

# EPPF Annual Performance Review: FY2019/20

Invested in our  
*members*



- **Local Inflation and Interest rates:** inflation is expected to accelerate higher in July 2020 to above 3.0%, from 2.2% in June 2020, which is still well below the un-official target of 4.5% of the SARB.
  - The South African Reserve Bank (SARB) cut the short-dated interest rate by an unprecedented magnitude of over 2.50% in a year (2020) and is expected to cut the rate further to provide financial relief to indebted households and firms.
- **Local Equities:** The reversal of the bad performance we saw in February and March 2020, started in April and May, and continued in June, almost completely wiping off the negative performance of about -30%.
- **Local Currency:** The Rand, like other Emerging market currencies, ended the month significantly stronger, trading below the \$/R17.50 at \$/R17.35, from levels around \$/R18.50 in April 2020.
- **Global Markets:** Developed market equities had a positive trend in the second quarter of 2020, led by the US, as countries come out of lockdown restrictions. Emerging market equities were not left behind, also registering strong positive total returns, driven by their recovering currencies.

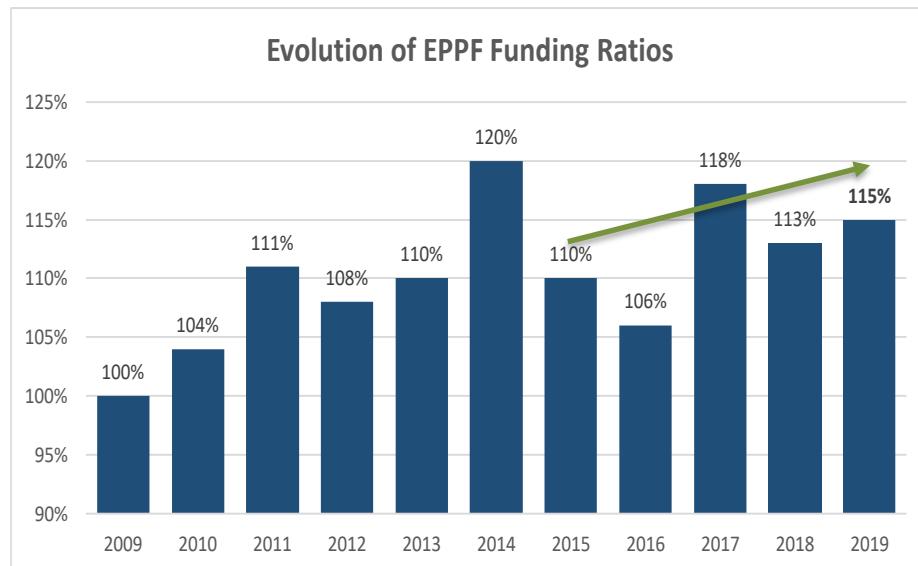


# The financial health of the Fund

Funding ratio has grown over time and stands strong against its DB peers

## Funding Ratio

The ratio of assets to liabilities (including contingency reserves) is known as the funding ratio. EPPF's **funding ratio is one of the highest in South Africa and worldwide.**



The Fund outperformed its liabilities on a mark-to-market basis. The Funds' number one risk, funding level, was well-managed on a mark-to-market basis.

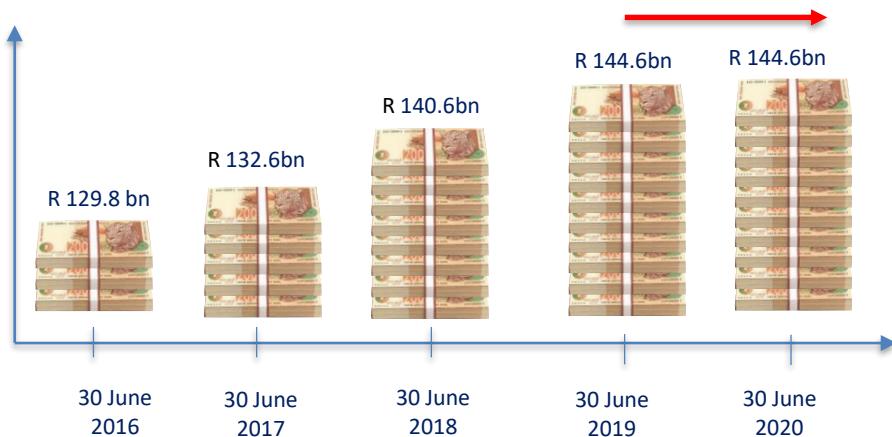
Invested in our  
members



# The financial health of the Fund

## Investment performance plays a pivotal role in financial health

### Assets Under Management



The flat AUM of R 144.6bn at FY2020 (June year end) conceals the enormous **volatility** that saw the AUM reaching highs of R150bn and the lows of R114bn.

19 February 2020: R 150.1bn

23 March 2020: R 114.0bn

Invested in our  
members



## Returns affected by COVID-19 and the global low-return environment

Asset Class	Benchmark	1 Year	3 Years	5 Years	10 Years
<b>ZAR</b>					
SA Cash	SteFi	6.7%	7.1%	7.2%	6.5%
Nominal Bonds	ALBI	2.7%	8.0%	7.5%	8.3%
Inflation Linked Bonds	CILI	-1.8%	1.4%	2.5%	6.2%
SA Equity	SWIX	-5.9%	2.1%	2.1%	10.6%
Capped SWIX	SWIX	-9.9%	-0.5%	0.3%	
SA Listed Property	SAPY	-37.8%	-17.3%	-8.4%	5.1%
All Property	ALPI	-37.8%	-18.7%	-10.3%	4.2%
EPPF Equity Benchmark	SWIX - SAPY	-8.9%	0.9%	1.3%	10.3%
Global Equity	MSCI ACWI	26.4%	17.3%	14.9%	19.1%
Emerging Equity	MSCI EM	19.6%	12.5%	10.9%	12.5%
Africa Equity	MSCI EFM Africa Ex ZA	10.4%	5.7%	3.2%	8.1%
Absolute Target	CPI + 4.5%	6.82%	8.25%	9.01%	9.50%
Strategic Benchmark	SAA	0.83%	4.63%	5.05%	11.35%

Domestic assets performed below the Absolute Target of CPI+4.5%

International assets exceeded CPI+4.5% target in Rand terms.

The Rand weakened and so international assets provided an effective Rand-hedge

Invested in our  
members



### INVESTMENT PERFORMANCE (AGAINST STRATEGIC BENCHMARK AND ABSOLUTE TARGET) AS AT 30 JUNE 2020

	1-year	3 years	5 years	10 years
Fund Return	0.88%	3.61%	4.62%	10.19%
SAA Benchmark	0.87%	4.64%	5.06%	11.35%
Excess/(Shortfall)	0.01%	-0.98%	-0.42%	-1.04%

	1-year	3 years	5 years	10 years
Fund Return	0.88%	3.61%	4.62%	10.19%
Absolute Target	2.22%	8.25%	9.01%	9.50%
Surplus/Deficit	-1.31%	-4.29%	-4.03%	0.63%

### INVESTMENT PERFORMANCE (AGAINST STRATEGIC BENCHMARK AND ABSOLUTE TARGET) AS AT 30 JUNE 2019

	1-year	3 years	5 years	10 years
Fund Return	3.10%	4.25%	6.00%	11.56%
SAA Benchmark	3.88%	5.43%	6.96%	12.93%
Excess/(Shortfall)	-0.75%	-1.12%	-0.90%	-1.21%

	1-year	3 years	5 years	10 years
Fund Return	3.10%	4.25%	6.00%	11.56%
Absolute Target	4.50%	9.21%	9.52%	9.69%
Surplus/Deficit	-1.34%	-4.54%	-3.21%	1.70%

- FY 2020 (ended June) performance is lower in absolute terms for all periods when compared to FY 2019 mostly due to the impact of COVID-19...
- ...however, the FY 2020 shortfall to Strategic Asset Allocation (SAA) benchmark performance has narrowed when compared to the FY2019 shortfall in all periods (pointing to improved relative performance).

Invested in our  
members



# Financial year in context

## Before COVID-19

- 1-year returns to mid-Financial Year 2020 (31 Dec 2019) rebounded to 10.11% and exceeded CPI + 4.5%.
- Assets exceeded R151bn by 17 Feb 2020.
- The gap between the Fund returns and the SAA benchmark returns reduced.
- Healthy funded status with mark-to-market funding ratio of 150% in Dec 2019.
- Expedited implementation of SAA, including allocation to China A Equities.

## After Market Crash

- International assets fared better in Rand terms than domestic assets. It paid to have implemented SAA quickly through use of equity-linked notes.
- 1-year absolute investment returns to March 2020 were deeply negative.
- Assets plummeted to R114bn by 23 March 2020
- However, Fund fared better than the strategic benchmark.
- Fund remained healthy, with the mark-to-market funding ratio remaining at safe levels well above 100% (i.e. in the green zone).

Invested in our  
members

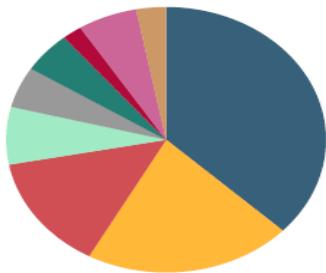


# Asset Allocation

## End of June 2020

### Asset Allocation: Strategic vs Current Asset Allocation

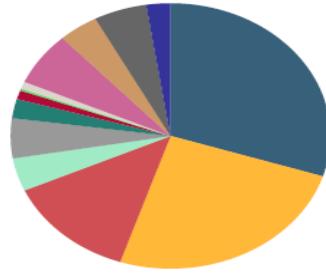
Strategic Asset Allocation	
	Weight (%)
Total Plan	100.00
Local Assets	65.00
Equity	37.00
ILB	14.00
Property	7.00
Nominal Bonds	5.00
Local Cash	2.00
International Assets	35.00
Global Equity	21.00
Emerging Market Equity	6.00
Africa Equity	5.00
CHINA A	3.00
Global Bonds	0.00
Global Cash	0.00



### Allocation by Weight (%)

Equity (37%)	Global Equity (21%)
ILB (14%)	Property (7%)
Nominal Bonds (5%)	Africa Equity (5%)
Local Cash (2%)	Global Cash (0%)
Global Bonds (0%)	Emerging Market Equity (6%)
CHINA A (3%)	

Implemented Portfolio	
	Weight (%)
Total Plan	100.00
Local Assets	62.89
Listed Equity	29.94
Private Equity	2.44
ILB	13.17
Multi-Asset Class <sup>1</sup>	6.50
Nominal Bonds	4.86
Property	4.01
Local Cash	1.09
Hedge Funds	0.08
International Assets	37.11
Global Equity	25.18
Emerging Market Equity	5.34
China A	4.02
Africa Equity	2.35
Global Cash	0.22



### Portfolio by Weight (%)

Listed Equity (29.94%)	Global Equity (25.10%)
ILB (13.17%)	Property (4.01%)
Nominal Bonds (4.86%)	Africa Equity (2.35%)
Local Cash (1.09%)	Global Cash (0.22%)
Hedge Funds (0.08%)	Multi-Asset Class (6.50%)
China A (4.02%)	Emerging Market Equity (5.34%)
Private Equity (2.35%)	

Invested in our  
members



<sup>1</sup> Mainly Asset Allocation Overlay (AAO); Development Impact Fund (DIF)