

EPPF INVESTMENT PERFORMANCE UPDATE (Q1, 2022)

FUND PERFORMANCE TO 31 March 2022

THE FUND'S ASSETS

The assets of the Fund on 31 March 2022 have reduced to R177.9 billion from R184.4 billion a quarter ago, which is significantly above the lowest point of R114 billion on 23 March 2020, due to the COVID-19 market sell-off. The funding ratio, which is the ratio of assets divided by liabilities remains healthy and above 100%, approximately 150% (on a mark-to-mark basis) as of 31 March 2022, meaning that the Fund's assets are more than sufficient to cover all the Fund's liabilities as they fall due. A strong funding ratio well above 100% indicates a sustainable Fund.

THE FUND'S RETURNS

The Fund's 1-year return of 10.5% is significantly above the Consumer Price Index ("CPI") return of 5.9%. Over a 10-year period to March 2022, which is most appropriate for a pension fund with long-dated liabilities, the Fund's 10-year return of 10.2% outperforms the absolute 10-year target of CPI + 4.5% (9.5% on a rolling basis). This was driven by the continued rebound of major asset classes post COVID-19 strict lockdowns.

Over the year to March 2022, the Fund's domestic listed equity underperformed its benchmark, domestic listed nominal bonds, domestic inflation-linked bonds, and domestic listed property outperformed their benchmarks by 1.2%, 0.1%, and 0.3%, respectively. International developed market equities, China Onshore equities, and emerging markets equities, all underperformed their benchmarks by 1.6%, 3.8%, and 4.2%, respectively, while Africa ex-SA equities outperformed its benchmark by 5.1%. International property performed in line with its benchmark.



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

Equity Holdings		Asset Class	Weight
1	Anglo American	Equity	2.58%
2	MTN Group	Equity	2.33%
3	Firststrand Limited	Equity	2.10%
4	Standard Bank Group	Equity	1.84%
5	Prosus	Equity	1.76%
6	Naspers	Equity	1.60%
7	British American Tobacco PLC	Equity	1.51%
8	Sasol	Equity	1.30%
9	Impala Platinum Hlds	Equity	1.26%
10	Absa Group Limited	Equity	1.06%
Total			17.33%
Bond Holdings		Asset Class	Weight
1	I2050 2.5% 311250	Inflation Linked Bond	4.77%
2	I2046 2.5% 310346	Inflation Linked Bond	3.93%
3	I2038 2.25% 310138	Inflation Linked Bond	1.62%
4	R2048 8.75% 280248	Nominal Bond	1.15%
5	R210 2.60% 310328	Inflation Linked Bond	0.57%
6	R2044 8.75% 310144	Nominal Bond	0.56%
7	R2037 8.50% 310137	Nominal Bond	0.52%
8	R2032 8.25% 310332	Nominal Bond	0.44%
9	I2033 1.8750% 280233	Inflation Linked Bond	0.42%
10	R2030 8.00% 310130	Inflation Linked Bond	0.42%
Total			13.97%

THE FUND'S APPOINTMENTS AND UNLISTED INVESTMENTS FOR QUARTER 1, CALENDAR YEAR 2022

The Fund approved an investment of R300 million into International Housing Solutions (IHS) social housing, which seeks to create a social housing joint venture company in South Africa. The Fund also approved a proposal to invest R150 million into the ABSA BEE transaction. ABSA is implementing a Broad-Based Black Economic Empowerment transaction that seeks the participation of black industrialists, women, employees, youth, and new entrants. The proposed transaction seeks to increase ABSA's black ownership by 10%. There were no new manager appointments in quarter one.

ECONOMIC GROWTH

South Africa's gross domestic product (GDP) increased by 1.2% in the fourth quarter of 2021 after a contraction of 1.7% in the third quarter of 2021. Five out of ten industries reported positive growth in the fourth quarter, led by personal services, trade, manufacturing, and agricultural and transport. Annual real GDP

increased by 4.9% in 2021 following a decrease of 6.4% in 2020, this was mainly driven by higher economic activity in finance.

The fourth quarter marked the start of interest rate hiking cycle. A hiking cycle usually reflects inflation due to strong growth, and high employment, however, this normalisation cycle might be different.

INFLATION AND INTEREST RATES

Inflation in March 2022 recorded 5.9%, touching near the upper inflation target of 6%.

Rising inflation is a global phenomenon fueled by supply constraints, and excess demand, exasperated by Russia's invasion of Ukraine causing surging fuel and food prices. 2022 has already recorded two rate hikes, of 25bps each to curb the risk of inflation. The Repo rate was at 4.25% by March 2022 and is expected to rise further locally and in other markets, to curb runaway inflation.

South African Inflation Rate (%)



EQUITIES AND CURRENCY

South African Capped SWIX equities

The local equity market has recouped and continues its persistent rebound from the lows of March 2020, like the rest of the global equity markets. The SWIX gained 1.4% in March 2022. Technology (-13.8%), consumer discretionary (-5.2%), and industrials (-3.4%) were the notable laggards. Basic materials (-1.5%) came under pressure as precious metals and mining sold off amid a reversal in platinum and palladium prices. In addition, the gold price was hampered by higher real yields. Consumer staples (-0.2%) were marginally lower in March. Health care (1.8%) and telcos (2.7%) outperformed, but the standout was financials (10.9%), which was underpinned by solid results from the banking sector.

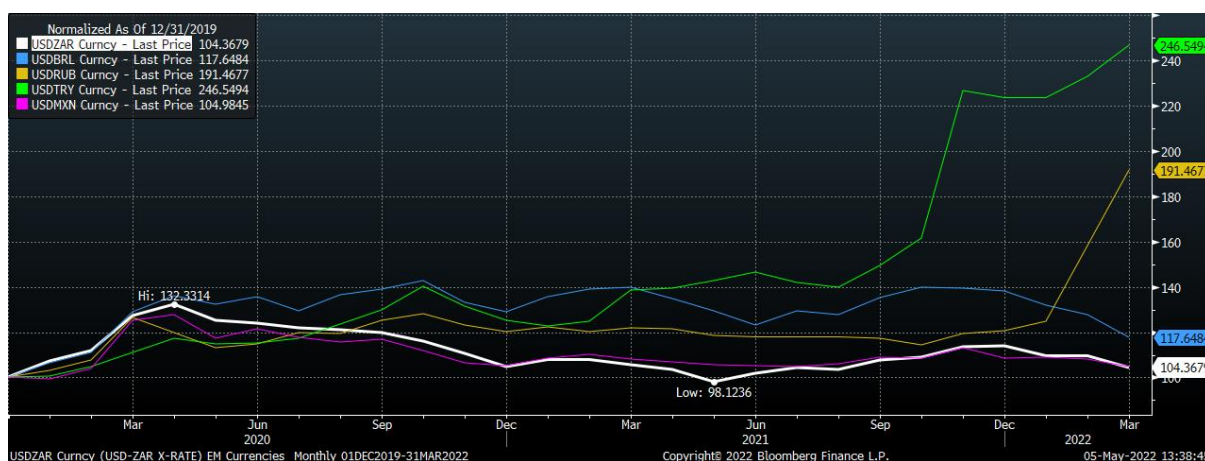


Source: Bloomberg

South African Rand against the US Dollar

The rand remained resilient in March, with the unit gaining 5.5% against the US dollar and other emerging market baskets, which took the Q1 appreciation to 8.9%. The rand traded at the strong end of our 14.50 – 15.50 fair-value range for USD/ZAR. Commodity currencies generally performed well, as revealed by the Brazilian real (8.7%), and Mexican peso (3.1%) appreciation. The Russian ruble recovered sharply in March (+29.6%), leaving the unit only 7.5% weaker for 1Q22.

Tightening global financial conditions pose a risk to the Rand, but fundamentals are currently more supportive than during the previous Fed hiking cycle. Favourable dynamics include negative SA/US inflation differentials, contained money supply differentials, elevated commodity prices, and a robust current account surplus. These should ensure a better supply/demand balance for the currency and support the rand against portfolio outflows. To be sure, many market participants have referred to the rand as the “Swiss franc of EM” during the geopolitical turmoil. The stabilisation in the credit rating outlook, alongside prudent monetary policy, should also lower the required risk premium in the Rand. The net effect is a reduced vulnerability and reduced probability of a blowout in the Rand.



Source: Bloomberg

GLOBAL MARKETS

Heading into 2022 markets were concerned about rapidly tightening financial conditions in the US. While rising yields did contribute to the correction in equities, valuations remained elevated as underlying growth conditions were seen as robust. The Fed was expected to hike rates and did in March 2022 because inflation was being driven not only by supply constraints but also by excess demand.

During February, the inflation outlook worsened notably, and the risk to global growth shifted firmly to the downside, bringing about stagflation fears. The worsening situation in Ukraine added to the uncertainty as more sanctions were being imposed on Russia. The immediate impact was weaker growth in the Eurozone, given that it is a major regional trading partner to both Russia and Ukraine. Weaker Eurozone growth will spill over to the rest of the world. The second-round growth impact will be via high oil and food prices, which will erode disposable income.

CONCLUSION

The assets of the Fund are expected to continue to outperform their respective benchmark in the 2022 but with caution, as the tightening cycle is in full swing across local and global economies due to inflationary pressures.

Looking ahead, the next South African Monetary Policy Committee (MPC) meeting will take place 19th of May, succeeding the US FOMC meeting where a 50bps rate hike is widely expected. A hike in the upcoming MPC meeting will mark the fourth consecutive rate hike since policy normalization started in November 2021.

The SARB's tone was unchanged from the previous communiqué, as it still saw a gradual rate hike path through 2024, given its current inflation forecasts. That said, the SARB acknowledged significant current uncertainty, adding that future decisions will continue to be dependent on data and the balance of risks; it will "seek to look through temporary price shocks and focus on potential second round effects and the risks of de-anchoring inflation expectations".

Further rate hikes by the Federal Reserve will likely result in a weaker domestic US currency.

Appendix I

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

Table 1	Current Year					
	31 Mar 2022	SAA	AA Actual	Market Value Rand M	Return in Rand M	Return % [net of fees]
Cash	2.0%	1.3%	2,291	131	3.7%	3.9%
Nominal Bonds	5.0%	6.6%	11,797	1216	13.7%	12.4%
Inflation Linked Bonds	15.5%	13.6%	24,235	3570	12.9%	12.8%
Listed Property	6.5%	6.6%	11,708	3072	26.6%	26.2%
Domestic Listed Equities	37.0%	42.8%	76,103	12475	19.0%	20.8%
International Property	2.0%	0.0%	0	0	0.0%	0.0%
DM Listed Equities	19.0%	19.0%	33,756	1522	4.5%	6.2%
GEM Listed Equities	6.0%	4.4%	7,751	-1703	-16.0%	-12.3%
Africa Bonds	0.0%	0.7%	1,310	0	0.0%	0.0%
Africa Listed Equities	4.0%	2.4%	4,217	418	5.9%	0.8%
China A Equities	3.0%	2.6%	4,702	-664	-12.4%	-9.0%
Total	100.0%	100.0%	177,871	20,036	10.5%	12.6%

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	31 Mar 2022	Benchmark	Alpha			
			1 year	3 years	5 years	10 years
Cash	STeFi Composite Index	-0.2%	-0.1%	0.0%	0.1%	
Nominal Bonds	BESA All Bond Index	1.2%	0.5%	0.6%	0.6%	
Inflation-Linked Bonds	EPPF Inflation Linked Bond*	0.1%	-2.1%	-1.4%	-1.0%	
Listed Property	All Property (ALPI)	0.3%	1.5%	1.2%		
Domestic Listed Equities	Capped SWIX Equity excl ALPI	-1.5%	-1.1%	-1.7%	-1.8%	
International Property	FTSE EPRA/NAREIT Developed Rental Index	0.0%	0.0%	0.0%	0.0%	
DM Listed Equities	MSCI ACWI	-1.6%	-1.5%	-0.5%	0.3%	
GEM Listed Equities	MSCI EM	-4.2%	-0.5%			
Africa Bonds	Standard Bank Africa Sovereign Bond Total Return Index	0.0%	0.0%	0.0%	0.0%	
Africa Listed Equities	MSCI EFM Africa ex ZA	5.1%	-3.4%	-2.5%		
China A Equities	MSCI China A Onshore	-3.8%				
Total		-1.9%	-1.0%	-1.0%	-1.2%	

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. %
31 Mar 2022						
Cash	2.0%	4.7%	7,636	144	4.4%	4.6%
Nominal Bonds	5.0%	5.6%	9,190	1,397	17.0%	17.0%
Inflation-Linked Bonds	14.0%	13.1%	21,528	4,691	20.4%	18.4%
Listed Property	7.0%	5.7%	9,365	3,995	34.8%	34.1%
Domestic Listed Equities	37.0%	40.2%	65,817	31,324	51.7%	55.5%
International Property	0.0%	0.0%				0.0%
DM Listed Equities	21.0%	18.3%	30,041	7,747	22.5%	27.8%
GEM Listed Equities	6.0%	5.6%	9,188	3,380	34.4%	31.0%
Africa Bonds	0.0%	0.0%	-	-	0.0%	0.0%
Africa Listed Equities	5.0%	2.7%	4,495	- 112	-1.4%	7.1%
China A Equities	3.0%	4.0%	6,601	1,413	28.8%	23.7%
Total	100.0%	100.0%	163,861	53,979	30.4%	35.0%

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	Benchmark	Alpha			
		1 year	3 years	5 years	10 years
31 Mar 2022					
Cash	STeFi Composite Index	-0.2%	0.1%	0.0%	0.1%
Nominal Bonds	BESA All Bond Index	0.1%	0.4%	0.4%	0.5%
Inflation-Linked Bonds	EPPF Inflation Linked Bond*	1.7%	-2.3%	-1.5%	-1.2%
Listed Property	All Property (ALPI)	0.5%	2.5%	1.3%	
Domestic Listed Equities	Capped SWIX Equity excl ALPI	-2.5%	-0.6%	-1.1%	-1.9%
International Property	FTSE EPRA/NAREIT Developed Rental Index	0.0%	0.0%	0.0%	0.0%
DM Listed Equities	MSCI ACWI	-4.2%	-0.2%	-0.6%	1.0%
GEM Listed Equities	MSCI EM	2.6%	2.3%		
Africa Bonds	Standard Bank Africa Sovereign Bond Total Return Index	0.0%			
Africa Listed Equities	MSCI EFM Africa ex ZA	-7.9%	-5.5%	-4.8%	
China A Equities	MSCI China A Onshore	4.1%			
Total		-3.4%	0.1%	-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
EFM: Emerging and Frontier Markets
Ex ZA: Excluding South Africa