



Protecting and advancing *The interests of members*

MEMBER GUIDE TO THE EPPF 2022

Fund emerges sound in a stormy climate

The message from Chief Executive Officer Shafeeq Abrahams provides a sharp snapshot of the Fund's performance in another year where global events dictated our fortunes.

'The EPPF's C.A.R.E values (customercentric focus, accountability, resourcefulness and excellence) are what drives each member of our team. We show up everyday with the intention of doing better than the day before. When we don't get it right, we find out why quickly and we fix it. We don't just want our members to know that we value them. Our members must feel that we value them.'

'Despite the asset value dropping from a peak of about R184bn in December 2021 to about R170bn at financial year-end, the Fund managed a one-year return of 4.44% (2021: 17.63%). This is 2.78% below the one-year CPI target of 7.42% but 0.89% above the strategic asset allocation benchmark of 3.52%. The three-year investment return of 7.72% was 0.76% below the benchmark of CPI + 4.5% (2021: 0.53% below).'

'With assets under management valued at about R170bn at 30 June 2022, compared to R166bn at 30 June 2021, the Fund remained financially

sound. Its funding ratio at 30 June 2022 was 139% (2021: 145%).'

'The current market upheaval is unavoidable and is a reality faced by every economy and investor. The Fund has concentrated on enhancing our risk management capabilities and ensuring the necessary resilience and diversification of our investment portfolio, both by asset class and geography, to make the best of an unfortunate situation.'

'Following the 2021 actuarial valuation, the Board approved an increase of 5% for all pensioners effective from 1 January 2022, with top-up increases of up to 3.7% for those whose increases had been below CPI in the period since January 2001. This maintained the trend of inflation-aligned increases every year for two decades. More than R230m was paid out in bonuses, down from R319m in 2020 when a special COVID-19 relief payment was included.'

Our operating environment

By the end of the review period, economic and social activity had normalised in most countries following COVID-19 lockdowns and this had a positive effect on global growth. However, the conflict between Russia and Ukraine counteracted this and saw countries' globalist visions replaced with nationalist perspectives. Europe, in particular, focused on domestic production of energy rather than relying on Russia.

South Africa is largely shielded from the Russia/Ukraine conflict but, because the Eurozone is such a significant trading partner, the slowdown in Europe has had a negative impact on our domestic growth. This has been somewhat off-set by a surge in commodity prices and coal prices.

Low growth and high unemployment remain key challenges in South Africa.

In the first half of 2022, central banks in most regions hiked interest rates to curb rising inflation and applied other tools to tighten monetary conditions. A fear of global stagflation – stagnant growth with high inflation – took hold. In this context, the calibration of the speed and size of interest rate hikes is crucial because they will further slow growth in the interests of curbing inflation. World economic growth projections for 2022 were revised downward, as was South Africa's.

At work and at attention

Chairman Caroline Henry says the new Board has settled in and is alive to member concerns.

'The current Board has come a long way since its inception in June 2020, at the height of the pandemic. At the time, we were 14 "virtual" strangers assessing our strengths and getting to grips with the challenges facing us, but committed to becoming a cohesive entity focused on advancing Fund governance, strategy, and technological and societal transformation. We have settled into an effective structure, confident in our collective ability to fulfil our mandate.'

'Updated regulations, the potential needs of members, the evolving employer landscape, and ensuring the Fund's flexibility and relevance, all demand that our rules are kept current. We continue to make rule changes which create more choice while ensuring that the financial health of the Fund is not compromised. In our decision making we benchmark our offerings against others in the market, striving to ensure ours are at least on a par if not better off than alternatives available.'

'Eskom's unbundling plans were front of mind in 2022. We are very conscious of the concerns of our members in this regard. We consulted with Eskom throughout the year on progress and will remain very measured in our response to the restructuring to ensure service continuity. That said, we see the development as an opportunity for the Fund to cater more flexibly to our members and in the longer term to broaden our horizons.'

RETURN ON INVESTMENT

Despite destabilising effects of historic events, the Fund reported a positive return on investment and a slight growth in assets, and is in a strong financial position. We continue to pursue a three-dimensional approach to investing that balances risk, return and social impact in the belief that the sustainability of the Fund and the prosperity of our broader society are totally intertwined.

Changing rules for a changing world

AMENDMENTS APPROVED: GREATER PORTABILITY

In the review period, the Financial Sector Conduct Authority (FSCA) approved rule changes that the Fund had submitted the previous year to allow deferred pensioners under the age of 55 years to withdraw their benefits or transfer them to other approved funds. Towards the end of the review period, the Board approved a further rule amendment to allow deferred pensioners over the age of 55 years and under retirement age to withdraw their deferred benefit from the Fund or transfer it to another approved fund. Cumulatively, the rule amendments allow all deferred pensioners under the retirement age of 65 years to withdraw or transfer their deferred benefits from the Fund. This is in line with default regulations that encourage easy portability.

UNDER CONSULTATION: PENSION INCREASES

The Fund carried out a pension increase review which compared our established method for calculating pension increases against other methods in use. An analysis of 20 years' data indicated that the Fund's

established method yielded increases in line with headline inflation. The review concluded that such increases were fair and above the market in many instances. However, the review team recommended that EPPF should improve the provision on the minimum pension increase from an absolute rate of 2% to an inflation-linked rate in order to protect members from sharp, but usually short-lived, increases in headline inflation. The proposal, which would involve a rule change and has still to be discussed with members, is for the minimum pension increase to be set at 60% of headline inflation.

LOOKING TO THE FUTURE

The Fund welcomes the proposed "two-pot" retirement system, as announced by National Treasury. This will encourage retirement savings in the long run through a retirement pot, while assisting members to address short-term financial needs by accessing funds in a savings pot. However, the implementation of the two-pot system, particularly for defined benefit funds, is complex and requires careful consideration. The Fund will continue to participate in industry discussions and awaits further clarity from regulatory authorities.

Investing for developmental impact

INVESTMENT MANAGEMENT

The Fund has adopted a three-dimensional investment approach that balances risk, return and impact. Our Developmental Impact Strategy directs us to contribute to the socio-economic transformation of our country by investing where we sustain jobs, stimulate the economy, and advance groups that have been economically disadvantaged – black people, women and young people. We also make targeted investments in some sectors prioritised in South Africa's National Development Plan and the United Nations Sustainable Development Goals.

In 2022, we tracked the impact of eight companies in which the Fund has invested directly and additional investments made through 53 fund managers.

BLACK ECONOMIC EMPOWERMENT

In 2021, in companies where the Fund was directly invested there was 100% B-BBEE compliance, up 17% on the previous year. On average, 64% of management positions were held by black people – 5% more than a year earlier – and 21% of board positions. Where we invested through fund managers, the average B-BBEE rating of companies was level 3.

JOB CREATION

In companies where EPPF has invested directly, 6 054 jobs were supported. Of these, 52% were held by black employees and 28% by young people. Where our investment was through funds, relevant companies provided 48 063 jobs. The rates of black employment

and youth employment were 72% and 19% respectively.


ECONOMIC STIMULUS

In terms of boosting the economy, companies in our combined portfolios spent R9.26bn on local procurement, R3.40bn on salaries and contributed taxes worth R1.03bn.

GENDER EQUALITY

Women held about four out of 10 jobs in companies where the Fund was directly invested and 33% in companies where our investment was through fund managers. Women also held about four out of 10 management jobs in companies where we invested directly, with little year-on-year change.

Here's a taste of the achievements of companies in which we are directly invested:

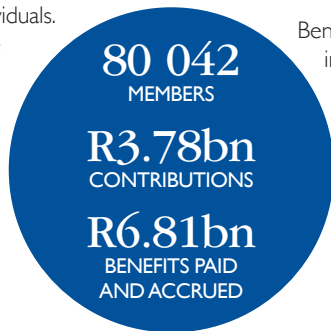
EPPF investment	Companies and funds	Indicators of impact in 2021
 <p>AFFORDABLE HOUSING R550m</p>	<p>Trust for Urban Housing Finance (TUHF) HIS Fund II</p>	<p>Jobs supported: 3 624</p> <p>Local procurement: R41m</p> <p>Housing units delivered: 9 976</p> <p>Housing units occupied/leased: 8 941</p>

To find out about the impact of our selected companies in the areas of renewable energy, healthcare, public transport and other sectors see pages 45 and 46 of the full Integrated Report.

Membership, contributions and benefits

In 2022, the Fund had a total of 80 042 members, with slightly more pensioners and other beneficiaries than in-service or active members. Active membership continued its five-year downward trend to end the year at just over 39 200 individuals. This decline of 3.0% was due mainly to Eskom's reduced staff complement. Year-on-year pensioner numbers declined by 0.8%, after several years of slight increases.

Contributions totalling R3.78bn were received



during the review period a reduction of 2% relative to 2021. The rates of contribution from members and employers are fixed at 7.3% and 13.5% of the member's salary for members and employers respectively.

Benefits paid and accrued in 2022 totalled R6.81bn, an increase of 14% on the amount paid in the previous year. The amount disbursed in total benefits has increased annually for several years.

WHAT DOES THIS ALL MEAN?

Due to the maturity of the Fund and the reduction in the number of contributing members, benefits paid have outstripped contributions received for a number of years. In 2022, the net cash outflow (excluding income and expenses) rose to R3.0bn, compared to R2.5bn in 2021. However, the healthy cash income generated from assets has covered this gap. In the medium to long term, if there is no growth in active members and contributions, the Fund's ability to make new investments will diminish and growth in assets under management (AuM) will be constrained.

Eligibility audit nears completion

For several years, the Fund has been engaged in establishing the eligibility for membership of many thousands of members who joined the Fund prior to 2017. The purpose was to establish whether all members fulfilled the membership criteria in terms of the rules of the Fund.

The review of member records at Eskom Holdings has now been completed. In cases where there was no evidence of eligibility on record, Eskom invited individuals to submit evidence. The Fund will confirm the membership of individuals who can demonstrate they were permanent employees. Those who remain ineligible will have the option of participating in a court application for a declaratory order regularising their position. Alternatively, they may request the Fund to reverse their purported membership together with applicable contributions.

The membership audit has also been completed at Eskom Rotek Industries (ERI). An application to the court for a declaratory order on unresolved membership will also be instituted for ERI.

Repayment order against Brian Molefe

Former Eskom CEO Brian Molefe was admitted to the EPPF as a member in September 2015, on the basis of information submitted by Eskom, and paid out about R10m by the Fund when he retired early from Eskom.

A court challenge was subsequently brought by Solidarity, the Democratic Alliance and the Economic Freedom Fighters who contended Mr Molefe was ineligible for an EPPF pension because he had not been a permanent employee of Eskom. The High Court ruled that Mr Molefe was ineligible to be a member of the Fund and directed him to refund the amount paid to him in benefits.

Fund Chairman Caroline Henry summed up the latest developments in her message: "During the year, following court delays exacerbated by COVID, the High Court ordered that former Eskom head Brian Molefe, having unlawfully benefited from the pension scheme, must repay the EPPF the money he received from the Fund plus interest accrued from 31 October 2019. The Fund will, in this process of recovery, off-set a portion of this amount against funds transferred by Mr Molefe's previous retirement savings to the Fund. The Fund has repaid Eskom the R30m it received from the employer to fund Mr Molefe's early retirement. Immediately following the order, Mr Molefe filed an appeal which was subsequently dismissed."

WE LISTEN



Continuity and sustained performance over time are in the DNA of a retirement fund. But stability need not – and should not – be the enemy of innovation in service to our members. For the past few years, the Fund has focused on a technology-led transformation of our administrative and communication processes. Our pensioners, in-service members and employers have begun to reap the benefits of this – although they have also shared the frustration of some of our teething problems.

It was thanks to member concerns that the Fund embarked on its first review of our method of calculating annual pension increases. While the review confirmed the fitness of our existing approach, it highlighted the fact that increases over the past 20 years had in some instances been below CPI. Corrective action in the form of top-up increases was instituted in January 2022.

Another member-motivated change was our approach to African investments beyond South Africa. Historically,

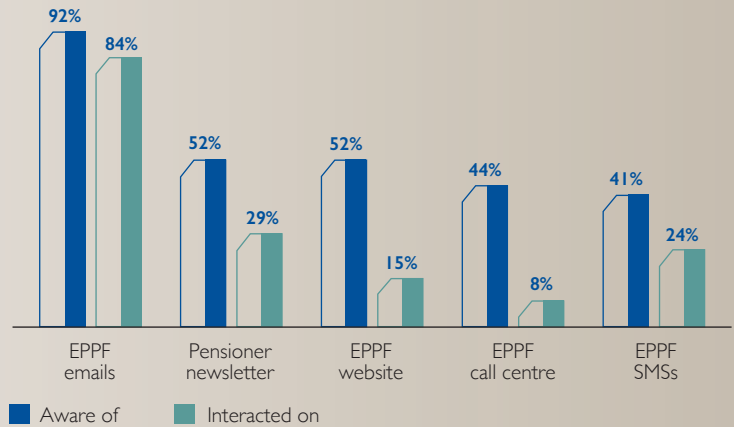
these assets had been underperforming and the past two years have seen a rethink on this front.

These developments illustrate how the "soft" activities of member engagement and the "hard" business decisions of the Fund are linked. During the past year we increased the frequency of our written communication and engaged with more members than in the past, thanks to digital technology.

Despite destabilising effects of historic events – a global pandemic and conflict in eastern Europe – the Fund reported a positive return on investment and a slight growth in assets, and is in a strong financial position. We continue to pursue a three-dimensional approach to investing that balances risk, return and social impact in the belief that the sustainability of the Fund and the prosperity of our broader society are totally intertwined.

Digital hesitancy

Enhancing our digital communication channels and incorporating transactional features have been a major IT focus in the last two years. A dipstick survey of members in 2022, showed that awareness of these new communication and service channels was growing. But – so far – only a minority of members uses them. The trusty email remains a firm favourite (see graph) along with the newsletter and website. Just over one-third of surveyed members knew about the member portal and mobile app, while about a quarter were aware of brochures, walk-in centres and WhatsApp chat. Members tend to rely on communication platforms that demand little active participation.



“WITH ASSETS UNDER MANAGEMENT VALUED AT ABOUT R170BN AT 30 JUNE 2022, COMPARED TO R166BN AT 30 JUNE 2021, THE FUND REMAINS FINANCIALLY SOUND.”



GETTING MORE DONE WITH LESS

The Fund built on cost-containment measures achieved in recent years by:

- Continuing to implement the IT cost-reduction strategy.
- Negotiating contracts with suppliers to achieve greater savings.
- Monitoring expenditure against the budget and managing variance strictly.
- Insourcing of investment management activities in a way that improves operational efficiency without increasing risks.

FUND ADMINISTRATION

ESKOM PENSION AND PROVIDENT FUND

Fund registration number 12/8/564

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The 2022 Integrated Report of the Eskom Pension and Provident Fund is available on www.eppf.co.za and an electronic copy may be requested by mailing info@eppf.co.za.