

## **EPPF INVESTMENT PERFORMANCE UPDATE (Q2, 2022)**

### **FUND PERFORMANCE TO 30 June 2022**

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

The assets of the Fund have experienced significant volatility and adverse performance in the first half of 2022. As of 30 June 2022, the Fund's assets are valued at R169.6 billion, down from R177.9 billion a quarter ago. The funding ratio, which is the ratio of assets divided by liabilities remains healthy and above 100%, approximately 143.87% (on a mark-to-mark basis) as of 30 June 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**

For the first time in FY22, the Fund's returns are below their respective Consumer Price Index (CPI) benchmark return for the 1-year, 3-year and 5-year period. This is due to rising CPI, touching 7.4% year-on-year in June 2022 (a 13-year high) from 6.5% year-on-year in May 2022. Over a 10-year period to June 2022, which is most appropriate for a pension fund with long-dated liabilities, the Fund's 10-year return of 9.6% marginally underperforms the absolute 10-year target of CPI + 4.5% (9.5% on a rolling basis). The rising inflation was driven by increasing fuel and food prices hurting price valuations of major asset classes.

Over the year to June 2022, cash was the only domestic asset class underperforming its benchmark by 0.3%. The Fund's other domestic asset classes outperformed their respective benchmarks. Domestic listed equity, listed nominal bonds, inflation-linked bonds, and listed property outperformed their benchmarks by 0.4%, 0.7%, 0.1% and 0.7%, respectively. China's onshore equities and emerging markets equities underperformed their benchmarks by 3.8% and 2.9%, respectively, while Africa listed equities excluding SA and international developed listed equities outperformed their

Invested in our  
*members*



benchmark by 7.6% and 1.9%, respectively. International property and Africa bonds performed in line with their benchmark.

### THE FUND'S TOP EQUITY AND BOND POSITIONS (30 June 2022)

Equity Holdings	Asset Class	Weight
1 NASPERS LIMITED-N SHS	Equity	2.79%
2 PROSUS	Equity	2.33%
3 ANGLO AMERICAN PLC	Equity	1.84%
4 MTN GROUP LIMITED	Equity	1.79%
5 FIRSTRAND LIMITED	Equity	1.72%
6 BRITISH AMERICAN TOBACCO PLC	Equity	1.62%
7 STANDARD BANK GROUP LIMITED	Equity	1.53%
8 SASOL LTD	Equity	1.47%
9 IMPALA PLATINUM HOLDINGS LTD	Equity	1.13%
10 NEPI ROCKCASTLE PLC	Equity	0.96%
<b>Total</b>		<b>17.18%</b>

Bond Holdings	Asset Class	Weight
1 I2050 2.5% 311250	Inflation Linked Bond	5.22%
2 I2046 2.5% 310346	Inflation Linked Bond	4.26%
3 I2038 2.25% 310138	Inflation Linked Bond	1.81%
4 R2048 8.75% 280248	Nominal Bond	1.17%
5 R2044 8.75% 310144	Nominal Bond	0.69%
6 R210 2.60% 310328	Inflation Linked Bond	0.62%
7 R2037 8.50% 310137	Nominal Bond	0.56%
8 I2033 1.8750% 280233	Inflation Linked Bond	0.45%
9 R202 3.45% 071233	Inflation Linked Bond	0.44%
10 R2032 8.25% 310332	Nominal Bond	0.43%
<b>Total</b>		<b>15.65%</b>

## **THE FUND'S APPOINTMENTS AND UNLISTED INVESTMENTS FOR QUARTER 2, CALENDAR YEAR 2022**

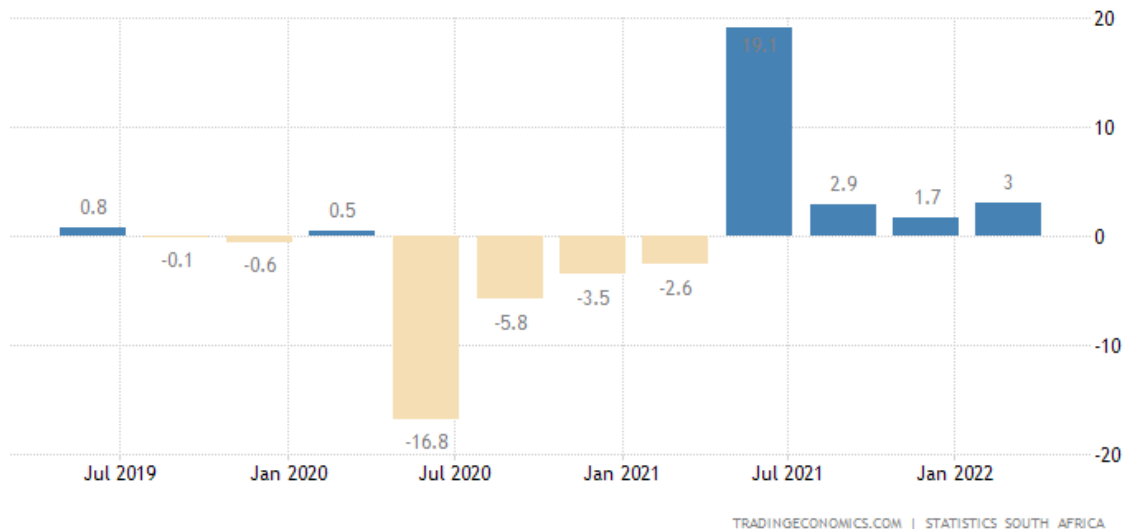
The Fund approved an investment of R250 million senior debt facility to Capital Harvest (Pty) Ltd with 40% of the funds to be allocated to the Emerging Farmers programme. The investment is subject to Capital Harvest achieving a level 3 BBBEE status within 24 months and committing to transforming its credit committee. Investment of this nature is the first agriculture deal in the Developmental Impact portfolio. Capital Harvest has been operational for 16 years with no defaults recorded to its lenders. Providing funding to primary agriculture is important for food security purposes and is in line with Sustainable Development Goal 2 on zero hunger. It is also a sector that contributes immensely to job creation.

There were no new manager appointments in quarter two.

## **ECONOMIC GROWTH**

South Africa's gross domestic product (GDP) increased by 1.9% in the first quarter of 2022 after a revised expansion of 1.4% in the fourth quarter of 2021. Most industries reported positive growth in the first quarter, led by manufacturing, utilities and transport. Mining and construction were the only industries recording a negative growth of 1.1% and 0.7% in the first quarter, respectively. Annual GDP increased by 3% in the first quarter of 2022 following an expansion of 1.7% in the fourth quarter of 2021. This was mainly driven by higher economic activity in manufacturing. Aggressive interest rate hikes and intense loadshedding are expected to weigh negatively on the economic outlook.

## South African Annual GDP Rate (%)



## INFLATION AND INTEREST RATES

South Africa has not been immune to the major market turmoil caused by aggressive monetary policy tightening to curb rising inflation globally. The second quarter recorded an overshoot in inflation above the upper inflation target of 6% due to fuel and food prices. In June 2022, inflation came out at 7.4% year-on-year (a 13-year high) from 6.5% year-on-year in May 2022.

2022 has already recorded aggressive rate hikes, with the latest being 0.75% in July 2022 after 0.5% in May 2022. The repo rate was at 5.5% by July 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

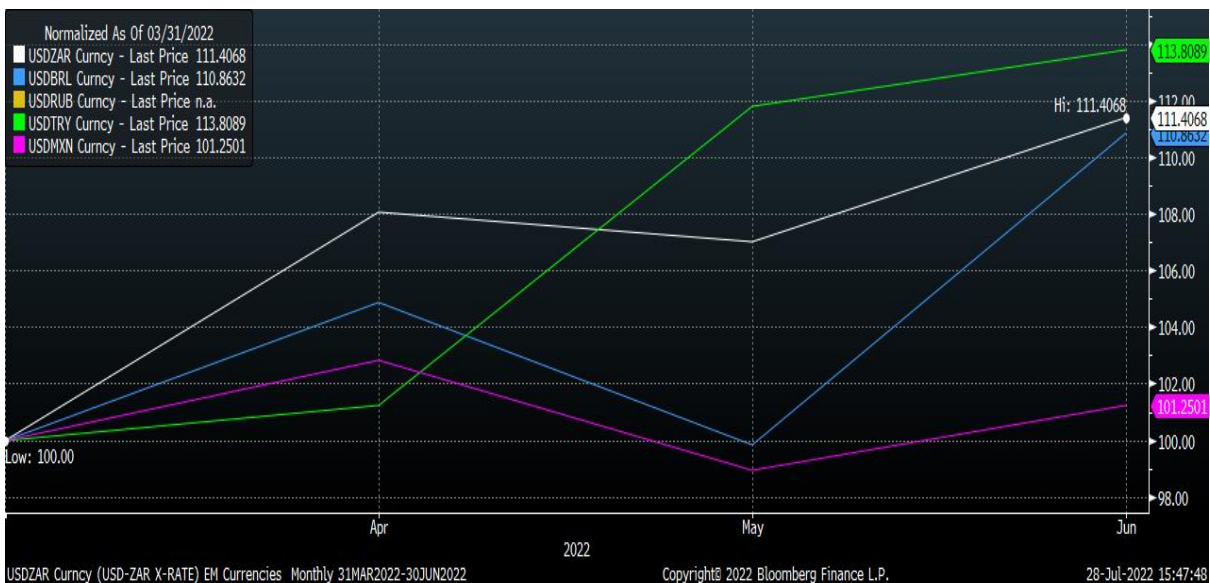
Capped SWIX lost 10.6% in the second quarter to June 2022, with broad based weakness across sectors. Materials (-19%), Financials (-16.1%) and Communication Services (-25.3%) were the notable laggards, together contributing a total of 11.84% to negative performance. In June, Technology (34.4%) managed to buck the trend on the back of the announcement of the Naspers/Prosus share buyback. Telcos (-18.0%) underperformed sharply amid a pared down revenue outlook, followed by basic materials (-16.6%), which suffered from falling commodity prices, and financials (-12.9%) that were hit by downside growth risks. Industrials (-5.1%), consumer staples (-4.0%), health care (-3.6%), and consumer discretionary (-2.7%) outperformed the market but were nevertheless in the red for June.



Source: Bloomberg

### South African Rand against the US Dollar

The rand lost 11.4% in the second quarter to June 2022 against the US dollar. This reflected the decline in growth-linked commodity prices, such as copper, iron ore, and even oil. In addition, there may be renewed concerns about the SARB being behind the curve given potential inflationary pressures, as well as risks to the fiscal position from sharper declines in South Africa’s terms of trade. This brought USD/ZAR to 16.28 by the second quarter to June 2022.



Source: Bloomberg

## GLOBAL MARKETS

The second quarter was challenging for global financial markets. Upside inflation surprises spurred even more hawkish central bank rhetoric and a substantial tightening in financial conditions. The US Federal Reserve hiked its policy interest rate in early May 2022 by 0.5% and then further by 0.75% in June 2022. The US Central Bank had not hiked interest rates by 0.5% dating back to 2000, let alone 0.75%, 22 years ago, showing the bank's urgent response against rising current and forecast inflation. With such aggressive hiking action, the market is widely worried about the possibility of a recession. Higher US interest rates also mean trying times for all risk assets, including all South African assets, which in the global context, are considered risk assets.

Geopolitically, the Russia/Ukraine conflict has lasted longer than initially expected. Sanctions against Russia, by the West, have continued to broaden as a lot of European countries are reducing their reliance on Russian energy.

Chinese lockdowns have eased selectively. The government had signalled that it would open up the economy cautiously in mid-to-end June 2022. This has resulted in global easing supply constraints evidenced by reduced backlogs and improved delivery times. Prices have also moderated, but only modestly.

Commodity prices have also softened (notably oil and grain) which should allow global inflation to cool over the coming months. It is, however, yet to be seen whether softening commodity prices will persist. The global inflation profile looks sticky at these high levels due to tight developed market labour markets and other, still high, input costs.

## **CONCLUSION**

Tactically, in this coming quarter, the Fund 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.

Strategically, from the perspective of changing the Fund's strategic asset allocation to incorporate the new offshore limit, the Fund will run 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 SARB still sees a gradual rate hike path through 2024, given its current inflation forecasts. With that said, the SARB acknowledged significant current uncertainty, adding that future decisions will continue to be dependent on data and the balance of risks. The recent Monetary Policy Committee statement indicated it will, "seek to look through temporary price shocks and focus on potential second round effects and the risks of de-anchoring inflation expectations."



## Appendix I

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

Table 1	Current Year					
	Base Date: 30 June 2022	SAA	AA Actual	Market Value R'm	Return 2022 R'm	Return 2022 % [net of fees]
Cash	2.0%	1.6%	2,765	133	3.9%	4.2%
Nominal Bonds	5.0%	6.7%	11,364	165	2.0%	1.3%
Inflation Linked Bonds	15.5%	14.8%	25,154	3520	13.4%	13.3%
Listed Property	6.5%	6.1%	10,397	62	0.6%	-0.1%
Domestic Listed Equities	37.0%	39.9%	67,709	4933	7.9%	7.4%
International Property	2.0%	0.0%	0	0	0.0%	1.3%
DM Listed Equities	19.0%	19.7%	33,363	-493	-1.5%	-3.5%
GEM Listed Equities	6.0%	4.6%	7,751	-1705	-16.8%	-14.3%
Africa Bonds	0.0%	0.8%	1,306	0	0.0%	-3.0%
Africa Listed Equities	4.0%	2.7%	4,529	299	4.4%	-3.0%
China A Equities	3.0%	3.1%	5,275	-260	-5.1%	-1.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>169,612</b>	<b>6,655</b>	<b>3.9%</b>	<b>3.5%</b>

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 2022					
Cash	STeFi Composite Index	-0.3%	-0.1%	0.0%	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%	
Domestic Listed Equities	Capped SWIX Equity excl ALPI	0.4%	-0.5%	-1.4%	-1.6%

International Property	FTSE EPRA/NAREIT Developed Rental Index	0.0%	0.0%	0.0%	0.0%
DM Listed Equities	MSCI ACWI	1.9%	-0.7%	-0.2%	0.5%
GEM Listed Equities	MSCI EM	-2.9%	-0.7%		
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	7.6%	-0.7%	-0.5%	
China A Equities	MSCI China A Onshore	-3.8%			
<b>Total</b>		<b>0.4%</b>	<b>-0.5%</b>	<b>-0.6%</b>	<b>-0.9%</b>

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

Table 3	Previous Year					
	Base Date: 30 June 2022	SAA	AA Actual	Market Value Rand M	Return in Rand M	Return % [net of fees]
Cash	2.0%	6.0%	10,044	132	3.9%	4.0%
Nominal Bonds	5.0%	7.0%	11,744	1,276	15.2%	13.7%
Inflation Linked Bonds	14.0%	13.3%	22,439	3,902	16.6%	16.4%
Listed Property	7.0%	6.2%	10,407	3,206	27.2%	25.6%
Domestic Listed Equities	37.0%	36.5%	61,479	16,296	26.2%	27.9%
International Property	0.0%	0.0%				
DM Listed Equities	21.0%	18.7%	31,495	3,795	10.7%	14.5%
GEM Listed Equities	6.0%	5.5%	9,240	1,654	16.4%	15.8%
Africa Bonds	0.0%	0.0%				
Africa Listed Equities	5.0%	2.8%	4,676	91	-1.1%	2.7%
China A Equities	3.0%	4.1%	6,900	873	17.3%	15.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>168,424</b>	<b>31,042</b>	<b>17.2%</b>	<b>20.2%</b>

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.

<b>Table 4</b>		<b>Alpha</b>			
<b>Base Date: 30 June 2022</b>	<b>Benchmark</b>	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>
Cash	STeFi Composite Index	-0.1%	0.1%	0.0%	0.1%
Nominal Bonds	BESA All Bond Index	1.3%	0.4%	0.5%	0.5%
Inflation Linked Bonds	EPPF Inflation Linked Bond*	0.2%	-2.2%	-1.6%	-1.1%
Listed Property	All Property (ALPI)	1.3%	2.1%	1.3%	
Domestic Listed Equities	Capped SWIX Equity excl ALPI	-1.4%	-1.0%	-1.4%	-1.9%
International Property	FTSE EPRA/NAREIT Developed Rental Index				
DM Listed Equities	MSCI ACWI	-3.3%	-0.7%	-0.7%	0.7%
GEM Listed Equities	MSCI EM	0.5%	1.3%		
Africa Bonds	Standard Bank Africa Sovereign Bond Total Return Index				
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>-2.5%</b>	<b>-0.4%</b>	<b>-0.8%</b>	<b>-1.0%</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