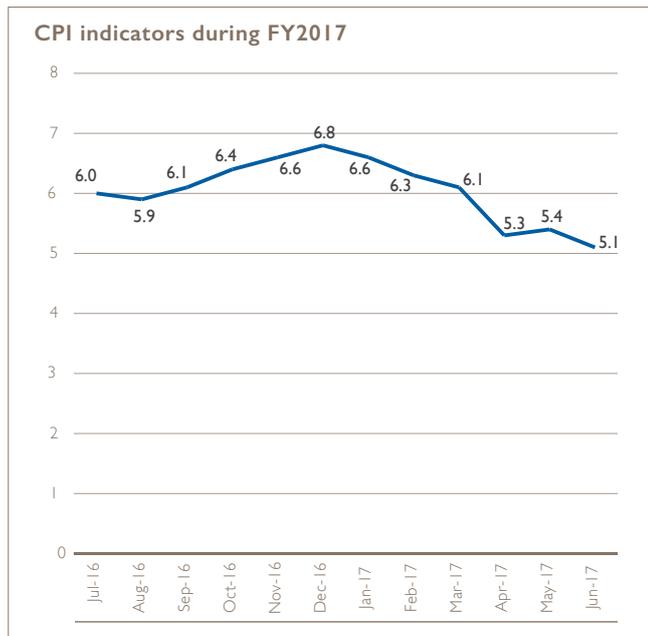
The local economy is expected to bounce back from the technical recession that resulted from growth retractions during Q4/2016 and Q1/2017. Expected interest rate cuts and lower inflation going forward bode well for the growth outlook and are expected to have a positive impact on the Fund's performance in growing the assets under management.

 For more on the Fund's investment outlook, see under Outlook on page 43.

EXTERNAL FACTORS IMPACTING EPPF PERFORMANCE

Oil price

Brent Crude oil prices rose to just under US\$60 per barrel towards the end of 2016. The momentum, however, was not sustained as the price dipped below US\$50 in June 2017. Throughout 2017 we saw some relief for consumers in terms of the petrol price, contributing to a lower trajectory of the CPI as shown in the graph below. The strong Rand (indicated in the graph at the bottom of the page), relative to 2016, also contributed to the inflation outlook.



Higher United States interest rates

South Africa, as an emerging market, is vulnerable and not immune to events around the globe. The Federal Open Market Committee in the United States decided to hike interest rates in March and June 2017. The expectation is for this hiking cycle to continue into the latter part of 2017 and 2018. The impact is generally a negative one for emerging markets like South Africa, as money flows out in search of higher yields in a 'safer' market like the United States.

OUR INTERNAL ENVIRONMENT

Political instability

The motion of no confidence against the South African President, which was held by way of a secret ballot, occupied local headlines. This happened in the aftermath of a cabinet reshuffle in which President Jacob Zuma relieved the Finance Minister and his deputy of their duties. At the time of preparing this report, the governing South African party, the ANC, is preparing for its elective congress in December 2017. All of these factors have added to a sense of unpredictability in the local political climate further complicating matters in capital markets.

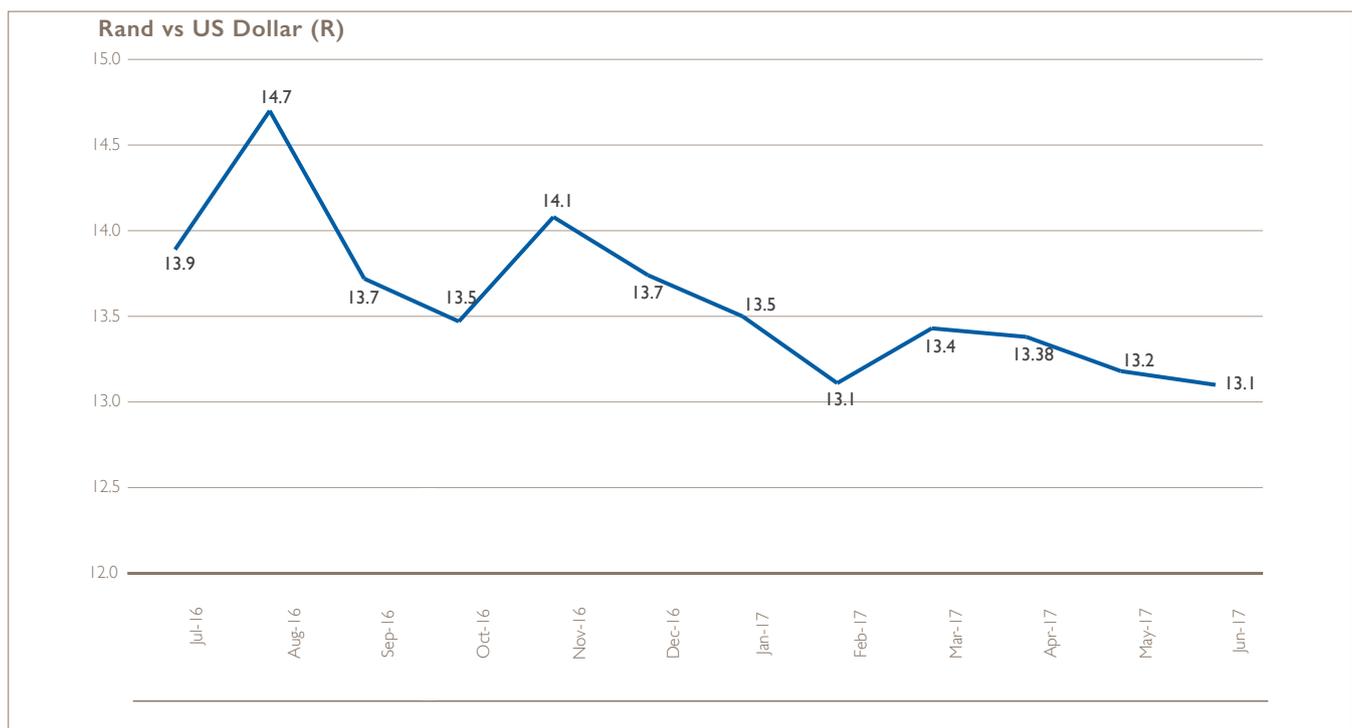
Credit rating

South Africa managed to stave off further sovereign credit rating downgrades from Moody's, remaining a notch above junk status. Fitch and Standard & Poor's downgraded the sovereign rating to junk status in response both to the cabinet reshuffle and the struggling economy. The reaction of bond and currency markets was muted, however, as the downgrade was already priced in. The rating agencies remain concerned about growth outlook and policy uncertainty particularly in the lead up to the ANC elective conference in December 2017.

Drought

Effects of the drought have dissipated and the farmers expect a bumper crop this season. This has resulted in the easing of food inflation, which constitutes a relatively large component of the headline inflation basket.

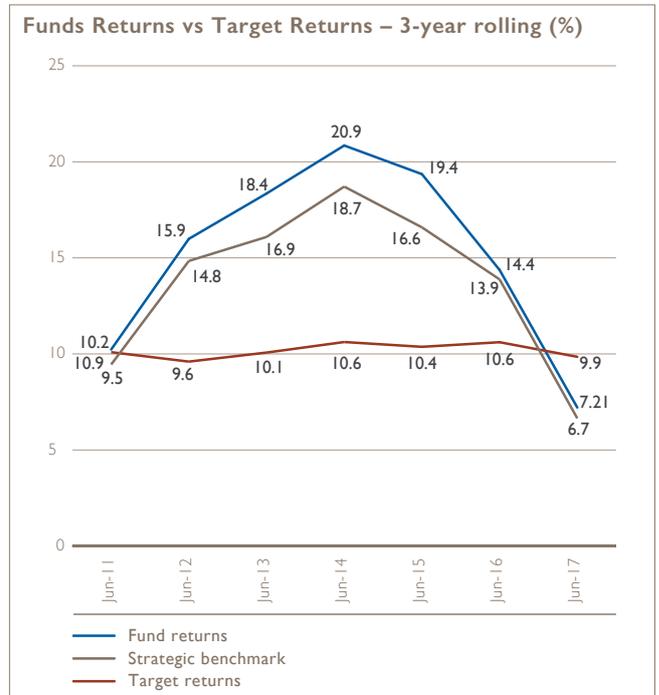
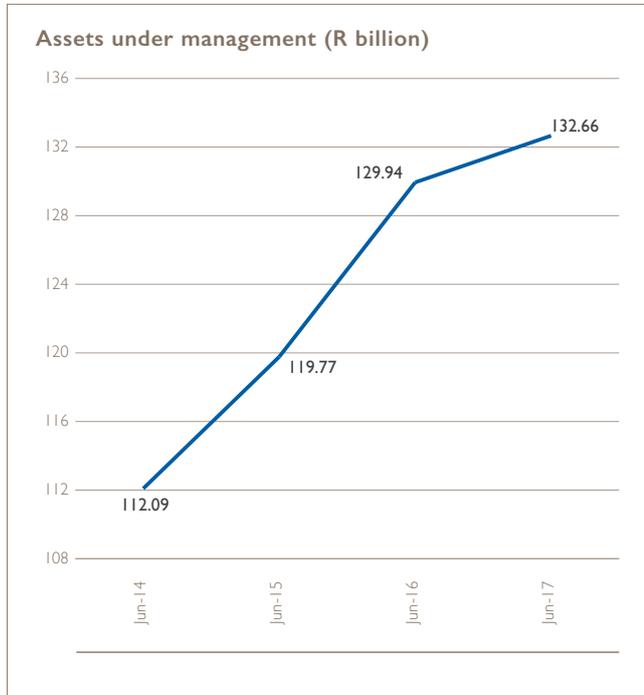
Exchange rate



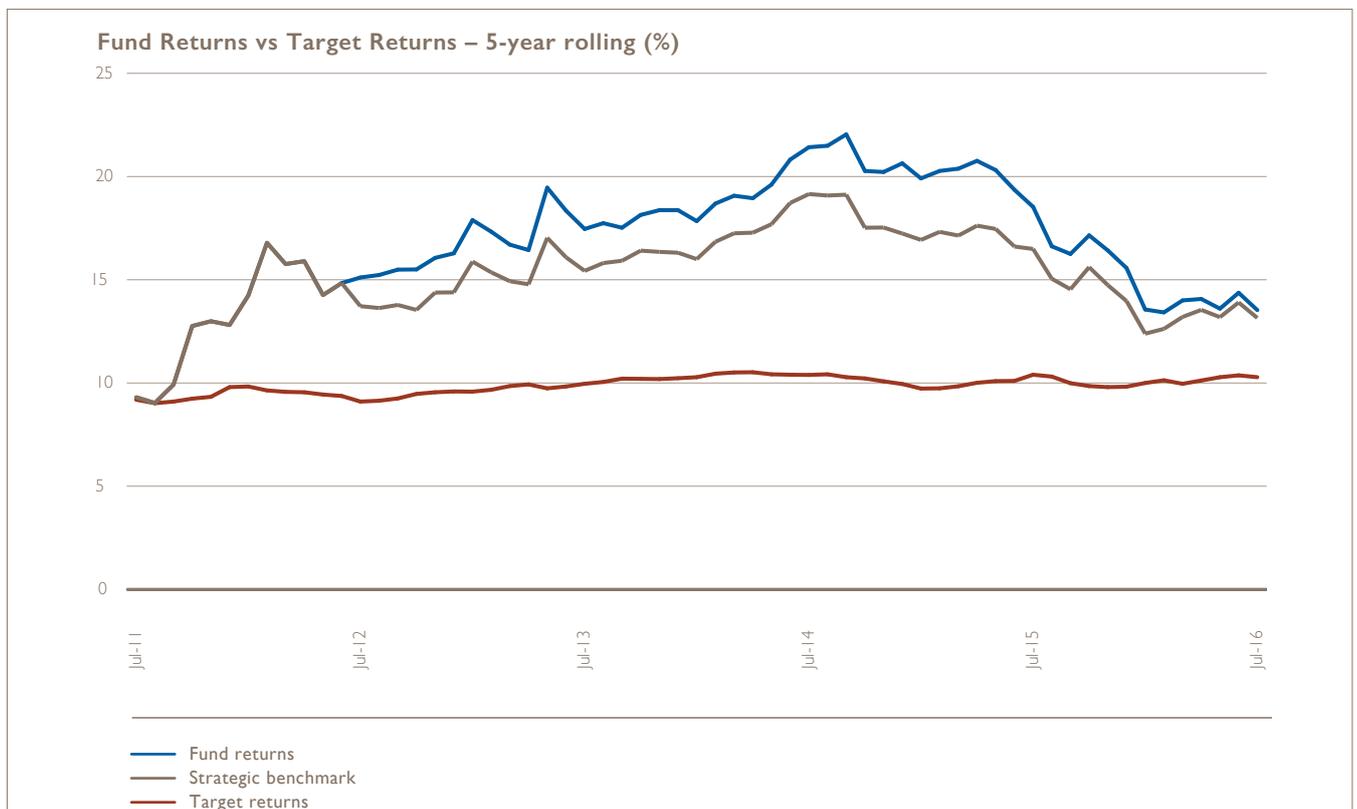
Growth amidst volatility

The volatility experienced in both global and local capital markets, as well as other external and internal factors discussed, posed a risk to the performance of the Fund during the year under review. Through careful monitoring and management, the Fund continued growing assets under management, as illustrated in the graphs below.

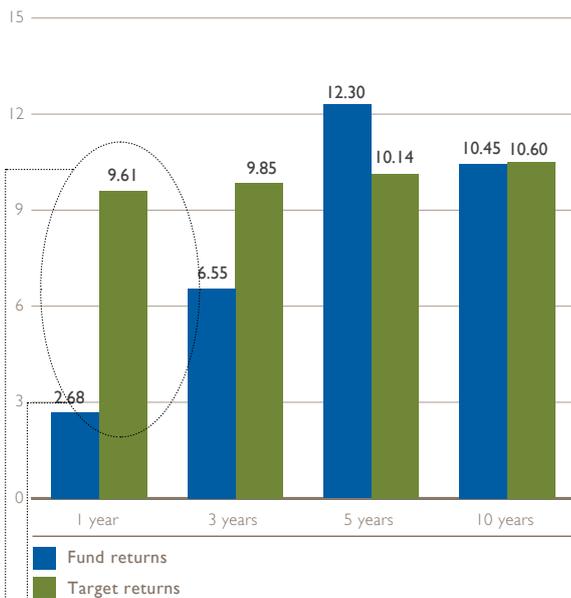
- Assets under management have shown steady growth over the last few years, peaking at R132.6 billion in June 2017
- Between 2011 and 2016, the Fund outstripped its performance target of CPI + 4.5% comfortably
- Over the last 12 months, performance has dipped below target return, mainly due to a difficult investment climate



The chart below shows the Fund's performance over rolling five-year periods. EPPF returns over five-year rolling periods have been consistently above CPI + 4.5% over the last five years, peaking in 2014.



Fund returns to 30 June 2017



Fund returns vs target returns (CPI + 4.5%)

1-year ended 30 June 2017 – 2.68 against 9.61
 3-year ended 30 June 2017 – 6.55 against 9.85
 5-year ended 30 June 2017 – 12.30 against 10.14
 10-year ended 30 June 2017 – 10.45 against 10.50

Fund returns vs strategic benchmark

Actual return	2.66
Original strategic benchmark return	3.27
Excess/(shortfall) return	(0.59)
Adjusted strategic benchmark return	2.99
Excess/(shortfall) return	(0.31)



HOW WE INVEST

IN ORDER TO INVEST RESPONSIBLY AND TO ACCOMPLISH OUR STRATEGIC GOALS, THE FUND HAS INCORPORATED ITS RISK-BUDGETING FRAMEWORK INTO THE INVESTMENT PROCESS. THIS INVOLVES MEASURING, ALLOCATING AND CONTROLLING THE RISK OF THE INDIVIDUAL INVESTMENT COMPONENTS SUCH AS ASSET CLASSES, INDIVIDUAL FUNDS, STRATEGIES AND INSTRUMENT TYPES. THIS IS DONE IN THE CONTEXT OF MAINTAINING AN OVERALL RISK LIMIT FOR THE AGGREGATE INVESTMENT PORTFOLIO. WE ARE THE FIRST SOUTH AFRICAN PENSION FUND TO IMPLEMENT SUCH A ROBUST RISK-BUDGETING APPROACH TO INVESTMENTS.

In the context of the Fund, this translates into three components:

• Investment Policy Statement

This provides a foundation for why the Fund exists, what it needs to achieve, how it plans to achieve it, and how it will assess its success.

• Risk budget

This establishes how much risk the Fund is prepared to assume, as well as where and why it intends to take those risks, on the basis of what the Fund believes about investing.

• Governance budget

This determines which governance structures of the Fund will be responsible for which aspects of the Fund's business in terms of decision-making and monitoring. It also provides a framework for evolving the Fund's thinking and adaptation over time.

Systems implemented

We use the following systems in making our investment decisions:

- BarraOne (a multi-asset class investment risk management system)
- Bloomberg
- I-Net
- Barra Portfolio Manager

In addition to achieving high investment returns, the EPPF seeks to associate with companies that act responsibly on environmental, social and governance factors. The Fund introduced its responsible ownership policy framework in 2010. The Fund's policy focuses on proxy voting and corporate engagement activities as part of its fiduciary obligation to act as an active and responsible asset owner. These objectives are aligned with the principles enshrined in the United Nations Principles for Responsible Investing (UNPRI), to which the Fund is a signatory.

In addition, the Fund has defined what we term development impact investments through our Development Investment Mandate. We believe that such investments offer a significant opportunity to effect meaningful transformation.



Development investment mandate

Our development investment mandate directs our strategy in contributing to South Africa's social and economic development through high-impact, targeted investments. Among others, the mandate ensures that:

- The Fund requires companies that it appoints to facilitate social development investments and transactions to comply with the same transformation criteria as its private equity managers, i.e. a Level 3 B-BBEE rating requirement and a preference for more than 50% black ownership. This is, however, assessed on a case-by-case basis
- There are investments in shopping centres that are located in rural areas or black townships, introduced as a fifth aspect of the development investment mandate during the 2017 financial year
- Supported is provided to black SMEs
- The Fund invests in social infrastructure in the vital areas of healthcare and education
- That there is the development of greenfield and brownfield shopping centres in targeted areas, which will have a tremendous impact on job creation and transformation

DEVELOPMENTS IN THE INVESTMENT MANAGEMENT UNIT

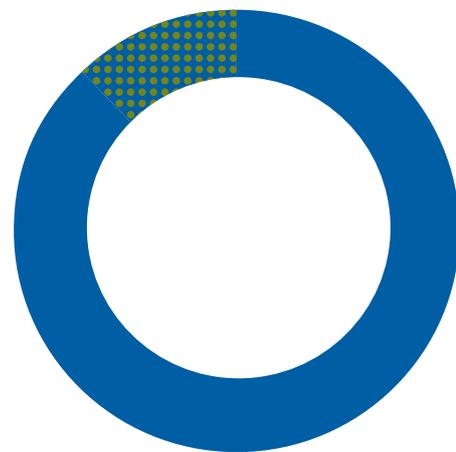
Alternative assets programme

During the year under review the total allocation to the Alternative Assets Programme was increased in November 2016 from R8.0 billion to R15.9 billion, representing approximately 12% of the Fund's assets under management level of R132.6 billion.

• Development impact investments

The Developmental Impact portfolio allocation remained at R2 billion during the year under review, with the Fund committing an additional R400 million towards the Busamed hospital operating company during the period under review.

Total allocation to the Alternative Assets Programme

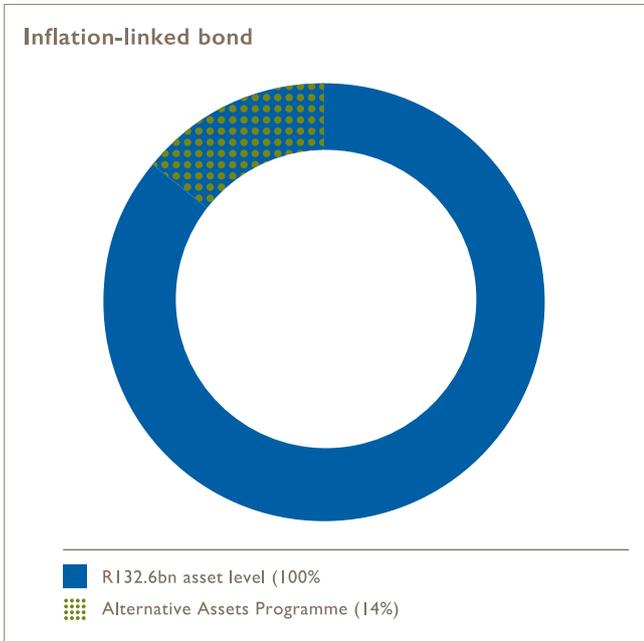


• Real assets mandate

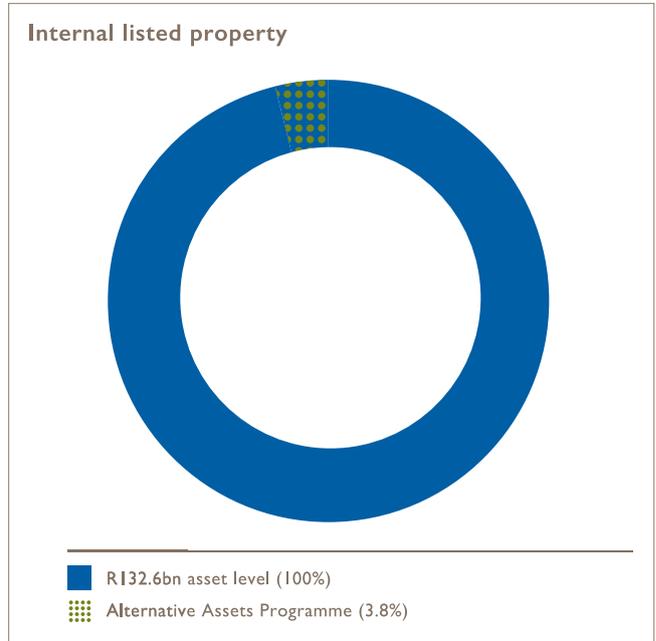
The Fund launched the Real Assets mandate during the second half of the 2017 financial year, setting a target allocation of R7.9 billion towards Real Assets across all geographies, which includes about R950 million in the Africa region, excluding South Africa. The purpose of the Real Assets mandate is largely to obtain exposure to investments linked to physical assets whose returns are expected to come mainly from income yield and cash flows that are either linked to inflation or expected to hedge against inflation.

Internally managed portfolios

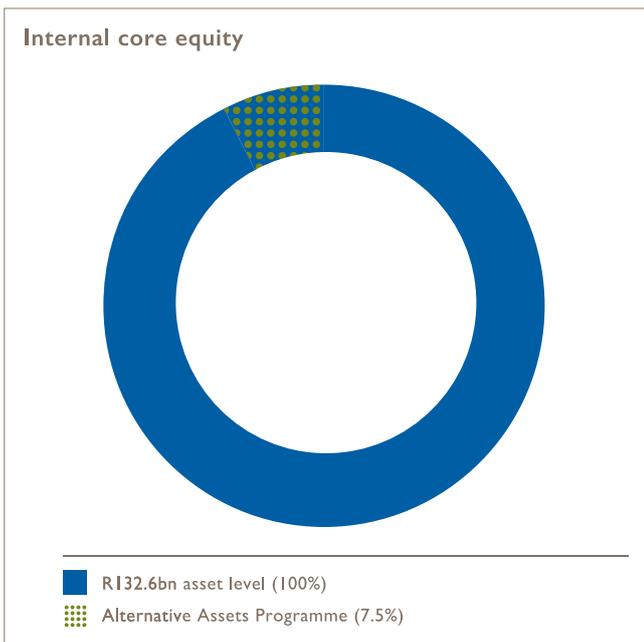
- The Inflation-linked Bond portfolio underperformed the Composite Inflation-Linked Indices by -0.4% and -0.3% over the 12-month and 36-month periods to 30 June 2017 respectively. The portfolio was valued at R19.4 billion as at 30 June 2017. The value of the investment relative to our total assets under management is illustrated below.



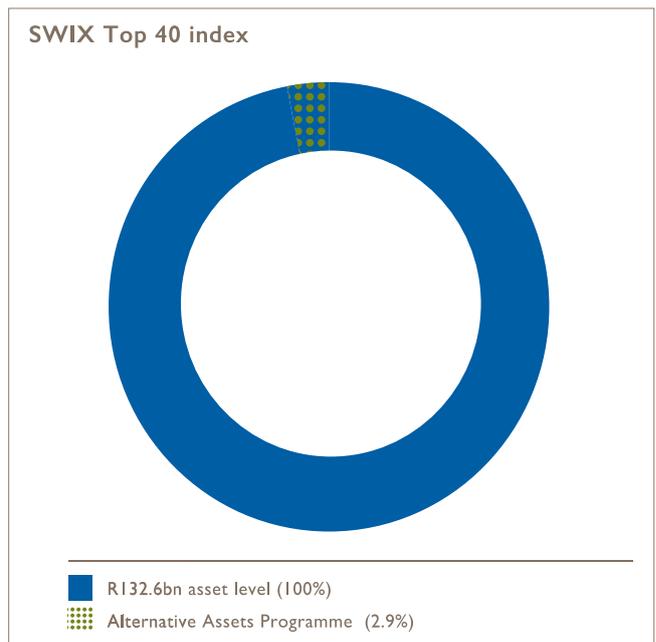
- The Internal Listed Property portfolio returned 2.0% over the 12 months to the end of 30 June 2017, underperforming its benchmark index by -0.8%. The portfolio has however outperformed the property benchmark by 0.8% per annum over the 36-month period to 30 June 2017. The value of the portfolio as at 30 June 2017 was R4.9 billion. The value of the investment relative to our total assets under management is illustrated below.



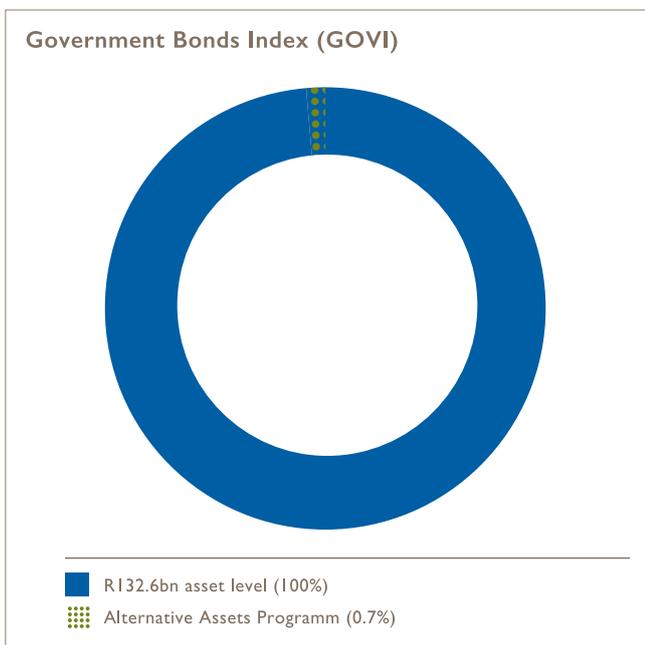
- The Internal Core Equity portfolio return outperformed the benchmark by 0.2% over the 12 months to 30 June 2017. The portfolio underperformed its benchmark over the three-year period to 30 June 2017 by -0.8%. The value of the portfolio as at 30 June 2017 was R9.8 billion. The value of the investment relative to our total assets under management is illustrated below.



- We introduced an in-house passive fund tracking the SWIX Top 40 index during FY2017, which was funded by a reduction of the in-house Core Equity portfolio. As at 30 June 2017, the value of the portfolio was R3.8 billion. The value of the investment relative to our total assets under management is illustrated below.



- The Government Bonds Index (GOVI) portfolio underperformed the GOVI by -0.4% and -0.3% over the 12-month and 36-month periods to 30 June 2017, respectively. The portfolio was valued at R0.94 billion as at the 30 June 2017. The value of the investment relative to our total assets under management is illustrated below.



Other achievements

During the year under review there were other significant achievements pertaining to our investment regime, including:

- The update of the Investment Policy Statement, encompassing risk budgets and supporting investment-related policies
- Improved financial protection for the Fund through hedging that utilises financial derivatives
- Successful dual focus on both strong investment returns and B-BBEE transformation
- Positive long-term (five to 10 years) Fund returns vis-à-vis the inflation-linked target return

EXTERNAL ASSET MANAGERS

As at 30 June 2017, approximately 34% of the EPPF's total Assets Under Management were managed in-house, while the remaining 66% were managed by external managers. Of the external managers, 65% are black asset managers.

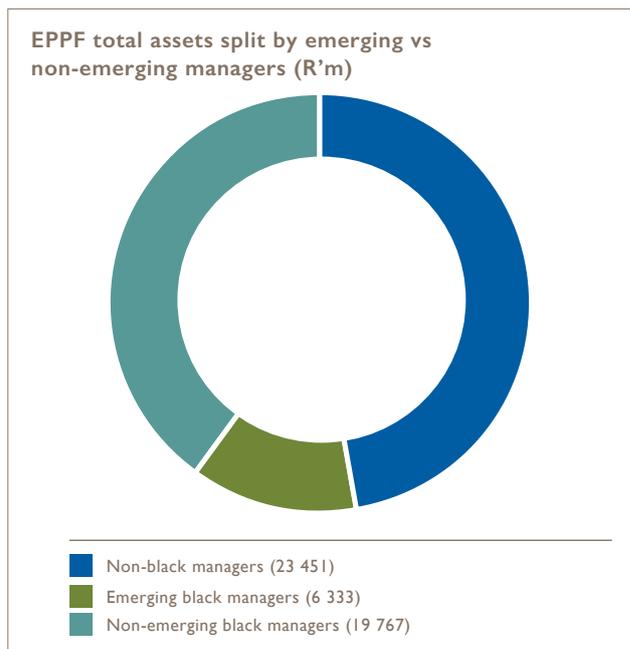
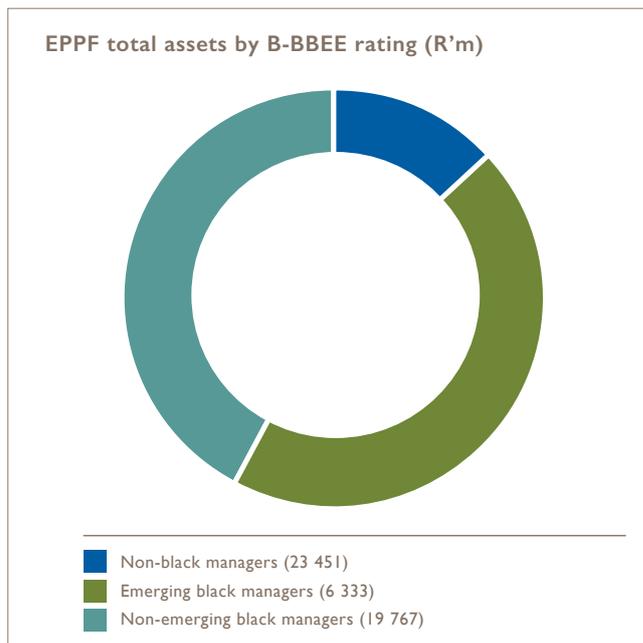
OUR TRANSFORMATION INITIATIVES

As part of our B-BBEE, we are pleased to record that to date:

- Of the Fund's domestic asset managers, 100% are Levels 1 to 3 B-BBEE contributors
- Of our domestic mandates, 53.2% reside with black asset managers
- Non-emerging black managers' total assets comprise 44.5% of external, domestic mandates
- Emerging black managers' total assets comprise 8.7% of external,

domestic mandates

B-BBEE: Assets under management



Our achievements

As illustrated in the table below, in assessing our achievements on the balanced scorecard during the year under review, we were able to record:

- Compliance with B-BBEE policy for investments
- Compliance with B-BBEE policy for overall Fund procurement
- An improved supply chain
- Achievement of B-BBEE targets (73% procured from Levels 1 to 3 B-BBEE suppliers)
- Mitigation of the risk of challenge by unsuccessful vendors
- Above-target levels for allocation to black asset managers and black women-owned asset managers

Strategic priority	Project/initiative	Weight	Progress 2016/17 (%)
Promote B-BBEE in the industry	Achieve the Fund B-BBEE target	40	100
	Review and implement the Fund procurement policy	10	100
	Review and implement procurement process	20	100
	Review the Fund and investment B-BBEE policy	10	100
	Review and implement the stockbroking B-BBEE policy	10	100
	Workshop of the evaluation of B-BBEE certificates	10	100

For more on our B-BBEE policy and activities, see under Our Procurement on page 33.





Employment creation

WHILE TRANSFORMATION IN THE INDUSTRY IS EXPERIENCING VERY SLOW ADOPTION AND BUSINESSES ARE NOT INCLINED TO TRANSFORM WITHOUT EXTERNAL PRESSURE, WE HAVE SEEN THAT THE TRANSFORMATION AGENDA IS MORE EFFECTIVELY PROMOTED AND IMPLEMENTED WHERE ASSET OWNERS CHOOSE TO PROVIDE LEADERSHIP.

In accordance with this observation as well as our commitment to both business and national goals in employment creation, we have been proactive in establishing incubation programmes for emerging asset managers. Our aim in this is to provide the managers with the requisite skills.

There are four asset managers who have graduated from the incubation programme to the categories they currently occupy.

OUTLOOK

Long-term issues

In a rapidly changing world there are a number of implications, both internal and external, that will impact on the sustainability of the Fund. Externally, the challenges relate mainly to global geopolitical and economic volatility with a great deal of uncertainty in the short and long term. It is only through flexibility and careful monitoring that the Fund will be in a position to take international developments in its stride. Accordingly, we work hard to ensure that our human, intellectual and financial capitals are agile and sound enough to enable appropriate responses in strategy and operations.

Fund status

Internally, there are important aspects to the historic constitution of the Fund that need to be addressed. Among them are the following:

- The Fund has a hybrid financial structure – while it remains a DB fund, employer contributions are however also defined
- The typical DB employer guarantees ‘balance of cost’
- EPPF Rules state that in the event of a deficit, contributions and benefits would have to be reviewed
- There are other aspects outside of the Fund’s control which pose a risk, such as high salary increases, member demographics relating to age, and the character of investment markets
- The biggest risk of the Fund is underfunding or deficit. The status of the Fund thus needs to be resolved

Other challenges present themselves and need to be addressed on an ongoing basis. These include underestimated project timelines, fraud, physical security, industrial relations, change management, vendor management, commutation factors, the regulatory landscape, data challenges and the effective utilisation of Board packs. They will all require constant monitoring and responsiveness.

We are confident, however, that our people and the systems which they operate and implement are robust and agile enough to be able to take these factors into account in their approach, strategies and technologies.

Short-term issues

In the short term, we have proposed a number of strategic objectives with associated weightings for the year ending 30 June 2018.

OUR CORPORATE GOVERNANCE



IN OUR APPROACH TO GOVERNANCE WE RECOGNISE THAT DILIGENT, REGULAR AND CONSCIENTIOUS REVIEWING OF OUR APPROACH TO BUSINESS, OUR ACTIVITIES AND THEIR EXECUTION ARE CRITICAL NOT ONLY TO THE WELL-BEING OF THE FUND, BUT TO FULFILLING THE NEEDS AND BEST INTERESTS OF OUR SHAREHOLDERS AND BENEFICIARIES.



THE BOARD

The Board comprises 14 members and is constituted as follows:

- A non-executive Chairman appointed by Eskom subject to the approval of the Board
- Six Board members appointed by Eskom, one of whom is deemed by Eskom to be an expert
- Two Board members elected by pensioners
- Five members of the Board elected by members of the Fund, of whom at least two are non-bargaining unit members, with the other three Board members being elected from the labour organisations recognised by Eskom to be representing employees, provided that those members as elected from the labour organisations are not members of the Fund

The Board members represent individuals with diverse backgrounds, skills and experience, each of whom adds value and brings independent judgment to bear on the Board's deliberations and decision-making processes, all in the best interest of the Fund's members and stakeholders.

Term of office

The term of office for the Board is four years. Board members may not serve for more than two consecutive terms.

Duties and responsibilities of the Board

The Board is responsible for directing, controlling and overseeing the operations of the Fund in accordance with all laws applicable to the Fund, and in accordance with the Rules of the Fund. It further provides strategic guidance, direction and leadership, ensuring good corporate governance and ethics, determining policy, agreeing on performance criteria and delegating the detailed planning and implementation of policy and decisions to management. The Board is also responsible for managing a successful and productive relationship with Eskom and relevant stakeholders.

Each individual Board member and the Board as a collective have a fiduciary duty to act in good faith, with due diligence and care, to avoid conflicts of interest and act with impartiality in respect of all the Fund's members and pensioners, and are ultimately accountable and responsible for the performance and affairs of the Fund.

The Board has approved a Board Charter, which forms part of the Fund's Governance Framework that provides guidance to the trustees in discharging their duties and responsibilities. Board members also have unrestricted access to Fund information.

Board proceedings

The Board members convene at least once a quarter and monitor management's compliance with policy, and its achievements against predetermined objectives. Additional meetings may be called when issues arise that need to be resolved between scheduled meetings.

A structured approach is followed for delegation, reporting and accountability, which includes reliance on the established Board committees, whose composition, duties, responsibilities and business are described below. The Chairman presides over the meetings of the Board, and guides and monitors the input and contribution of the Board members.

Seven meetings of the Board were held during the year under review.

Board and committee performance evaluations

Performance evaluations of the Board and its committees are done bi-annually. The Chief Executive is appraised by the Chairman in consultation with the Board, while the Board assesses the performance of the Chairman.

Board and committee members' fees and membership

Board and committee members are compensated for their contribution to the Board and the committees on which they serve.

The fee structure is reviewed annually with the membership of committees being revised as and when a new Board is appointed.

Board and committee member training

Training for members of the Board and committees is considered vital in enabling them to execute their fiduciary duties and responsibilities in a knowledgeable and confident manner. Board and committee members attended a number of training sessions, conferences and seminars during the year under review.

BOARD COMMITTEES

The Board is empowered to establish committees that are responsive to the nature of the Fund's business, and which can help advance the Fund's business efficiently. The Board also delegates authority to its committees, approving the terms of reference, lifespan, role and function of these committees. The duties and responsibilities of the members of the committees are in addition to those duties and responsibilities that they have as Board members.

Deliberations of the committees do not reduce the individual and collective responsibilities of the trustees with regard to their fiduciary duties and responsibilities, and they are bound to continue to exercise due care and judgment in accordance with their legal obligations.

The Board has established five committees to assist it with the management of its affairs in a structured way.

Each committee operates within the ambit of its defined terms of reference and delegated authority, as approved by the Board, which reviews the performance and effectiveness of these committees on a continuous basis.

In determining where there is a requirement for a committee to be established to focus on a specific area of the Fund's activities, the Board constituted the following Board committees:

- Audit and Risk Committee
- Benefits Committee
- Human Resources and Remuneration Committee
- Strategic Investment Committee
- Legal and Technical Committee

Audit and Risk Committee (ARC)

The ARC comprises six Board members, including the Chairman. It is constituted as a committee of the Board and serves it in an advisory capacity. It assists the Board to discharge its duties relating to the safeguarding of Fund assets, monitoring the operation of systems and controls, review of financial information and the preparation of annual financial statements. It also reviews the activities of Internal Audit.

The committee is also responsible for the evaluation of the independence, objectivity and effectiveness of the external and internal auditors, as well as for the review of accounting and auditing concerns identified by the external and internal audit. An in-house internal audit function was established towards the end of the period under review.

The committee assumes the responsibility for the governance of the Fund's IT, aligning it with the performance and sustainability objectives of the Fund.

Meetings are normally attended by the external as well as the internal auditors, the Chief Executive, Chief Financial Officer, Chief Investment Officer, Legal and Corporate Secretariat Manager and the Risk and Compliance Manager. Other members of staff attend by invitation. External and internal auditors have unrestricted access to the Chairman of this committee as well as to the Chairman of the Board.

Five ARC meetings were held during FY2017.

Benefits Committee (BC)

The BC comprises six Board members, including the Chairman. The BC is delegated with the authority to oversee and direct the retirement fund operations on behalf of the Board. The committee also considers and approves benefit payments as per its approved terms of reference.

Meetings are normally attended by the Chief Executive, Retirement Fund Operations Manager, Legal and Corporate Secretariat Manager, Legal Advisor and the Customer Services Manager as well as other members of staff who are invited to attend meetings from time to time.

Six BC meetings were held during FY2017.

Medical Panel (MP)

The role of the MP is to assess, in accordance with the provisions stipulated in Rule 25(4) of the Fund Rules and all its amendments, the condition of the health of members of the Fund applying for ill-health retirement benefits, and to make recommendations to the Benefits Committee and the Board on the status of these members.

The MP comprises three independent medical practitioners, one Eskom Medical Advisor, who also has an alternate, the Fund's Legal and Corporate Secretariat Manager, and the Retirement Fund Operations Manager, as well as other members of staff who are invited to attend meetings from time to time.

The monthly MP meetings are chaired by one of the independent medical practitioners.

Eleven meetings of the MP were held during FY2017.

Human Resources and Remuneration Committee (HRRC)

The HRRC comprises five Board members (including the Chairman), one external expert as well the Chief Executive and HR Manager.

The HRRC:

- Approves HR policies and strategies and monitors compliance with all relevant legislation, statutory requirements and best corporate practices
- Determines executive management remuneration and the remuneration policy framework and makes recommendations to the Board in this regard
- Ensures the executive management remuneration policy and practices are in accordance with best corporate practices

Five HRRC meetings were held during FY2017.

Strategic Investment Committee (SIC)

The SIC comprises five Board members, including the Chairman, and five external experts. Meetings are normally attended by the Chief Executive, Chief Financial Officer, Chief Investment Officer, Deputy Chief Investment Officer, Risk and Compliance Manager and the Legal and Corporate Secretariat Manager.

The Strategic Investment Committee's key responsibility is to attend to the investment affairs of the Fund in accordance with the Fund's Rules, Investment Policy Statement and the relevant statutory requirements such as Regulation 28 of the Act.

Four SIC meetings were held during FY2017.

Legal and Governance Committee (LGC)

The LGC comprises five Board members. The meetings are normally attended by the Chief Executive, Chief Financial Officer, Chief Investment Officer, Retirement Fund Operations Manager, Legal and Corporate Secretariat Manager and the Risk and Compliance Manager.

The committee is responsible for overseeing the legal and technical affairs of the Fund in accordance with the Fund Rules and statutory requirements.

Three LGC meetings were held during FY2017.

MANAGEMENT COMMITTEES

The following Management Committees are active at the Fund:

- Executive Committee
- Health and Safety Committee
- Information Technology Steering Committee
- Procurement Committee
- Risk and Compliance Management Committee
- Management Benefits Committee
- Internal Investment Committee

Executive Committee (Exco)

The Exco comprises the Chief Executive, Chief Financial Officer, Chief Investment Officer, Retirement Fund Operations Manager, Legal and Corporate Secretariat Manager, IT Manager, Risk and Compliance Manager and HR Manager. The committee is chaired by the Chief Executive and meetings are held on a monthly basis with ad hoc meetings called when necessary.

The Exco assists the Chief Executive in exercising executive oversight and is also responsible for ensuring the effective management of the daily operations of the Fund.

Attendance of Board meetings for the period 1 July 2016 to 30 June 2017

Name	Meeting 1	Meeting 2	Meeting 3	Meeting 4	Meeting 5	Meeting 6	Meeting 7	Meeting 8
JM Maisela	X	X	Board meeting did not sit but members were present for discussions on certain items	X	X	X	X	X
M Bhana/Naidoo	X	X		#	0	X	X	0
H Diatile	X	X		X	X	X	X	X
DV Jackson	X	X		X	X	X	X	X
TF Madlala	X	X		X	X	X	X	X
DM Maleka	X	X		X	X	X	X	X
AJ Morgan	X	X		0	X	X	X	X
S Mvana	0	0		X	X	0	*	X
P Ndlala	X	X		X	X	X	X	X
NK Shandu	X	X		0	X	X	X	X
IG Smith	X	X		X	X	X	X	X
BI Steyn	X	X	X	X	X	X	X	

Legend X Attended 0 Not attended * Resigned # Conference call

The committee is authorised to form management sub-committees, and in particular, administration committees, to assist with the execution of its duties. In exercising the powers and authorities delegated to it, Exco acts in accordance with, and subject to, the directives and requirements as may be laid down from time to time by the Board.

Eleven Exco meetings, excluding ad hoc and special meetings, were held during FY2017.

Health and Safety Committee (HAS)

The purpose of the HAS is to initiate, promote, maintain and review measures of ensuring the health and safety of all employees of the Fund. The committee comprises the Facilities Manager, Principal Clerk: Corporate Services, the Facilities Coordinator, and representatives from HR, Risk and Compliance, Investment Administration and Retirement Fund Operations.

The committee is chaired by the Facilities Manager and convenes on a quarterly basis. Three HAS meetings were held during FY2017.

Information Technology Steering Committee (ITSC)

The primary focus of the ITSC is the promotion of improved communication and IT services and the identification of the partnerships required for successful IT deployment in the Fund.

The ITSC consists of the Chief Financial Officer, Chief Investment Officer, Retirement Fund Operations Manager, Risk and Compliance Manager, IT Manager and an outside expert member, with other members of staff attending by invitation.

The committee is chaired by the Chief Financial Officer and convenes on a monthly basis with ad hoc meetings called when required.

Seven ITSC meetings were held in FY2017.

Procurement Committee (PC)

The PC is responsible for the promotion of good practice, transparency and ethical behaviour in the Fund's procurement activities in terms of the objectives of the Fund's Procurement and B-BBEE policies.

The committee comprises the Chief Financial Officer, the Legal and Corporate Secretariat Manager, the IT Manager, the Risk and Compliance Manager and the Retirement Fund Operations Manager. It is chaired by the Chief Financial Officer with committee meetings being held on a monthly basis.

10 meetings of the PC were held during FY2017.

Risk and Compliance Management Committee (RCMC)

The RCMC is responsible for ensuring that a functional, effective and integrated risk management process is maintained for the Fund. The committee comprises the Chief Executive, Chief Financial Officer, Chief Investment Officer, Risk and Compliance Manager, Legal and Corporate Secretariat Manager, Retirement Fund Operations Manager, the IT Manager, and one internal audit member. It is chaired by the Fund's Chief Executive with committee meetings held on a monthly basis.

Two meetings of the RCMC were held during FY2017.

Management Benefits Committee (MBC)

The MBC is responsible for approving advances on instalment lump sums registered with the Fund on behalf of the BC and the Board. The committee comprises the Chief Executive, Legal Advisor, Retirement Fund Operations Manager, Benefits Processing Manager and the Risk and Compliance Manager, as well as other members of staff who attend meetings by invitation.

The committee is chaired by the Chief Executive with meetings being held on a monthly basis.

Twelve meetings of the MBC were held during FY2017.

Internal Investment Committee (IIC)

The IIC reviews and recommends, for approval, the following:

- All investments proposed for inclusion in Private Equity, Developmental Impact & Real Assets portfolios ('collectively referred to as Private Markets')
- All tactical asset allocations with deviations greater than 1%, relative to the Strategic Asset Allocation
- Hedging strategies where nominal hedge amount exceeds R3 billion

The committee comprises the Chief Executive Officer, Chief Financial Officer, the Legal and Corporate Secretariat Manager, the Risk and Compliance Manager, the Chief Investment Officer and the two Deputy Chief Investment Officers. Non-members attend on an invitation basis.

Five meetings of all the IIC were held during FY2017.

INTERNAL AUDIT

INTERNAL AUDIT PLAYS A VITAL ROLE IN THE FUND'S GOVERNANCE PROCESS. THE FUNCTION WAS PREVIOUSLY FULLY OUTSOURCED TO EXTERNAL SERVICE PROVIDERS. HOWEVER, DURING FY2017 AN IN-HOUSE INTERNAL AUDIT FUNCTION WAS ESTABLISHED RESULTING IN A FUNCTION THAT IS A HYBRID OF IN-HOUSE AND CO-SOURCED RESOURCES.

Internal Audit provides independent assurance to management and the Audit and Risk Committee (ARC) on the adequacy and effectiveness of risk management, control and governance processes. This is achieved by following a systematic and disciplined approach which enables assurance over the:

- Accomplishment of established objectives and goals
- Economical and efficient use of resources
- Reliability and integrity of financial and non-financial information
- Compliance with relevant policies, procedures, laws and regulations
- Safeguarding of assets

The internal audit function operates within the Internal Audit Charter which is tabled for approval to the ARC on an annual basis. The function follows a risk-based approach with key strategic and operational risks taking into account the development of the three-year rolling internal audit plan. This three-year internal audit plan is pre-approved annually by the ARC.

During the period under review, the annual internal audit plan was completed with recommendations made to management where control weaknesses were identified. Significant findings were escalated to the ARC on a quarterly basis.

A formal process exists to follow up on findings that are reported and corrective action is taken by management to address them. This includes a follow-up on findings raised by both internal and external auditors.

The benefits reflected below are expressed in terms of the Rules of the Fund applied in the 2017 financial year. The Rules are reviewed by the Board, registered by the FSB and approved by the South African Revenue Services (SARS) for income tax purposes. In the event of a conflict between this summary and the Rules of the Fund, the relevant provisions of the Rules will apply.

1. ELIGIBILITY CONDITIONS

All permanent employees of participating employers who are under the age of 65 are eligible for membership in the Fund.

2. RETIREMENT BENEFITS

2.1 Ill-health retirement

A member may retire at any age as a result of ill-health, provided that the Board approves a recommendation by the Medical Panel in this regard. The benefit is calculated by making provision for a pension based on a member's pensionable emoluments and pensionable service accrued up to the actual retirement date plus 75% of the service that would have been completed from that date to the pensionable age.

2.2 Early retirement

A member may retire early after reaching age 55. The benefit is a pension calculated in terms of a pension formula, reduced by the penalty factor of 3.9% per year for each year before age 63.

2.3 Normal retirement

The compulsory retirement age is 65. However, members may retire early from age 63 without penalties, subject to the employer's conditions of service. The benefit is based on 2.17% of annual average pensionable emoluments over the last year before retirement, for each year of pensionable service.

2.4 Commutation

A member may commute up to one-third of his/her annual pension at the retirement date. The lump sum amount is calculated using fixed commutation factors. The remainder of the pension benefit will be used to pay a monthly pension to the pensioner for the rest of his/her life; and after his/her death, a reduced pension for the rest of the life of the remaining spouse.

3. PENSION INCREASES

Pensions may be increased on 1 January each year in accordance with the Fund's Pension Increase Policy.

4. DEATH BENEFITS

4.1 Death before retirement

On the death of a member, a lump sum equal to twice the member's annual pensionable emoluments is payable and distributed in terms of the provisions of section 37C of the Pension Funds Act.

Plus

A widow/widower's pension of the first 60% of the member's potential pension is payable. The pension is calculated as if the member had remained in service and attained age 65, based on the current pensionable emoluments.

Plus

A child's pension of 30% of the pension to which the member would have been entitled if he/she had remained in service until the normal retirement date, in respect of a single eligible child. The children's pension will increase to 40% in respect of two or more eligible children.

If there are no spouse's or children's benefits payable, a benefit will be paid to the member's estate equal to the greater of:

- A lump sum equal to the member's annual pensionable emoluments;

Plus

- 10% of the final average pensionable emoluments per year of pensionable service

Or

Twice the deceased member's annual pensionable emoluments.

4.2 Death after retirement

On the death of a pensioner, a lump sum equal to R3 000 is paid to the surviving spouse or the estate.

Plus

A pension to the surviving spouse/s equal to 60% of the deceased pensioner's pension at retirement before commutation, including any subsequent increases.

Plus

A further pension of 30% (one child) or 40% (two or more children) of the deceased pensioner's pension at retirement before commutation, including any subsequent increases, in respect of any eligible children.

But

If there is no spouse's pension payable, the percentage in respect of a single eligible child is increased to 60% of the deceased pensioner's pension at retirement before commutation, including any subsequent increases. For two or more children, the total percentage is increased to 100% of the deceased pensioner's pension at the time of retirement before commutation, including any subsequent increases.

And

If there are no spouse's or children's benefits payable, a benefit equal to the excess amount of the lump sum, as specified below, is paid to the pensioner until the time of death. The lump sum comprises the following:

- A lump sum of R3 000

Plus

The greater of the two following calculations:

1. Twice the annual pensionable emoluments at retirement, less the pension benefits received since retirement;

Or

2. The annual pensionable emoluments at retirement plus 10% of the final average pensionable emoluments per year of pensionable service, less pension benefits already received.

4.3 Death of a deferred pensioner

The death benefit of a deferred pensioner differs materially from the above and interested parties can contact the Fund for more details.

5. WITHDRAWAL BENEFITS**5.1 Withdrawal due to voluntary resignation, absconding or dismissal**

In case of a withdrawal benefit due to resignation, absconding or dismissal, a cash benefit is payable. This is the prescribed minimum benefit in terms of the Pension Funds Act.

The benefit is the greater of:

First calculation: The capital value of the member's accumulated past contributions plus interest after December 2001. The interest rate must compare reasonably with the actual rate of investment return, net of fees and costs that the Fund has incurred on its assets.

Or

Second calculation: The fair value pension which is the amount of the pension that a member has earned for past service up to the date of leaving the Fund, based on the member's pensionable emoluments at the date of leaving the Fund. The capital value of the amount is calculated using financial assumptions, approved by the Registrar of Pension Funds.

5.2 Withdrawal due to retrenchment before age 50

In the event of a retrenchment, the benefit payable will be equal to the greater of:

- Either the two calculations in 5.1 above, or

Third calculation: In the event of a negotiated cash settlement or retrenchment of a member, a benefit of three times the member's own annual contributions becomes payable. The Fund must then pay to the member the greater of the first, second or third calculations.

5.3 Withdrawal due to retrenchment after age 50

If a member has 10 years' continuous service, he/she qualifies to receive a pension instead of a lump sum benefit, as approved by the employer. The employer will compensate the Fund accordingly.

6. DEFERRED PENSION OPTION

A member may, instead of taking a cash benefit, elect to become a deferred pensioner and may be granted a benefit equal to the actuarial value, as determined by the actuary, in respect of completed service. The deferred benefit reverts to the deferred benefit scheme and may only be accessed from age 55.

7. CONTRIBUTION RATES

Most members contribute to the Fund at a rate of 7.3% of pensionable emoluments, except in the case of certain categories of members who still contribute at lower rates. A member may undertake to pay additional voluntary contributions to the Fund for the purposes of adding such additional benefits as the Fund may determine. The employer contributes at a rate of 13.5% of pensionable emoluments in respect of members.

Commutation factors

On retirement, a member has the option either to receive a full monthly pension or to convert a maximum of one third of his/her pension into a lump sum benefit payable at retirement in cash. There are certain assumptions underlying the methods by which the calculations are made actuarially. These are the commutation factors (CF), and they are reviewed from time to time.

In 2000, 15% of our members were female. This percentage has changed over the years, however, with more than 30% of our members now female. The old unisex table based on a 'weighted average' life expectancy of male/female at each age drew no distinction between males and females. Given the increased female membership, this is no longer appropriate. In line with modern practice, we have now taken steps to separate male and female CF and to ensure that they are now fairer.

SUMMARY FINANCIAL STATEMENTS

The annual financial statements of the Eskom Pension and Provident Fund (the Fund) are the responsibility of the Board of Trustees. The Board of Trustees fulfils this responsibility by ensuring that the implementation and maintenance of accounting systems and practices are adequately supported by internal financial controls. These controls, which are implemented and executed by the Fund, provide reasonable assurance that:

- the Fund's assets are safeguarded;
- transactions are properly authorised and executed; and
- the financial records are reliable.

The summarised annual financial statements (set out on pages 52 to 62) have been prepared for communication purposes with limited disclosure compared to the regulatory financial statements, which are compiled in terms of the Regulatory Reporting Requirements for Retirement Funds in South Africa. The regulatory financial statements have been prepared and reported to the Financial Services Board. The summarised financial statements set out on pages 52 to 62 have been prepared in accordance with the principal accounting policies (set out on pages 54 to 57).

The regulatory financial statements have been reported on by the independent auditors, PricewaterhouseCoopers Inc. who were given unrestricted access to all financial records and related data, including minutes of all relevant meetings. In addition, the independent auditors, PricewaterhouseCoopers Inc. reported on whether or not the summarised financial statements were derived from the regulatory financial statements. The Board of Trustees believes that all representations made to the independent auditors during their audit were valid and appropriate.

The report of the independent auditors is represented on page 63.

These financial statements:

- were approved by the Board of Trustees on 13 November 2017;
- are certified by them to the best of their knowledge and belief to be correct;
- fairly represent the net assets of the Fund at 30 June 2017 as well as the results of its activities for the period then ended; and
- are signed on behalf of the Board of Trustees by the Chairman and two trustees.

STATEMENT OF NET ASSETS AND FUNDS

AT 30 JUNE 2017

	Note	2017 R'000	2016 R'000
ASSETS			
Non-current assets		132 584 908	129 958 018
Plant and equipment	1	9 904	8 362
Investments	2	132 575 004	129 949 656
Current assets		759 094	2 033 946
Accounts receivable		214 024	1 481 602
Arrear contributions	5	531 731	537 517
Cash at bank		13 339	14 827
Total assets		133 344 002	131 991 964
FUNDS, SURPLUS AND LIABILITIES			
Funds and surplus account			
Accumulated funds		107 915 893	95 935 712
– Normal retirement		101 807 342	90 873 847
– Additional voluntary contribution scheme		580 080	520 577
– Performance bonus scheme		5 528 471	4 541 288
Total reserves		24 112 000	33 543 000
Reserve accounts			
Total funds and reserves		132 027 893	129 478 712
Non-current liabilities			
Unclaimed benefits		177 464	134 566
Current liabilities		1 138 645	2 378 686
Transfers payable		–	883
Benefits payable		1 019 382	991 691
Accounts payable	9	83 383	1 347 014
Accruals	8	35 880	39 098
Total funds and liabilities		133 344 002	131 991 964

STATEMENT OF CHANGES IN NET ASSETS AND FUNDS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Normal retirement R'000	Additional Voluntary Contribution Scheme R'000	Performance Bonus Scheme R'000	Accumulated funds R'000	Reserve accounts R'000	Total 2017 R'000	Total 2016 R'000
Contributions received and accrued		5 286 790	31 360	361 404	3 679 554	–	3 679 554	3 416 819
Net investment income	6	3 352 530	–	–	3 352 530	–	3 352 530	11 488 093
Allocated to unclaimed benefits		(22 250)	–	–	(22 250)	–	(22 250)	(17 125)
Other income	7	25 391	–	–	25 391	–	25 391	25 078
Less:								
Administration expenses		(196 502)	–	–	(196 502)	–	(196 502)	(174 829)
Net income before transfers and benefits		6 445 959	31 360	361 404	6 838 723	–	6 838 723	14 738 036
Transfers and benefits		(3 988 138)	(33 866)	(267 226)	(4 289 230)	–	(4 289 230)	(4 360 066)
Transfer from other funds		–	9 418	–	9 418	–	9 418	12 656
Transfer to other funds		(241 065)	–	–	(241 065)	–	(241 065)	(315 912)
Benefits	4	(3 747 073)	(43 284)	(267 226)	(4 057 583)	–	(4 057 583)	(4 056 810)
Net income after transfers and benefits		2 457 821	(2 506)	94 178	2 549 493	–	2 549 493	10 377 970
Funds and reserves								
Balance at the beginning of the year		90 873 847	520 577	4 541 288	95 935 712	33 543 000	129 478 712	119 081 375
Unclaimed benefit adjustments		–	–	–	–	–	–	–
Prior period adjustments		(312)	–	–	(312)	–	(312)	19 367
Transfers between reserve accounts		9 136 096	(2 873)	297 777	9 431 000	(9 431 000)	–	–
Investment return allocated								
Current members		(660 110)	64 882	595 228	–	–	–	–
Balance at the end of the year		101 807 342	580 080	5 528 471	107 915 893	24 112 000	132 027 893	129 478 712

NOTES TO THE SUMMARY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

PRINCIPAL ACCOUNTING POLICIES

The following are the principal accounting policies used by the Fund. These policies have been applied consistently to all years presented, unless otherwise specifically stated.

PURPOSE AND BASIS OF PREPARATION OF SUMMARY FINANCIAL STATEMENTS

The summary financial statements are prepared in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa, the rules of the Fund and the provisions of the Pension Funds Act.

The summary financial statements are prepared on the historical cost and going concern basis, except where specifically indicated in the accounting policies below:

PLANT AND EQUIPMENT

The Fund carries assets classified as plant and equipment at historical cost less accumulated depreciation and impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of changes in net assets and funds during the financial period in which they are incurred.

Assets are depreciated on a straight line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

The periods of depreciation used are as follows:

	Years
Motor vehicles	5
Furniture and fittings	5
Office equipment	5
Computer equipment	2-3

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of net assets and funds date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in statement of changes in net assets and funds on disposal.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Impairment losses are recognised.

Gains and losses on disposal of plant and equipment are determined by reference to their carrying amount and are taken into account in determining the net surplus or deficit.

Maintenance and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are charged against income.

FINANCIAL INSTRUMENTS

Measurement

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of any other entity. A financial asset or a financial liability is recognised when its contractual arrangements become binding and is derecognised when the contractual rights to the cash flows of the instrument expire or when such rights are transferred in a transaction in which substantially all risks and rewards of ownership of the instrument are transferred.

Financial instruments carried on the statement of net assets and funds, include cash and bank balances, investments, receivables and accounts payable.

Financial instruments are initially measured at cost as of trade date, which includes transaction costs.

Profit or loss on the sale/redemption of investments are recognised in the statement of changes in net assets and funds at transaction date.

Subsequent to initial recognition, these instruments are measured as set out below.

Investments

Investments are classified at fair value through the statement of changes in net assets and funds and are measured at fair value.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market other than those that the Fund intends to sell in the short term or that is designated as at fair value through the statement of changes in net assets and funds. Loans and receivables are measured at amortised cost.

Bills and bonds

Bills and bonds comprise investments in government or provincial administration, local authorities, participating employers, subsidiaries or holding companies and corporate bonds.

Listed bills and bonds

The fair value of listed bills and bonds traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statements of net assets and funds date.

Unlisted bills and bonds

A market yield is determined by using appropriate yields of existing bonds and bills that best fit the profile of the instrument being measured and based on the term to maturity of the instrument. Adjusting for credit risk, where appropriate, a discounted cash flow model is then applied, using the determined yield, in order to calculate the fair value.

Investment property

A property held for long-term yields or capital appreciation that is classified as investment property. Investment properties comprise freehold land and buildings and are carried at fair value.

Investment properties are reflected at valuation on the basis of open-market fair value at the statement of net assets and funds date. In the open-market valuation information cannot be reliably determined; the Fund uses alternative valuation method such as discounted cash flow projections or recent prices on active markets for transactions of similar nature. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

The open-market fair value is determined annually by independent professional valuers.

Changes in fair value are recorded by the Fund in the statement of changes in net assets and funds.

Equities

Equity instruments consist of equities with primary listing on the JSE, equities with secondary listing on the JSE, foreign listed equities and unlisted equities.

Equity instruments designated as fair value through the statement of changes in net assets and funds by the Fund are initially recognised at fair value on trade date.

Listed equities

Equity instruments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net assets and funds. The fair value of equity instruments with standard terms and conditions and traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statements of net assets and funds date.

Unlisted equities

If a quoted closing price is not available i.e. for unlisted instruments, the fair value is estimated using pricing models, or by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of equity instruments.

Private equity

Private equity investments are investments in equity capital that is not quoted on a public exchange. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines.

Preference shares

Listed preference shares

Preference shares are shares of a company's stock with dividends that are paid out to shareholders before ordinary stock dividends are issued. Preference shares have some of the characteristics of debt and equity. They behave like equity shares in that their prices can climb over time as they are traded, but are similar to debt because they pay investors fixed returns in the form of dividends.

Insurance policies

Non-linked insurance policies

Non-linked insurance policies with insurers are valued on the basis of the policyholder's retrospective contribution to assets (i.e. accumulation at the actual investment return achieved on gross premiums).

Linked or market-related policies

If the policy is unitised, the value is equal to the market value of the underlying units. Other linked or market-related policies are valued at the market value of the underlying assets for each policy, in line with the insurer's valuation practices.

Collective investment scheme

Investments in collective investment schemes are valued at fair value which is the quoted unit values, as derived by the collective investment scheme manager with reference to the rules of each particular collective investment scheme, multiplied by the number of units.

Exchange traded funds

Investments in exchange traded funds are valued at fair value which is the quoted unit values, as derived by the exchange traded fund scheme administrator with reference to the rules of each particular fund, multiplied by the number of units.

Derivative market instruments

Derivative market instruments consist of interest rate swaps.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from regulated exchange quoted market prices in active markets, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The Fund does not classify any derivatives as hedges in a hedging relationship.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidence by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) based on a valuation technique whose variables include only data from observable markets.

Swaps

Swaps are valued by means of discounted cash flow models, using the swap curve from a regulated exchange (BESA) to discount fixed and variable rate cash flows, as well as to calculate implied forward rates used to determine the floating interest rate amounts. The net present values of the fixed leg and variable leg of the swap are offset to calculate the fair value of the swap.

Investment in participating employers

Investments in participating employer(s) comprise debt securities (bills and bonds).

Hedge funds

Hedge fund investments are designated as fair value through the statement of changes in net assets and funds by the Fund and are initially recognised at fair value on trade date.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 30 JUNE 2017

Hedge fund investments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net assets and funds. Hedge funds tend to be listed funds. The fair value of hedge fund investments traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statement of net assets and funds date.

Accounts receivable

Accounts receivable are financial assets measured initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment.

Cash and cash equivalents

Cash and equivalents comprise cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are measured at fair value.

Accounts payable

Accounts payable are financial liabilities measured initially at fair value, net of transaction costs that are directly attributable to the liability and subsequently measured at amortised cost using the effective interest rate method.

Reserves

Reserve accounts comprise particular amounts of designated income and expenses as set out in the rules of the Fund and are recognised in the year in which such income and expenses accrue to the Fund.

Provisions, contingent liabilities, contingent assets and accruals

Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

Contingent liabilities

A contingent liability is not recognised in the statement of net assets and funds, but disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets

A contingent asset is not recognised in the statement of net assets and funds, but disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Accruals

Accruals are recognised when the Fund has earned income or incurred an expense as a result of a past event or constructive obligation and an inflow or outflow of economic benefits is certain and a reliable estimate of the amount can be made.

Contributions

Contributions are measured at the fair value of the consideration received or receivable.

Contributions are accrued and recognised as income in accordance with the rules of the Fund. Contributions received are applied to the Fund in advance for benefits due in terms of the rules, and to meet expenses of the Fund. The allocation of contributions towards expenses is governed by the rules of the Fund and actuarial recommendations.

Voluntary contributions are recognised when they are received from annual payments or accrued where monthly recurring payments are made.

Any contributions outstanding at the end of the reporting year are recognised as a current asset – contribution receivable. Any contributions received in advance at the end of the reporting year are recognised as a current liability – accounts payable.

Net investment income

Net investment income comprises dividends, interest, rentals, collective investment schemes – distribution, income from policies with insurance companies and adjustment to fair value.

Dividends

Dividend income is recognised in the statement of changes in net assets and funds when the right to receive payment is established – this is the last date to trade for equity securities. For financial assets designated at fair value through the statement of changes in net assets and funds, the dividend income forms part of the fair value adjustment.

Interest

Interest income in respect of financial assets held at amortised cost is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

Rentals

Rental income is accounted for in the statement of changes in net assets and funds on a straight-line basis over the period of the rental agreement. Property expenses are recognised in the statement of changes in net assets and funds under net investment income.

Collective investment schemes' distribution

Distribution from collective investment schemes are recognised when the right to receive payment is established.

Income from policies with insurance companies

Income from investment policies from insurance companies is included in the adjustment to the movement of the financial asset.

Interest on late payment of contributions and/or loans and receivables

Interest on late payment of contributions and/or loans and receivables is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

Adjustment to fair value

Gains or losses arising from changes in the fair value of financial assets at fair value through the statement of changes in net assets and funds are presented in the statement of changes in net assets and funds in the year in which they arise.

Expenses incurred in managing investments

Expenses in respect of the management of investments are recognised as the service is rendered to the Fund.

Benefits

Benefits payable and pensions are measured in terms of the Rules of the Fund.

Benefit payments and monthly pension payments are recognised as an expense when they are due and payable in terms of the Rules of the Fund. Any benefits not paid at the end of the reporting year are recognised as a current liability – benefits payable.

Unclaimed benefits

Benefits which remain outstanding for a period of 24 months or more are classified from benefits payable to unclaimed benefits. Interest is allocated to unclaimed benefits in terms of the Rules of the Fund.

Transfers to and from the Fund

Section 14 and 15B transfers to or from the Fund are recognised on the date of approval of the scheme/arrangement of transfer of business by the Financial Services Board, as contained in the approval certificate from the Registrar.

Individual transfers (Section 13A(5) transfers) are recognised on the earlier of receipt of the written notice of transfer (Recognition of Transfer) or receipt of the actual transfer value.

All the above transfers are measured at the values as per the section 14 application or the value of the transfer at effective date of transfer adjusted for investment return or late payment interest as guided by the application.

Any known transfer payable outstanding at the end of the reporting period is recognised as a current liability – transfers payable.

Administration expenses

Expenses incurred in the administration of the Fund are recognised in the statement of changes in net assets and funds in the reporting year to which they relate.

In the event that an expense has not been paid at the end of a reporting year the liability will be reflected in the accounts payable note. If the expense was paid in advance or overpayment occurred, the applicable amount will be disclosed under the accounts receivable note.

Related parties

In considering each possible related-party relationship, attention is directed to the substance of the relationship and not merely the legal form.

If there have been transactions between related parties, the Fund discloses the nature of the related party relationship as well as the following information for each related party relationship:

- the amount of the transactions;
- the amount of outstanding balances;
- their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in the settlement;

- details of guarantees given or received;
- provisions for doubtful debts related to the amount of outstanding balances; and
- the expense recognised during the year in respect of bad or doubtful debts due from related parties.

Accounting policies, changing in accounting estimates and errors

The Fund applies adjustments arising from changes in accounting policies and errors prospectively. The adjustment relating to a change in the accounting policy or error is therefore recognised in the current and future years affected by the change.

Impairment

Asset impairment tests are applied annually to assets whose measurement basis is historic cost or historic cost as adjusted for revaluations. An impairment loss is recognised when the asset's carrying value exceeds its recoverable amount. Impairment losses are initially adjusted against any applicable revaluation reserve then expensed in the statement of changes in net assets and funds.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less cost of disposal. Value in use is the present value of estimated future cash flows expected to flow from the continuing use of the asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset subsequently exceeds the carrying value resulting from the application of its accounting policy, an impairment reversal is recognised to that extent. The impairment reversal is applied in reverse order to the impairment loss.

Returns allocated to schemes

Interest allocated to the additional voluntary contribution and performance bonus schemes is at rates determined by the Board of the Fund on the advice of the actuary. No expenses are currently allocated to these schemes as the rules of the Fund do not currently cater for this.

Leases

Leases in which significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of changes in net assets and funds on a straight-line basis over the period of the lease.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 30 JUNE 2017

I. PLANT AND EQUIPMENT

I.1 Current year

	Computer equipment and software R'000	Office equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
Gross carrying amount					
Cost at beginning of year	10 985	–	3 526	308	14 819
Additions	2 394	–	960	–	3 354
Other movements	–	112	(112)	–	–
At end of year	13 379	112	4 374	308	18 173
Accumulated depreciation and impairment					
At beginning of year	(4 128)	–	(2 124)	(205)	(6 457)
Depreciation charges	(1 316)	(30)	(441)	(62)	(1 849)
Other movements	(33)	(47)	117	–	37
At end of year	(5 477)	(77)	(2 452)	(267)	(8 269)
Net carrying amount at end of year	7 902	35	1 922	41	9 904

I.2 Prior year

	Computer equipment and software R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
Gross carrying amount				
At beginning of period	5 987	3 228	308	9 523
Additions	6 092	480	–	6 572
Disposals	(1 094)	(182)	–	(1 276)
At end of year	10 985	3 526	308	14 819
Accumulated depreciation and impairment				
At beginning of period	(4 039)	(1 843)	(149)	(6 031)
Depreciation charges	(1 061)	(428)	(56)	(1 545)
Accumulated depreciation on disposals	972	147	–	1 119
At end of year	(4 128)	(2 124)	(205)	(6 457)
Net carrying amount at end of period	6 857	1 402	103	8 362

2. INVESTMENTS

2.1 Investment summary

	Note	Local R'000	Foreign R'000	Total 2017 R'000	Total 2016 R'000
Cash		3 268 087	1 220 250	4 488 337	7 085 402
Commodities		143 474	–	143 474	405 994
Debt instruments including Islamic debt instruments		22 839 346	21 827	22 861 173	26 146 215
Investment properties and owner-occupied properties*	3.3	121 500	–	121 500	115 000
Equities (including demutualisation shares)		59 760 004	20 307 935	80 067 939	76 101 230
Insurance policies		1 862 853	–	1 862 853	1 448 973
Collective investment schemes		131 257	16 497 489	16 628 746	13 461 612
Hedge funds		786 679	–	786 679	691 599
Private equity funds		2 135 658	1 147 009	3 282 667	2 066 055
Derivative market investments		(11 507)	–	(11 507)	(77 764)
Investment in participating employer(s)	3.2	2 343 143	–	2 343 143	2 505 340
Total		93 380 494	39 194 510	132 575 004	129 949 656

* The properties consist of an office block situation on Erf 21 Bryanston East. The land and buildings were revalued by an independent valuator. The valuation was performed as at 30 June 2017. The valuator used the following assumptions in determining the fair value of the land and buildings: Competent property management is in place, reasonably stable economic conditions and stable interest rates which influence real estate values. Assumption on lease expiry that the rental achievable may increase if the rent lagged the market or revert to market value if higher than market. The fair value was determined by reference to s13 of the JSE regulations regulating listed company property transactions as effective March 2013. If the land and buildings had been carried at the cost model, the value of the land and buildings would have been R57 612 668.

3.2 Investment in participating employer/s

	At beginning of year R'000	Repaid/ disposals R'000	At end of year R'000
Debt Instruments	2 505 340	(162 197)	2 343 143
Total	2 505 340	(162 197)	2 343 143

3.3 Investment properties and owner occupied investments

3.3.1 Current year

Instrument	At beginning of year R'000	Additions R'000	Fair value adjustments R'000	At end of year R'000
Investment properties				
Office complex – 24 Georgian Crescent East, Bryanston	115 000	10 416	(3 916)	121 500
Total of properties	115 000	10 416	(3 916)	121 500

3.3.2 Previous year

Investment properties

Office complex	111 000	1 720	2 280	115 000
Total of properties	111 000	1 720	2 280	115 000

NOTES TO THE SUMMARY FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 30 JUNE 2017

4. BENEFITS

4.1 Benefits – current members

	A	B	C	D	E	A+B+C-D-E
	At beginning of year	Benefits for current period	Return allocated	Payments	Transferred to unclaimed benefits	At end of year
	R'000	R'000	R'000	R'000	R'000	R'000
Monthly pensions	122 310	2 609 657	–	(2 688 008)	–	43 959
Lump sums on retirements						
– Pensions commuted	103 284	545 816	–	(553 294)	(2 122)	93 684
Lump sums before retirement						
– Death and disability benefits	97 669	90 940	–	(77 730)	(8 443)	102 436
– Withdrawal benefits	207 489	601 072	–	(518 426)	(24 135)	266 000
Divorce benefits	6 554	114 914	–	(113 269)	(136)	8 063
Instalment lump sums	454 385	39 372	55 592	(44 109)	–	505 240
Interest on late payment of benefits	–	220	–	(220)	–	–
Total	991 691	4 001 991	55 592	(3 995 056)	(34 836)	1 019 382
Benefits for current year (B)						4 001 991
Return allocated (C)						55 592
Statement of changes in net assets and funds						4 057 583

5. CONTRIBUTIONS

	At beginning of year R'000	Towards retirement R'000	Contributions received R'000	At end of year R'000
Member contributions received and accrued	81 131	1 141 515	(1 136 484)	86 162
Employer contributions received and accrued	151 111	2 145 275	(2 135 252)	161 134
Additional voluntary contributions – members	2 297	31 360	(30 897)	2 760
Performance bonus scheme member contributions	302 978	361 404	(382 707)	281 675
Total	537 517	3 679 554	(3 685 340)	531 731
Towards retirement				3 679 554
Towards reinsurance and expenses				–
Statement of changes in net assets and funds				3 679 554

6. NET INVESTMENT INCOME

	2017 R'000	2016 R'000
Income from investments	3 882 511	3 952 506
Dividends	2 336 634	2 348 489
Interest	1 541 839	1 595 568
Rentals	4 038	8 449
Profit on sale/redemption of investments	21 491 065	25 279 442
Loss on sale/redemption of investments	(18 007 186)	(18 495 474)
Fair value adjustment on investments	(3 577 712)	1 204 938
	3 788 678	11 941 412
Less: Expenses incurred in managing investments	(436 148)	(453 319)
Total	3 352 530	11 488 093

7. OTHER INCOME

	2017 R'000	2016 R'000
Securities lending fee	25 391	25 078
Total	25 391	25 078

8. ACCRUALS

	2017 R'000	2016 R'000
Leave pay accrual	4 302	3 460
Incentive bonus accrual (note a)	31 578	35 638
	35 880	39 098

Note a: Includes a long-term incentive accrual of R23 016 000 (2016: R22 592 000).

9. RISK MANAGEMENT POLICIES

Risk management framework

The Board of Fund has overall responsibility for the establishment and oversight of the Fund's risk management policies. The Board of Fund has established the Audit and Risk Committee, which is responsible for developing and monitoring the fund's risk management policies. The committee reports regularly to the Board of Fund on its activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

Solvency risk

Solvency risk is the risk that the investment returns on assets will not be sufficient to meet the Fund's contractual obligations to members.

Continuous monitoring by the Board and the Fund's actuary takes place to ensure that appropriate assets are held where the Fund's obligation to members are dependent upon the performance of specific portfolio assets and that a suitable match of assets exists for all other liabilities.

Credit risk

Credit risk refers to the risk of default on a fixed income security (whether nominal or inflation-linked) (on either the coupons or the redemption), the restructuring of any terms of the fixed income security (which is usually also considered a default), or the downgrading of the credit rating of a fixed income security. Any and all of these events will have a negative impact on the price of the bond, assuming all else remains the same, i.e. ignoring the impact of changes to yields on the highest rated bonds. Regulation 28 requires that the Board of Directors does not rely on credit ratings from rating agencies in isolation, thereby requiring the Board of Directors to ensure that their due

diligence investment process includes an assessment of credit risk.

Legal risk

Legal risk is the risk that the Fund will be exposed to contractual obligations which have not been provided for. Legal representatives of the Fund monitor the drafting of contracts to ensure that rights and obligations of all parties are clearly set out.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with monetary financial instrument will fluctuate in amount. In the case of a floating rate debt instrument, for example, such fluctuations result in a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value.

The Fund monitors its cash flows on a monthly basis.

Currency risk

Investors seek to reduce volatility of returns and dependence on the South African economy by investing a portion of their assets in foreign investments. The great majority of liabilities are, however, denominated in Rands. Investing in foreign investments therefore introduces currency-mismatch risk, in that the currency invested in could weaken against the Rand. The long-term expectation is, however, for the Rand to weaken against the major investment currencies (US Dollar, Euro, Sterling, Yen, etc.), because inflation in South Africa is likely to be higher than that of most developed countries. The volatility risk associated with foreign investments is reduced when only a limited portion of a portfolio's assets is invested offshore as is currently required in terms of Regulation 28 and the South African Reserve Bank requirements.

Liquidity risk

Liquidity risk involves not having liquid assets to meet liabilities as they fall due, or being unable to realise assets on a reasonable basis when cash is required.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 30 JUNE 2017

Market risk/price risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices or market interest rates.

Investments

Investments in equities are valued at fair value and therefore susceptible to market fluctuations. Investments are managed with the aim of maximising the Fund's returns while limiting risk to acceptable levels within the framework of statutory requirements.

Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of specific portfolios of assets and that a suitable match of assets exists for all non-market related liabilities.

Interest rate risk

This risk is specific to bond and money market instruments and is the risk of exposure to under-performance and short-term reduction in capital value (on a mark-to-market basis) if the portfolio is invested in long-dated assets at a time when market interest rates rise. For example, in relation to bond instruments, as interest rates rise, the price of a fixed rate bond will fall, and vice versa. This risk may be assessed by analysing the duration structure of the portfolios.

Asset failure

The risk of asset failure is reduced by ensuring that portfolios invested in are diversified between investments in different companies in the case of equity investments, in different issues in the case of bond investments and deposits with different institutions in the case of cash deposits. That is, concentration risk is minimised. The risk is further reduced because the asset managers will invest in well-researched companies and in bonds with high credit ratings. Government bonds are underwritten by the government and are therefore considered to have negligible risk of failure. The risk of default is also captured in the additional returns offered by the asset.

Market timing

Market timing is an investment technique where the investor seeks to improve long-term returns by correctly anticipating major moves in asset class prices. Empirical evidence suggests that in practice market timing more often reduces than increases returns as human nature is such that it is very difficult for a typical investor to sell assets when markets are at their peak and sentiment is positive, or to buy assets when markets are depressed. The Board manages the risk associated with market timing by delegating these decisions to the asset managers.

Tactical asset allocation

Tactical asset allocation is a portfolio management technique applied by professional fund managers where they move assets between asset classes when their research suggests that the short-term prospects for one asset class are better than for another. Like most portfolio management techniques, tactical asset allocation introduces an opportunity to add value to portfolios when decisions are correct, but also introduces a chance of destroying value when decisions are incorrect. In the long term, tactical asset allocation by competent asset managers can be expected to enhance returns, but in the short term the possibility exists that a degree of additional risk can be introduced.

Asset manager risk

The risk exists that a particular asset manager employed by the Fund could underperform its benchmark, resulting in poor relative returns. This manager-specific risk is reduced by investing with more than one manager. The contract that exists between the Fund and each individual investment manager appointed to manage a portion of the Fund's assets is typically in the form of an investment management agreement. This document sets out the terms and conditions of the agreement that will exist between the Fund and the investment manager. An important part of this mandate is the section that sets out the specific limitations and conditions under which the funds will be managed by the appointed investment manager. Examples of such limitations and restrictions are the use of derivatives for unauthorised or inappropriate purposes, investment in asset classes not permitted by the mandate, cash exposure limits or credit ratings limits. Breaches of mandate will be examined at least quarterly and reported in a suitable format, such as in a compliance report.

Legislative environment risk

Changes in the legislative environment can impact investment decisions, for example, the introduction or removal of tax on different sources of income or capital gains, changes in the level of permitted offshore investment and any introduction of requirements to invest in specific investments such as targeted development investments. The implications of any changes in legislation should be reviewed and, where necessary, appropriate changes should be sought in respect of portfolios in which the Fund's assets are invested. Further to the risks identified and explained above, Regulation 28 specifically addresses the importance for the Board to understand the Fund's exposure to credit risk, country risk and operational risk.

AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2017

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS TO THE BOARD OF FUND OF ESKOM PENSION AND PROVIDENT FUND

Opinion

The summary financial statements of Eskom Pension and Provident Fund, set out on pages 52 to 62, which comprise the statement of funds and net assets as at 30 June 2017, and the statement of changes in net assets and funds for the year then ended, and related notes, are derived from the audited regulatory financial statements of Eskom Pension and Provident Fund for the year ended 30 June 2017.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited regulatory financial statements, on the basis as described on page 54.

Summary financial statements

The summary financial statements do not contain all the disclosures required by the Regulatory Reporting Requirements for Retirement Funds in South Africa. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited regulatory financial statements and the auditor's report thereon. The summary financial statements and the audited regulatory financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited regulatory financial statements.

The audited regulatory financial statements and our report thereon

We expressed an unmodified audit opinion on the audited regulatory financial statements in our report dated 11 November 2017.

Board of Fund's responsibility for the summary financial statements

The Board of Fund is responsible for the preparation of the summary financial statements in accordance with the basis described on page 51.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited regulatory financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

The logo for PricewaterhouseCoopers Inc. is written in a stylized, cursive script font.

PricewaterhouseCoopers Inc.

Director: Clinton Mitchelson
Registered Auditor
Johannesburg

18 May 2018

REPORT OF THE VALUATOR

FINANCIAL YEAR: 30 JUNE 2017

Particulars of the financial condition of the Fund as at 30 June 2017

An annual actuarial valuation was carried out as at 30 June 2017. In respect of this valuation, I can comment as follows:

1. The fair value of the net assets of the Fund after deduction of current liabilities and any liabilities arising from the pledging, hypothecation or other encumbering of the assets of the Fund – R132 017 million.
2. The actuarial value of the net assets for the purposes of comparison with the accrued liabilities of the Fund – R131 736 million.
3. The actuarial present value of promised retirement benefits – R87 930 million vested, and R0 non-vested.
4. Contingency reserve account balances – R24 112 million.
5. The projected unit method was adopted for the valuation, which is unchanged from the method used at the last valuation. The contingency reserves comprise a solvency reserve calculated as the estimated additional amount required, to the extent that sufficient assets are available, to ensure that the liabilities and assets can be matched on a substantially risk-free basis, a contribution reserve equal to the expected present value of the future contribution shortfall for the current membership, and a pension increase affordability reserve equal to the excess (if any) of the notional pensioner account over the pensioner liability and solvency reserve.
6. The key financial assumptions are that investment returns will exceed salary inflation by 4.80% per annum (3.80% at the previous valuation) before allowing for an age-related promotional scale. Future pension increases were assumed to be equal to the assumed consumer price inflation rate of 7.40% per annum (6.70% at the previous valuation). The yield used to calculate the solvency reserve was equal to the assumed yield on index-linked bonds at the valuation date, adjusted for real salary increases and asset management fees. The approach is unchanged from the previous valuation.

7. Members contribute at 7.3% of pensionable salaries and the employers contribute 13.5%. There is a contribution surplus relative to the fixed contribution rate payable in terms of the rules. At the valuation date this surplus amounted to 0.60% of pensionable salaries (3.47% shortfall at the previous statutory valuation).

8. In my opinion the Fund was in a sound financial condition as at 30 June 2017 for the purposes of the Act.

Prepared by me:



David K Little
VALUATOR

Fellow of the Actuarial Society of South Africa

In my capacity as the valuator of the Fund and as Associate of Towers Watson Propriety Limited, a Willis Watson company.

7 November 2017

GLOSSARY OF TERMS



GLOSSARY OF TERMS

B-BBEE	Broad-based black economic empowerment
CAIA	Chartered Alternative Investment Analyst
CFA	Chartered Financial Analyst
CPI	Consumer Price Index
CRISA	Code for Responsible Investing in South Africa
Defined Benefit (DB)	A defined benefit pension plan is a type of pension plan in which an employer/sponsor promises a specified pension payment, lump sum on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.
Defined Contribution (DC)	A defined contribution pension plan is a type of retirement plan in which the employer, employee or both make contributions on a regular basis. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts plus any investment earnings on the money in the account.
DIP	Development Investments Policy
DR	Disaster recovery
EPPF	Eskom Pensions and Provident Fund
ERM	Enterprise-wide Risk Management
ERMP	Enterprise-wide Risk Management Policy
ESG	Environmental, social and governance
FSB	Financial Services Board
FY	Financial year
FY2017	Financial year 2017
GCE	Group Chief Executive
GOVI	Government Bond Index
HR	Human Resources
IT	Information technology
IPS	Investment Policy Statement
JSE	Johannesburg Stock Exchange
King III	King III Code of Governance Reporting Principles 2009
PFA	Pension Funds Adjudicator
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SARS	South African Revenue Services
SLA	Service Level Agreement
SME	Small- and medium-sized enterprises
The Act	Pension Funds Act, No 24 of 1956
TOM	Target Operating Model
UNPRI	United Nations Principles for Responsible Investment

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

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BENEFIT ADMINISTRATOR

Self-administered

EXTERNAL AUDITORS

PricewaterhouseCoopers Incorporated
Private Bag X36, Sunninghill, 2157

CO-SOURCED INTERNAL AUDITORS

SekelaXabiso
Ernst & Young Advisory Services

ACTUARIES

Towers Watson Proprietary Limited
Private Bag X30, Rondebosch, 7701

EXTERNAL ASSET MANAGERS

Domestic	International
• Aeon Investment Management Proprietary Limited	• Aberdeen Asset Management
• Afena Capital Proprietary Limited	• Allianz Global Investors GmbH
• Aluwani Capital Partners Proprietary Limited	• Ashmore Group PLC
• Argon Asset Management Proprietary Limited	• Black Rock Investment Management (UK) Limited
• Benguela Global Fund Managers Proprietary Limited	• Drakens Capital (Pty) Limited
• Blue Ink Investments Proprietary Limited	• Duet Asset Management Limited
• Catalyst Fund Managers SA Proprietary Limited	• Morgan Stanley Investment Management Limited
• Cachalia Capital Proprietary Limited	• Sanlam-Centre Asset Management LLC
• Coronation Fund Managers Limited	• SEI Investments (Europe) Limited
• First Avenue Investment Management Proprietary Limited	• Veritas Asset Management LLP
• Investec Asset Management Proprietary Limited	
• Kagiso Asset Management Proprietary Limited	
• Legacy Africa Fund Managers Proprietary Limited	
• Matrix Fund Managers Proprietary Limited	
• Mazi Capital Proprietary Limited	
• Meago Trading Proprietary Limited	
• Mergence Investment Managers Proprietary Limited	
• Mianzo Asset Management Proprietary Limited	
• Oasis Asset Management Proprietary Limited	
• Old Mutual Investment Group Proprietary Limited	
• Pan-African Asset Management Proprietary Limited	
• Perpetua Investment Management Proprietary Limited	
• Stanlib Asset Management Proprietary Limited	
• Sygnia Asset Management Proprietary Limited	







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