

EPPF INVESTMENT PERFORMANCE UPDATE (Q2, 2023)

FUND PERFORMANCE TO 30 JUNE 2023

THE FUND'S ASSETS

Although economic growth has been volatile and highly sensitive to new shocks, the South African economy grew by 0.4%, narrowly missing a technical recession. Energy and logistics constraints remain binding, but the country's economy is expected to grow, with growth forecasts averaging 0.4% in 2023 and 1.0% in 2024. As of 30 June 2023, the Fund's assets are valued at R189.737 billion, up from R184.241 billion a quarter ago. The funding ratio, which is the ratio of assets divided by liabilities, remains healthy at approximately 173% on a mark-to-mark basis as of 30 June 2023. This means that the Fund's assets are more than sufficient to cover all of its liabilities. A strong funding ratio, above 100%, indicates a sustainable fund.

THE FUND'S RETURNS

The inflationary environment slowed in the second quarter of 2023, with the June Consumer Price Index (CPI) print falling to 5.4% year-on-year- within the South African Reserve Bank's inflation target. However, the Fund's returns fared relatively well compared to its short-term respective CPI-linked benchmark return for one year and three years. For the long term (five years and 10 years), the returns relatively underperformed the benchmark. Over a 10-year period to June 2023, which is most appropriate for a pension fund with long-dated liabilities, the Fund's return of 9.64% marginally underperformed the absolute 10-year target of CPI + 4.5%, 9.66% on a rolling basis- a small but notable difference.

Locally, across 12 months to June 2023, Nominal bonds were the best performing asset class relative to benchmark, up 0.5%, followed by Cash and Inflation Linked bonds which were relatively up 0.2% and 0.1%, respectively. Domestic Listed Equities

Invested in our
members



and Listed Property underperformed their benchmarks by -0.4 % and -0.6%, respectively.

Internationally, the Global Emerging Markets (GEM) Listed equities asset class was the best performing asset class relative to benchmark, up 5.9%, followed by Africa bonds, China A equities and Africa Listed equities, which were relatively up 4.3%, 3.4%, 1.1%, respectively. DM Listed equities and International Property underperformed their benchmarks by -1.1% and -10.0% respectively.

THE FUND'S TOP EQUITY AND BOND POSITIONS (30 JUNE 2023)

Equity Holdings	Asset Class	Weight
1 NASPERS LIMITED	Equity	3.20%
2 PROSUS	Equity	2.18%
3 Firststrand Limited	Equity	1.89%
4 MTN Group	Equity	1.79%
5 STANDARD BANK GROUP LIMITED	Equity	1.67%
6 ANGLO AMERICAN PLC	Equity	1.40%
7 BRITISH AMERICAN TOBACCO PLC	Equity	1.37%
8 COMPAGNIE FINANCIERE RICHMONT	Equity	1.31%
9 Absa Group Ltd	Equity	1.03%
10 NEPI Rockcastle PLC	Equity	0.95%
Total		16.78%

Bond Holdings	Asset Class	Weight
1 I2050 2.5% 311250	Inflation Linked Bond	4.77%
2 I2046 2.5% 310346	Inflation Linked Bond	3.77%
3 I2038 2.25% 310138	Inflation Linked Bond	1.69%
4 R2048 8.75% 280248	Nominal Bond	0.83%
5 R210 2.60% 310328	Inflation Linked Bond	0.56%
6 R2037 8.50% 310137	Nominal Bond	0.50%
7 R2030 8.00% 310130	Nominal Bond	0.44%
8 R2035 8.875% 280235	Nominal Bond	0.41%
9 R2044 8.75% 310144	Nominal Bond	0.41%
10 R202 3.45% 071233	Inflation Linked Bond	0.39%

THE FUND'S APPOINTMENTS AND UNLISTED INVESTMENTS FOR QUARTER 2, CALENDAR YEAR 2023

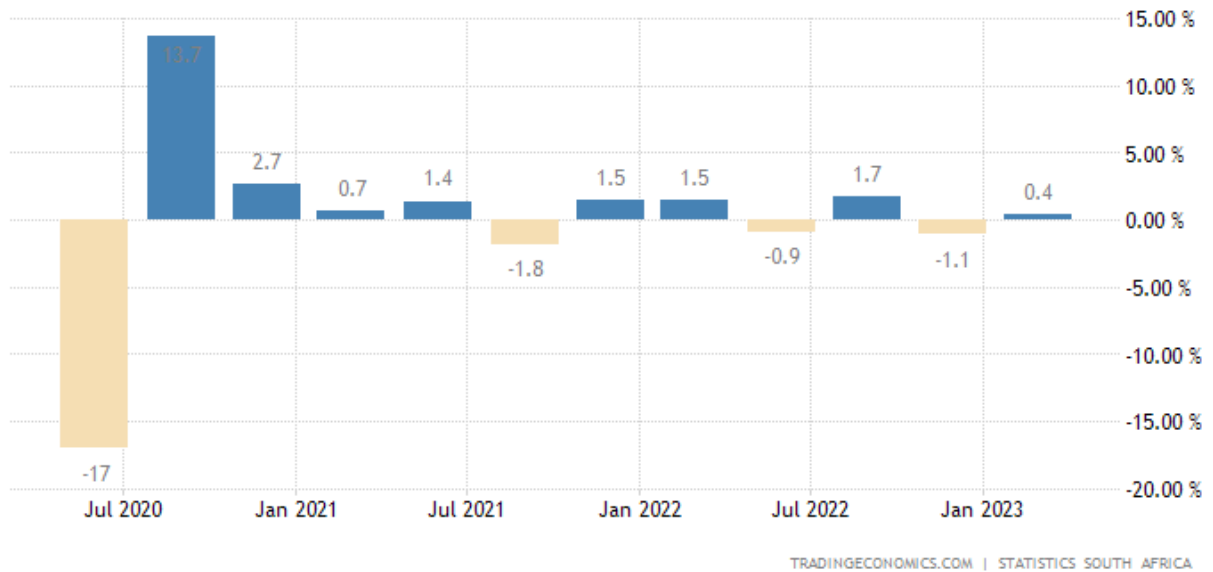
The Fund approved another transaction into Alpinvest as part of the existing offshore private equity programme. The investment would be split towards the Alpinvest Atom Fund and the co-investment vehicle for no fee and no carried interest across deals in the portfolio. Alpinvest is an existing EPPF general partner.

There were no manager appointments in quarter 2, but the terminated Stanlib listed property portfolio was reallocated to Catalyst and the Fund cash requirements. Additionally, the Fund approved the Sustainability Investment and Climate Change Policy.

ECONOMIC GROWTH

The South African economy rose by 0.4% in the 1st quarter of 2023, following a 1.1% decline in the 4th quarter of 2022. Eight industries recorded growth in 1Q23 with Manufacturing contributing the most at 0.2 percentage points to GDP growth. Agriculture and the energy sector pulled down the economy in 2Q23, with Agriculture contracting the most at -0.4 percentage points to GDP growth. Exports increased by 4.1%, imports by 4.4%, and government spending by 1.2%. Net exports contributed 1.1% points decline to total growth, while household consumption increased by 0.4%. 0.2% year-on-year growth was realised in the first quarter. The SARB has revised GDP growth for 2023 to 0.4%, from 0.3%.

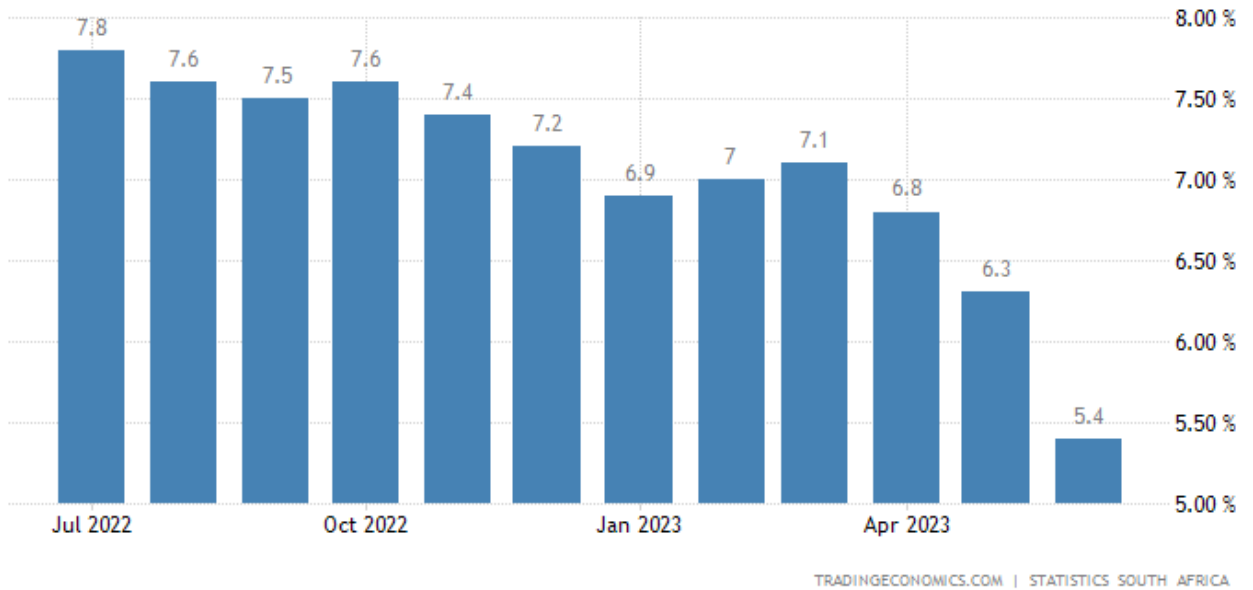
South African Annual GDP Rate (%)



INFLATION AND INTEREST RATES

Headline inflation dropped to 5.4% year-on-year in June, falling within the South African Reserve Bank inflation target range of 3% - 6%. May and April inflation decreased to 6.3% and 6.8% respectively, with the CPI rising by 0.2% in May and 0.4% in April. The South African Reserve Bank held interest rate in July 2023, following a 50 basis point increase in May 2023. The repo is now at 8.25%, keeping borrowing costs at their highest since 2009. There is a growing likelihood of increased inflation. In anticipation of lower core goods and food inflation in the short-term, headline inflation is expected to average 6.0%, revised from 6.2%. The headline forecast for 2024 and 2025 are 5.0% and 4.5% respectively, as food and fuel prices are expected to ease. The South African Reserve Bank is expected to increase interest rates during the course of the year.

South African Inflation Rate (%)



EQUITIES AND CURRENCY

South African Capped SWIX equities

The Capped SWIX gained 1.1% in the 2nd quarter, following a 2.3% loss in 1st quarter. The market was characterised by high volatility due to intense loadshedding and ongoing geopolitical concerns, which also saw the Rand weaken during May. Resources were equally volatile but fell sharply as the Rand strengthened in June. Financials were the largest contributor to the 1.1% gain, with resources being the largest detractor.



Source: Bloomberg

South African Rand against the US Dollar'

The Rand has underperformed most of its emerging market peers in the second quarter, with persistent loadshedding and the grey listing by the FATF, keeping investors wary and exerting downward risks on the Rand. The Rand blew out amid an alleged Russian arms deal and remained weak after the announcement of diplomatic immunity for Russian delegates attending the BRICS summit in August. The announcement has put the country at risk of sanctions. The Rand's depreciation by 5% (year to date) shows high volatility in response to risk on and off episodes. The Rand is expected to trade at around R18.52 in the 3rd quarter.



Source: Bloomberg

GLOBAL MARKETS

South Africa continues to stay on the grey list for not fully complying with international standards around the prevention of money laundering, terrorist financing and proliferation financing by the FATF.

The US economy continues to show resilience despite the rate hikes. US inflation has moderated to 3% in June 2023, the lowest record since March 2021, but still lands above the Federal Reserve's target.

There are risks to global growth because inflation could remain high or even rise,

China's recovery could slow, and sovereign debt distress spreads to other economies. China's growth performance is expected to remain relatively modest, with some benefit to commodity prices.

Although global headline inflation remains moderate, food price inflation is high and oil markets are tight. Ongoing inflation concerns, rising rates and slowing growth have dampened the outlook for the UK's growth prospects. Following a surprise 50 basis point interest rate hike in June, the Bank of England has also joined other banks, warning of the necessity of future rate hikes. High inflation, which shows no signs of decreasing in some major economies, suggests that interest rates are likely to remain high, resulting in tighter global financial conditions which raise the risk profile of states in need of foreign capital.

CONCLUSION

Tactically, the Fund still looks to increase its offshore exposure gradually as the Rand is expected to weaken and South African assets are expected to underperform global assets due to tightening financial conditions and declining appetite for riskier assets.

By changing the Fund's strategic asset allocation to incorporate the new offshore limit, the Fund has now finalised its annual robust asset and liability modelling exercise, which focuses on the long term, in sympathy with the Fund's liability duration, to inform its decision making. The implementation of the outcome will take place in the 2022/23 financial year.

Appendix I

Table 1: the current year's asset allocation and investment returns.

Table 1	Current Year					
	Base Date: 30 June 2023	SAA	AA Actual	Market Value R'm	Return 2022 R'm	Return 2022 % [net of fees]
Cash	2.0%	1.2%	2,218	263	6.9%	6.8%
Nominal Bonds	5.0%	5.7%	10,791	834	8.8%	8.2%
Inflation Linked Bonds	15.5%	13.1%	24,814	-679	-2.3%	-2.5%
Listed Property	6.5%	5.7%	10,781	1029	8.3%	8.9%
Domestic Listed Equities	37.0%	39.9%	75,772	9119	13.0%	13.4%
DM Listed Equities	19.0%	22.7%	43,130	11864	32.9%	34.4%
International Property	2.0%	0.0%	0	0	0.0%	11.1%
GEM Listed Equities	6.0%	5.7%	10,868	2760	24.2%	17.3%
Africa Listed Equities	4.0%	2.5%	4,663	833	11.0%	9.8%
Africa Bonds	0.0%	0.9%	1,652	0	28.9%	23.6%
China A Equities	3.0%	2.7%	5,048	-242	-4.3%	-7.4%
Total	100.0%	100.0%	189,737	25,780	13.8%	13.9%

Table 2: the current year's benchmark of the various asset classes the Fund invests in and the outperformance (alpha) of the Fund in those asset classes.

Table 2	Benchmark	Alpha			
		1 year	3 years	5 years	10 years
Base Date: 30 June 2023					
Cash	STeFi Composite Index	0.2%	0.1%	0.1%	0.1%
Nominal Bonds	BESA All Bond Index	0.5%	0.8%	0.5%	0.5%
Inflation Linked Bonds	EPPF Inflation Linked Bond*	0.1%	0.1%	-1.3%	-1.0%
Listed Property	All Property (ALPI)	-0.6%	0.5%	1.3%	1.0%

Domestic Listed Equities	Capped SWIX Equity excl ALPI	-0.4%	-0.6%	-0.6%	-1.4%
DM Listed Equities	MSCI ACWI	-1.1%	-0.8%	-0.3%	0.1%
International Property	FTSE EPRA/NAREIT	-10.0%	-	-	-
GEM Listed Equities	MSCI EM	5.9%	1.1%	1.4%	-
Africa Listed Equities	MSCI EFM Africa ex ZA	1.1%	1.6%	-1.6%	-
Africa Bonds	Standard Bank Africa Sovereign Bond Total Return Index	4.3%	-	-	-
China A Equities	MSCI China A Onshore	3.4%	0.4%	-	-
Total		-0.1%	-0.7%	-0.2%	-0.5%

Table 3: the previous year's asset allocation and investment returns.

Table 3	Previous Year					
	Base Date: 30 Jun 2023	SAA	AA Actual	Market Value Rand M	Return in Rand M	Return % [net of fees]
Cash	2.0%	1.6%	2,764	147	4.3%	4.2%
Nominal Bonds	5.0%	6.7%	11,364	166	2.0%	1.3%
Inflation Linked Bonds	15.5%	14.8%	25,158	3,528	13.4%	13.3%
Listed Property	6.5%	6.1%	10,394	62	0.6%	-0.1%
Domestic Listed Equities	37.0%	40.1%	68,164	4,943	7.9%	7.7%
DM Listed Equities	19.0%	19.6%	33,359	494	-1.5%	-3.3%
International Property	2.0%	0.0%	-	-	0.0%	0.0%
GEM Listed Equities	6.0%	4.5%	7,727	1,708	-16.8%	-14.3%
Africa Bonds	0.0%	0.8%	1,282	-	0.0%	0.0%

Africa Listed Equities	4.0%	2.6%	4,473	300	4.4%	-3.0%
China A Equities	3.0%	3.1%	5,281	- 260	-5.1%	-1.3%
Total	100.0%	100.0%	169,966	6,682	4.1%	3.6%

Table 4: the current year's benchmark of the various asset classes the Fund invests in and the outperformance (alpha) of the Fund in those asset classes.

Table 4		Alpha			
Base Date: 30 Jun 2023	Benchmark	1 year	3 years	5 years	10 years
Cash	STeFi Composite Index	0.1%	0.1%	0.1%	0.1%
Nominal Bonds	BESA All Bond Index	0.7%	0.6%	0.5%	0.6%
Inflation Linked Bonds	EPPF Inflation Linked Bond*	0.1%	-2.0%	-1.4%	-1.1%
Listed Property	All Property (ALPI)	0.7%	1.6%	1.4%	0.6%
Domestic Listed Equities	Capped SWIX Equity excl ALPI	0.1%	-0.6%	-1.4%	-1.6%
DM Listed Equities	MSCI ACWI	1.9%	-0.7%	-0.2%	0.5%
International Property	FTSE EPRA/NAREIT	-	-	-	-
GEM Listed Equities	MSCI EM	-2.9%	-0.7%	-	-
Africa Bonds	MSCI EFM Africa ex ZA	7.6%	-0.7%	-0.5%	-
Africa Listed Equities	Standard Bank Africa Sovereign Bond Total Return Index	-	-	-	-
China A Equities	MSCI China A Onshore	-3.8%	-	-	-
Total		0.5%	-0.5%	-0.6%	-0.9%

AA: Asset Allocation

SAA: Strategic Asset Allocation

Rand M: South African Rand Million

B/mark Perf.: Benchmark Performance

DM: Developed Markets

GEM: Global Emerging Markets v2

EFM: Emerging and Frontier Markets

Ex ZA: Excluding South Africa