

## **EPPF INVESTMENT PERFORMANCE UPDATE (Q2, 2021)**

### **FUND PERFORMANCE TO 30 JUNE 2021**

#### **THE FUND'S ASSETS**

The assets of the Fund, on 30 June 2021, have grown to R166.5 billion from R144.6 billion a year ago, which is a noticeable improvement from the lowest point of R114 billion on 23 March 2020, due to COVID-19 market sell-off. The funding ratio, which is the ratio of assets divided by liabilities of the Fund, remains healthy and above 100% (135% as at 30 June 2020), meaning that the Fund's assets are more than sufficient to cover all the Fund's liabilities, including contingency reserves, as they fall due. A strong funding ratio well above 100% indicates a sustainable Fund.

#### **THE FUND'S RETURNS**

The Fund's return of 17.6% was materially above Consumer Price Index ("CPI") (4.9%) as well as the long-term absolute target of CPI+4.5% (9.4%). This was driven by the rebound of the major asset classes of the market. The Fund's absolute 3-year performance of 7.8% per annum to 30 June 2021 was below the 3-year CPI+4.5% target of 8.3% because the 3-year Fund return still carries the scars of the COVID-19 market crash as well as the domestic equity market sell-off that took place between August and October 2018.

Over the year, the Fund's domestic equity underperformed its benchmark by 1.2%, domestic nominal bonds outperformed by 1.5%, domestic inflation linked bonds



outperformed by 0.2%, hedge funds outperformed by 7.2% and domestic listed property outperformed by 1.5%.

International developed markets equity underperformed by 2.9%, emerging markets equity outperformed by 0.8%, Africa ex South Africa equity underperformed by 3.5% and China equity outperformed by 1.9%.

When we consider the long-term perspective, we note that the Fund's 10-year return of 10.5% is higher than the corresponding absolute target (CPI+4.5%) of 9.5%. Its risk management is also sound, with a maximum drawdown of -13.0% versus the maximum drawdown of -15.6% for the strategic benchmark.

#### THE FUND'S TOP POSITIONS (30 JUNE 2021)

	Equity Holdings	Asset Class	Weight
1	Naspers	Equity	4.45%
2	Anglo American	Equity	2.16%
3	FirstRand Limited	Equity	1.56%
4	MTN Group	Equity	1.44%
5	British American Tobacco Plc	Equity	1.26%
6	Impala Platinum	Equity	1.25%
7	Standard Bank Group	Equity	1.08%
8	Prosus	Equity	1.02%
9	NEPI Rockcastle Plc	Property	1.01%
10	Growthpoint Properties	Property	0.99%
	<b>Total</b>		<b>16.22%</b>

Bond Holdings		Asset Class	Weight
1	I2050 2.5% 31/12/2050	Inflation Linked Bond	3.92%
2	I2046 2.5% 31/03/2046	Inflation Linked Bond	3.92%
3	I2038 2.25% 31/01/2038	Inflation Linked Bond	1.53%
4	R2048 8.75% 28/02/2048	Nominal Bond	1.22%
5	R202 3.45% 07/12/2033	Inflation Linked Bond	0.84%
<b>Total</b>			<b>11.43%</b>

## THE FUND'S APPOINTMENTS AND UNLISTED INVESTMENTS QUARTER 2, CALENDAR YEAR 2021

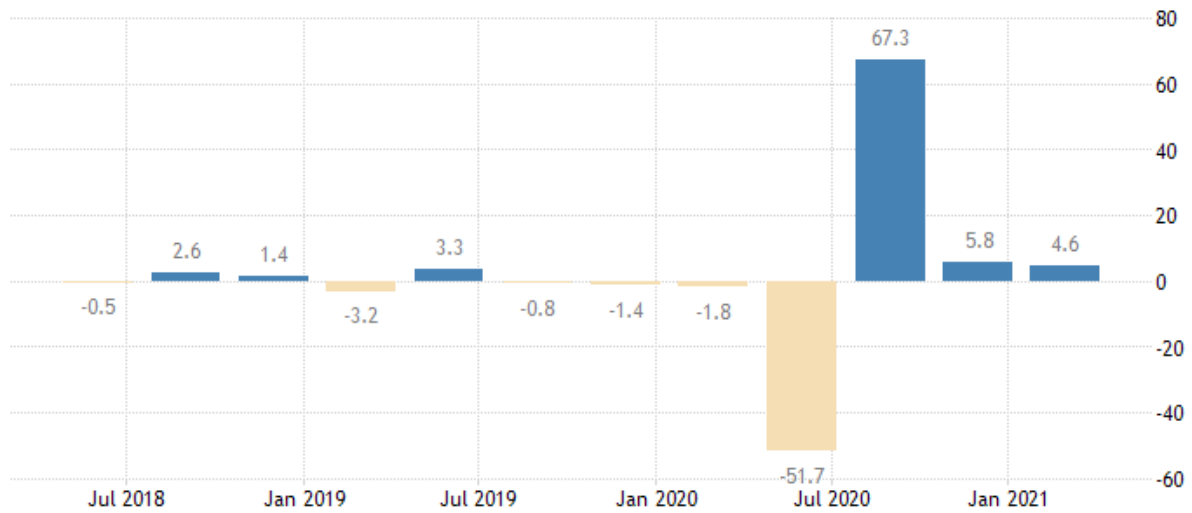
The Fund allocated two domestic equity passive tracker mandates to Sanlam Investment Management and to Old Mutual Investment Group during the second quarter of calendar year 2021. These commitments were made during the quarter to 30 June 2021, but the actual investments effected during the month of July.

Furthermore, the Fund made a commitment to the Futuregrowth Community Property Fund as part of the impact investments portfolio sleeve of the private markets sub-asset class.

## ECONOMIC GROWTH

The South African economy grew by an annualised 4.6% in the first quarter of 2021 following 5.8% in the fourth quarter of 2020 and by 67.3% in the third quarter. This follows four quarters of negative growth and a record low 51.7% contraction in the second quarter of 2020. The biggest driver of growth remains the easing of lockdown restrictions since the peak of lockdowns in March 2020.

### South African GDP growth rate (%)

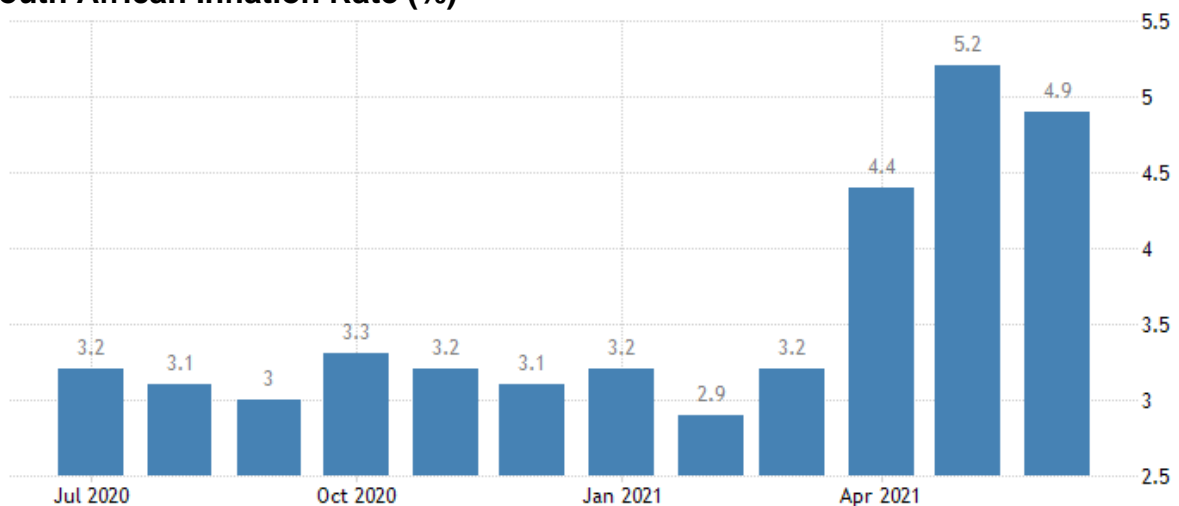


SOURCE: TRADINGECONOMICS.COM | STATISTICS SOUTH AFRICA

## INFLATION AND INTEREST RATES

Inflation in June 2021 was 4.9%, from a twelve-month high of 5.2% in May 2021 and 4.4% in April 2021. The last two prints are well within the 3% to 6% inflation band but are above the midpoint of 4.5%. Rising inflation is a global phenomenon as global demand returns to outstrip supply. The repo rate remains very accommodative and unchanged at 3.5% but the question, in this and other markets, is when will it be appropriate to tighten, so that inflation doesn't overshoot targets?

### South African Inflation Rate (%)



SOURCE: TRADINGECONOMICS.COM | STATISTICS SOUTH AFRICA

## LOCAL EQUITIES AND CURRENCY

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

The Rand, like other emerging market currencies reliant on commodities, is strong due to strong commodity prices. The Rand/US dollar exchange rate weakened to around 19.00 in March/April 2020 but had strengthened to 14.59 on 30 June 2021.

## **GLOBAL MARKETS**

The tone of the US central bank has changed to hawkish in the second quarter of 2021. This means that the central bank expects the low interest rate and a generally very accommodative environment to come to an end due to higher expected inflation. The short-term impact of the change in tone has been moderated risk appetite and increased volatility (risk).

## **CONCLUSION**

The assets of the Fund are expected to continue to grow in the third quarter of calendar year 2021 but with caution, as will the theme of global and local interest rate tightening due to inflationary pressures.

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

## Appendix I

Table 1	Current Year					
	Base Date: 30 June 2021	SAA	AA Actual	Market Value Rand M	Return in Rand M	Return % [net of fees]
Cash	2.0%	5.8%	9 661	377	3.9%	4.0%
Nominal Bonds	5.0%	7.0%	11 607	1 759	15.2%	13.7%
Inflation Linked Bonds	14.0%	13.3%	22 177	3 670	16.5%	16.4%
Listed Property	7.0%	6.2%	10 389	2 825	27.2%	25.6%
Domestic Listed Equities	37.0%	37.3%	62 044	16 224	26.1%	27.9%
DM Listed Equities	21.0%	18.8%	31 295	3 358	10.7%	14.4%
GEM Listed Equities	6.0%	5.5%	9 132	1 495	16.4%	15.8%
Africa Listed Equities	5.0%	2.0%	3 348	-36	-1.1%	2.7%
China A Equities	3.0%	4.1%	6 819	1 177	17.3%	15.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>166 473</b>	<b>30 849</b>	<b>17.6%</b>	<b>20.2%</b>

Table 2	Benchmark	Alpha			
		1 year	3 years	5 years	10 years
Base Date: 30 June 2021					
Cash	STeFi Composite Index	-0.1%	0.0%	0.0%	0.1%
Nominal Bonds	BESA All Bond Index	1.3%	0.4%	0.5%	0.5%
Inflation Linked Bonds	EPPF Liability Driven Index	0.2%	-2.2%	-1.5%	-0.8%
Listed Property	All Property Index (ALPI)	1.3%	2.1%	1.5%	1.3%
Domestic Listed Equities	Capped SWIX Equity excl. ALPI	-1.4%	-0.9%	-1.8%	-1.4%
DM Listed Equities	MSCI All Country World Index	-3.2%	-0.7%	-0.8%	-0.7%
GEM Listed Equities	MSCI Emerging Market Index	0.5%	1.3%		
Africa Listed Equities	MSCI EFM Africa ex ZA	-3.7%	-5.4%	-4.2%	
China A Equities	MSCI China A Onshore	1.8%			
<b>Total</b>		<b>-2.4%</b>			

Table 3	Previous Year					
	Base Date: 30 June 2020	SAA	AA Actual	Market Value Rand M	Return in Rand M	Return % [net of fees]
Cash	2.0%	3.3%	4 714	326	6.9%	6.9%
Nominal Bonds	5.0%	5.7%	8 304	211	2.5%	2.8%
Inflation Linked Bonds	14.0%	13.2%	19 011	-1 669	-8.8%	-3.0%
Listed Property	7.0%	4.2%	6 018	-2 322	-38.6%	-40.2%
Domestic Listed Equities	37.0%	35.4%	51 126	-4 749	-9.3%	-8.9%
DM Listed Equities	21.0%	25.4%	36 671	9 153	25.0%	25.8%
GEM Listed Equities	6.0%	5.5%	7 903	1 528	19.3%	19.0%
Africa Listed Equities	5.0%	3.4%	4 977	57	1.1%	7.0%
China A Equities	3.0%	4.0%	5 808	1 198	20.6%	17.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>144 531</b>	<b>3 734</b>	<b>1.5%</b>	<b>0.0%</b>

Table 4	Benchmark	Alpha			
		1 year	3 years	5 years	10 years
Base Date: 30 June 2020					
Cash	STeFi Composite Index	0.1%	0.1%	0.1%	0.2%
Nominal Bonds	BESA All Bond Index	-0.3%	0.2%	0.3%	0.5%
Inflation Linked Bonds	EPPF Liability Driven Index	-6.0%	-2.4%	-1.5%	-0.6%
Listed Property	All Property Index (ALPI)	2.8%	1.6%	0.0%	0.0%
Domestic Listed Equities	Capped SWIX Equity excl. ALPI	-0.5%	-2.1%	0.0%	0.0%
DM Listed Equities	MSCI All Country World Index	-0.7%	0.1%	0.0%	0.0%
GEM Listed Equities	MSCI Emerging Market Index	0.3%			
Africa Listed Equities	MSCI EFM Africa ex ZA	-5.5%	-2.0%	-5.5%	
China A Equities	MSCI China A Onshore	-3.7%			
<b>Total</b>		<b>0.6%</b>			

AA: Asset Allocation

SAA: Strategic Asset Allocation

Rand M: South African Rand million

B/mark Perf.: Benchmark Performance

DM: Developed Markets

GEM: Global Emerging Markets

EFM: Emerging and Frontier Markets

Ex ZA: Excluding South Africa