

EPPF INVESTMENT PERFORMANCE UPDATE (Q4, 2022)

FUND PERFORMANCE TO 31 DECEMBER 2022

THE FUND'S ASSETS

The fourth quarter was characterised by a flipflop in risk asset prices driven first by the hopes of a Fed slowdown in the size of the hikes, a soft landing and then the downside surprise in US CPI inflation. Expectations of an earlier reopening in China also lent additional support to risk assets; However, political developments around “Farmgate” have introduced SA-specific risks towards the end of 2022. As of 31 December 2022, the Fund’s assets are valued at R177.7 billion, up from R166.6 billion a quarter ago. The funding ratio, which is the ratio of assets divided by liabilities remains healthy and above 100%, approximately 151% (on a mark-to-mark basis) as of 31 December 2022, meaning that the Fund’s assets are more than sufficient to cover all the Fund’s liabilities. A strong funding ratio well above 100% indicates a sustainable Fund.

THE FUND'S RETURNS

Albeit at a slower pace, the inflationary environment persisted second half of 2022 with an upside surprise recorded in the October CPI print. Thus, Fund’s returns fared poorly when compared to their respective CPI-linked benchmark return for the 1-year, 3-year, 5-year and 10-year periods. Headline CPI surprise higher at 7.6% year-on-year in October 2022 but moderated further to 7.4% and 7.2% in November and December, respectively. Over a 10-year period to December 2022, which is most appropriate for a pension fund with long-dated liabilities, the Fund’s 10-year return of 8.94% marginally underperformed the absolute 10-year target of CPI + 4.5% (9.7% on a rolling basis).

In the past 12 months to December 2022, domestic Nominal bonds was the best performing asset class relative to benchmark, up 0.4%, followed by Inflation Linked bonds which is relatively up 0.3%. Listed property performed in line with the

Invested in our
members



benchmark, while Cash and Domestic Listed equities underperformed their respective benchmarks by 0.6% and 0.1%, respectively.

Internationally, Africa listed equities excluding SA was the best performing asset class relative to benchmark, up 13.3%, followed by China's onshore equities which is relatively up 3.6%, and emerging markets equities relatively up 0.9%. International property and Africa bonds performed in line with their benchmark while International developed listed equities underperformed its benchmark by 1.7%.

THE FUND'S TOP EQUITY AND BOND POSITIONS (31 December 2022)

Equity Holdings		Asset Class	Weight
1	NASPERS LIMITED-N SHS	Equity	3.16%
2	PROSUS	Equity	2.23%
3	ANGLO AMERICAN PLC	Equity	1.98%
4	FIRSTRAND LIMITED	Equity	1.88%
5	MTN GROUP LIMITED	Equity	1.73%
6	STANDARD BANK GROUP LIMITED	Equity	1.63%
7	BRITISH AMERICAN TOBACCO PLC	Equity	1.52%
8	ABSA GROUP LIMITED	Equity	1.30%
9	IMPALA PLATINUM HOLDINGS LTD	Equity	1.25%
10	NEPI ROCKCASTLE N.V	Equity	1.12%
Total			17.79%

Bond Holdings		Asset Class	Weight
1	I2050 2.5% 311250	Inflation Linked Bond	5.17%
2	I2046 2.5% 310346	Inflation Linked Bond	4.02%
3	I2038 2.25% 310138	Inflation Linked Bond	1.71%
4	R2048 8.75% 280248	Nominal Bond	1.10%
5	R2037 8.50% 310137	Nominal Bond	0.68%
6	R210 2.60% 310328	Inflation Linked Bond	0.59%
7	R2044 8.75% 310144	Nominal Bond	0.58%
8	R2032 8.25% 310332	Nominal Bond	0.47%
9	R2030 8.00% 310130	Nominal Bond	0.46%
10	I2033 1.8750% 280233	Inflation Linked Bond	0.43%
Total			15.22%

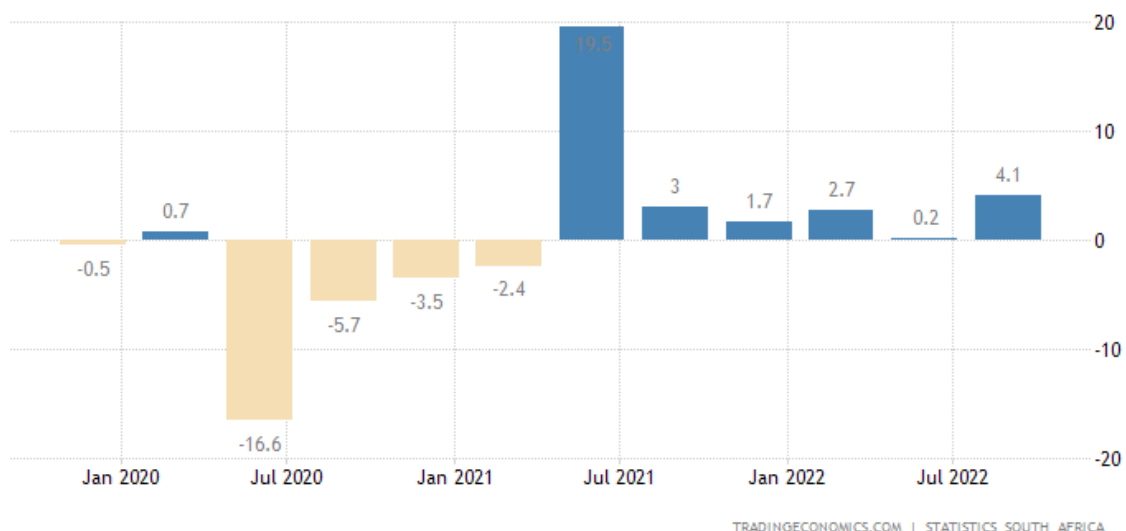
THE FUND'S APPOINTMENTS AND UNLISTED INVESTMENTS FOR QUARTER 4, CALENDAR YEAR 2022

There were no new unlisted investments and manager appointments in quarter four.

ECONOMIC GROWTH

Real gross domestic product (GDP) has rebounded by 1.6% in the third quarter after recording a 0.7% contraction in positive growth in the second quarter of 2022 (Q2: 2022). Albeit lower than expected, Agriculture and contributed notably to the rise, by 19.2% and 3.7% quarter-on-quarter, respectively. Electricity and Water and personal services were the only industries recording a negative growth of -2.1% and 1.2% in the third quarter, respectively. Annual GDP increased by 4.1% in the third quarter of 2022 following an expansion of 0.2% in the second quarter of 2022. Weak growth is forecast at 0.1% by SARB for quarter four because of continued rolling blackouts and wage strikes.

South African Annual GDP Rate (%)

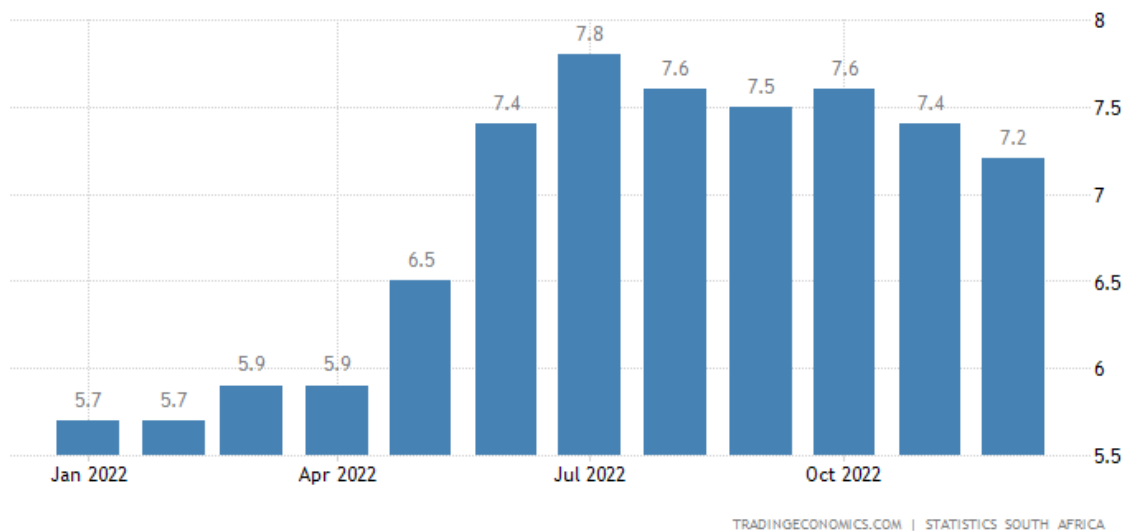


INFLATION AND INTEREST RATES

Headline inflation surprise higher at 7.6% year-on-year in October 2022 but continued to moderate further to 7.4% and 7.2% in November and December, respectively.

Market consensus seem to suggest that inflation has peaked and the central bank is expected to reduce the pace and size of the of monetary policy intervention. The year 2022 has been characterized by aggressive rate hikes, with the latest being 0.75% in November 2022 following another 0.75% in September 2022. The repo rate is now 7% as at December 2022 and rate hikes are expected to moderate locally and in other markets as inflation slows. High levels of inflation and interest rate continue to hurt household spending which contribute about two-thirds of GDP.

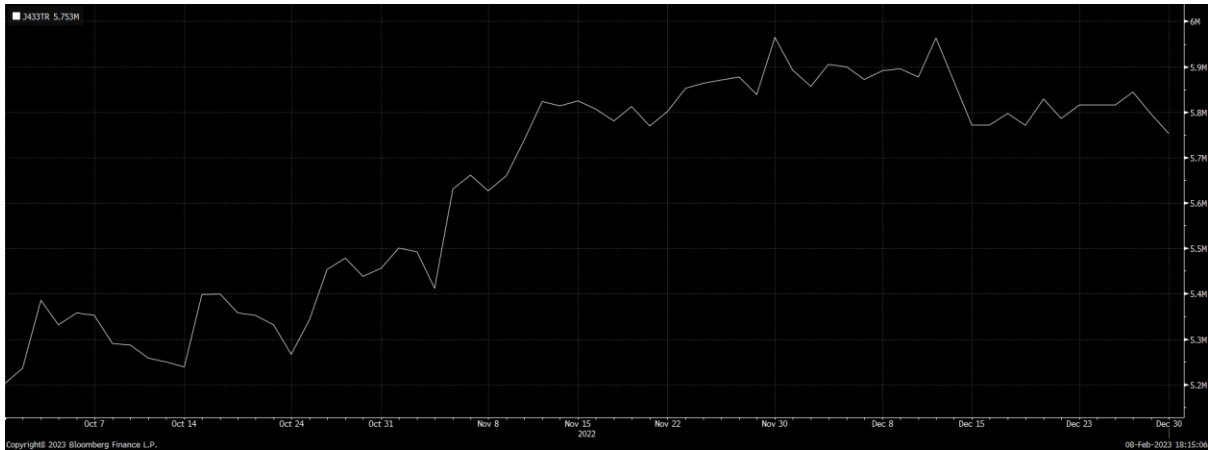
South African Inflation Rate (%)



EQUITIES AND CURRENCY

South African Capped SWIX equities

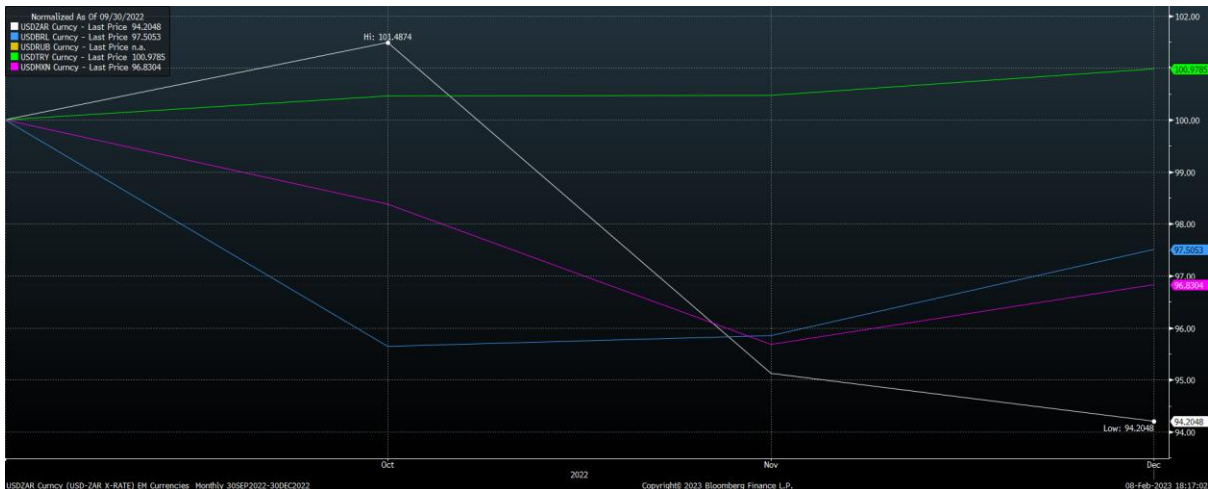
Capped SWIX grew 12.22% on a total return basis in the four quarter to December 2022, benefitting from risk-on, expectations of a Fed pivot and a soft landing, and accelerated reopening in China. The bulk of the performance came from basic materials, Consumer discretionary and Financials on rebounding commodity prices and better growth expectations, contributing 3.78%, 3.32% and 3.09%, respectively. Telco's (-0.0%), Energy (-0.0%), and Utilities (-0.10%) were the laggards.



Source: Bloomberg

South African Rand against the US Dollar

The rand firmed 5.8% in the fourth quarter to December 2022 against the US dollar. The recommendation by the independent panel on the Phala Phala scandal introduced significant uncertainty in November, and escalated in early December amid speculation that Ramaphosa was set to resign. USD/ZAR spiked to 18.41 but has retraced to 16.96 in the quarter. While political uncertainty has most certainly increased, USD/ZAR is trading broadly in line with our 16.50 – 17.50 fair value range. USD/ZAR was trading at 17.03 by end of the third quarter to December 2022.



Source: Bloomberg

GLOBAL MARKETS

The fourth quarter was characterised by a flipflop in risk asset prices driven first by the hopes of a Fed slowdown in the size of the hikes, a soft landing and then the downside surprise in US CPI inflation. Expectations of an earlier reopening in China also lent additional support to risk assets. The recent rebound in US equities suggests that the probability of a US recession has declined, but the US yield curve remains firmly inverted and this has historically been a reliable indicator of a sharp growth slowdown or recession. The US economy has proven resilient, showing in a reasonable labour and reasonable levels on manufacturing and services numbers. This supports further tightening from the Fed

The Fed has embarked on quantitative tightening and the withdrawal of liquidity. The retrenchment of liquidity impacts on the US and global economies with a lag, so too on risk assets. This is to some extent reflected in the slower momentum in financial asset growth.

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. Strategically, from the perspective of 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 follow suit in the coming financial year.

Market consensus seem to suggest that inflation has peaked and the central bank is expected to reduce the pace and size of the of monetary policy intervention in 2023.

Appendix I

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

Table 1	Current Year					
	Base Date: 31 Dec 2022	SAA	AA Actual	Market Value R'm	Return 2022 R'm	Return 2022 % [net of fees]
Cash	2.0%	1.2%	2,126	161	4.5%	5.2%
Nominal Bonds	5.0%	6.7%	11,851	417	4.7%	4.3%
Inflation Linked Bonds	15.5%	14.1%	24,995	471	1.7%	1.4%
Listed Property	6.5%	6.4%	11,318	-217	-1.9%	-1.9%
Domestic Listed Equities	37.0%	40.8%	72,578	3150	4.8%	4.9%
International Property	2.0%	0.0%	0	0	0.0%	
DM Listed Equities	19.0%	19.9%	35,402	-4102	-12.1%	-13.0%
GEM Listed Equities	6.0%	4.8%	8,587	-1692	-15.9%	-14.8%
Africa Bonds	0.0%	0.7%	1,187	0	0.0%	0.0%
Africa Listed Equities	4.0%	2.6%	4,590	-420	-5.9%	-17.0%
China A Equities	3.0%	2.9%	5,112	-1045	-19.6%	-22.4%
Total	100.0%	100.0%	177,744	-3,276	-1.6%	-2.6%

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: 31 Dec 2022					
Cash	STeFi Composite Index	-0.6%	-0.3%	-0.1%	0.0%
Nominal Bonds	BESA All Bond Index	0.4%	0.5%	0.5%	0.5%
Inflation Linked Bonds	EPPF Inflation Linked Bond*	0.3%	-1.5%	-1.4%	-0.9%
Listed Property	All Property (ALPI)	0.0%	1.2%	1.3%	
Domestic Listed Equities	Capped SWIX Equity excl ALPI	-0.1%	-0.4%	-0.5%	-1.4%

International Property	FTSE EPRA/NAREIT Developed Rental Index				
DM Listed Equities	MSCI ACWI	0.9%	-0.7%	-0.1%	
GEM Listed Equities	MSCI EM	-1.2%	-0.4%	0.9%	
Africa Bonds	Standard Bank Africa Sovereign Bond Total Return Index				
Africa Listed Equities	MSCI EFM Africa ex ZA	13.3%	2.8%	-0.9%	
China A Equities	MSCI China A Onshore	3.6%			
Total		1.1%	-0.3%	0.0%	-0.6%

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

Table 3	Previous Year					
	SAA	AA Actual	Market Value Rand M	Return in Rand M	Return % [net of fees]	B/mark Perf. %
Base Date: 31 Dec 2022						
Cash	2.0%	1.0%	1,755	130	3.7%	3.8%
Nominal Bonds	5.0%	6.4%	11,319	864	9.7%	8.5%
Inflation Linked Bonds	14.0%	13.3%	23,627	4,039	16.2%	16.3%
Listed Property	7.0%	6.5%	11,564	4,790	38.5%	38.8%
Domestic Listed Equities	37.0%	40.0%	71,084	16,639	25.3%	26.1%
International Property	0.0%	0.0%	-	-		
DM Listed Equities	21.0%	21.2%	37,747	6,425	17.2%	16.4%
GEM Listed Equities	6.0%	5.0%	8,974	575	-5.4%	-4.7%
Africa Bonds	0.0%	0.0%	-	-	0.0%	7.0%
Africa Listed Equities	5.0%	2.6%	4,680	853	9.6%	9.8%
China A Equities	3.0%	3.9%	6,996	561	-10.5%	-6.0%
Total	100.0%	100.0%	184,444	32,604	16.3%	18.6%

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: 31 Dec 2022	Benchmark	1 year	3 years	5 years	10 years
Cash	STeFi Composite Index	-0.2%	0.0%	0.0%	0.1%
Nominal Bonds	BESA All Bond Index	1.1%	0.4%	0.5%	0.5%
Inflation Linked Bonds	EPPF Inflation Linked Bond*	0.0%	-2.1%	-1.5%	-1.0%
Listed Property	All Property (ALPI)	-0.2%	1.7%	1.3%	
Domestic Listed Equities	Capped SWIX Equity excl ALPI	-0.6%	-0.4%	-1.7%	-1.9%
International Property	FTSE EPRA/NAREIT Developed Rental Index				
DM Listed Equities	MSCI ACWI	0.7%	-0.7%	-0.2%	0.6%
GEM Listed Equities	MSCI EM	-0.8%	0.8%		
Africa Bonds	Standard Bank Africa Sovereign Bond Total Return Index				
Africa Listed Equities	MSCI EFM Africa ex ZA	-0.2%	-5.6%	-2.8%	
China A Equities	MSCI China A Onshore	-4.8%			
Total		-2.0%	-0.9%	-1.0%	-1.2%

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