

## **EPPF INVESTMENT PERFORMANCE UPDATE (Q1, 2023)**

### **FUND PERFORMANCE TO 31 MARCH 2023**

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

The South African economy started the year on quite a resilient note, with the monthly production and sales numbers showing improvement in some industries despite the many troubles caused by the country's energy crisis. As a result, the country seems to have avoided a technical recession. As of 31 March 2023, the fund's assets are valued at R184.241 billion, up 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 159% (on a mark-to-mark basis) as of 31 March 2023. This means that the Fund's assets are more than sufficient to cover all of 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 in the first quarter of 2023 with an upside surprise recorded in the February CPI print. However, the Fund's returns fared relatively well when compared to their respective CPI-linked benchmark return for the 3-year, 5-year and 10-year but the 1-year. Headline CPI cooled to 6.9% year-on-year in January 2023 but surprised to 7.0% and 7.1% in February and March, respectively. Over a 10-year period to March 2023, which is most appropriate for a pension fund with long-dated liabilities, the Fund's 10-year return of 8.87% significantly outperformed the absolute 10-year target of CPI + 4.5% (5.11% on a rolling basis).

In the past 12 months to March 2023, domestic listed equities were the best performing assets class relative to benchmark, up 0.8%, followed by Nominal bonds and Inflation Linked Bonds which were relatively up 0.4% and 0.1%, respectively. Listed property



performed in line with the benchmark, while cash underperformed its benchmark at 1.3%.

Internationally, the Africa bonds asset class was the best performing asset class relative to benchmark, up 12.9%, followed by Africa listed equities, DM Listed equities, GEM Listed equities and China A equities which were relatively up 9.9%, 2.8%, 2.5% and 0.1% respectively. International property performed in line with the benchmark.

### THE FUND'S TOP EQUITY AND BOND POSITIONS (31 March 2023)

Equity Holdings	Asset Class	Weight
1 NASPERS LIMITED	Equity	3.35%
2 PROSUS	Equity	2.38%
3 Firststrand Limited	Equity	1.80%
4 MTN Group	Equity	1.70%
5 STANDARD BANK GROUP LIMITED	Equity	1.68%
6 ANGLO AMERICAN PLC	Equity	1.62%
7 BRITISH AMERICAN TOBACCO PLC	Equity	1.28%
8 COMPAGNIE FINANCIERE RICHMONT	Equity	1.24%
9 Absa Group Ltd	Equity	1.19%
10 NEPI Rockcastle PLC	Equity	1.07%
<b>Total</b>		<b>17.29%</b>

Bond Holdings	Asset Class	Weight
1 I2050 2.5% 311250	Inflation Linked Bond	4.96%
2 I2046 2.5% 310346	Inflation Linked Bond	3.96%
3 I2038 2.25% 310138	Inflation Linked Bond	1.76%
4 R2048 8.75% 280248	Nominal Bond	0.91%
5 R210 2.60% 310328	Nominal Bond	0.57%
6 R2037 8.50% 310137	Inflation Linked Bond	0.56%
7 R2030 8.00% 310130	Nominal Bond	0.46%
8 R2035 8.875% 280235	Nominal Bond	0.44%
9 R2032 8.25% 310332	Nominal Bond	0.44%
10 R2044 8.75% 310144	Inflation Linked Bond	0.42%
<b>Total</b>		<b>14.48%</b>

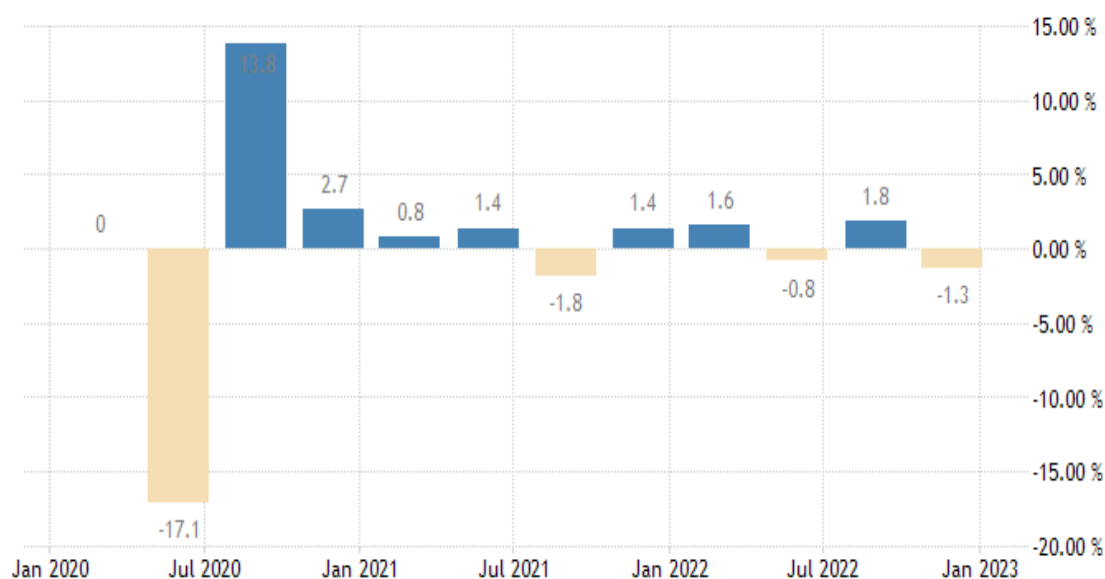
## THE FUND'S APPOINTMENTS AND UNLISTED INVESTMENTS FOR QUARTER 1, CALENDAR YEAR 2023

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

### ECONOMIC GROWTH

The South African economy shrank by 1.3% in the 4<sup>th</sup> quarter of 2022, experiencing the sharpest contraction since the 3<sup>rd</sup> quarter of 2021. This contraction was mostly a result of an increase in power cuts over the months. Some notable declines were experienced in the finance (-2.3%), mining (-3.2%), agriculture (-3.3%), manufacturing (-0.9%), and the trade, catering and accommodation (-2.1%) sectors. Exports, imports, and government spending declined by 4.8%, 0.85% and 0.9% respectively. Net exports contributed 1.1% points decline to total growth, while household spending increased by 0.9%. A 0.9% year-on-year growth was realised in the fourth quarter and the full year GDP growth moderated to 2.0%. The SARB has revised GDP growth, for 2023, to 0.2% from the expect 0.3%.

### South African Annual GDP Rate (%)



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## INFLATION AND INTEREST RATES

Headline inflation cooled to 6.9% year-on-year in January, from 7.2% in December 2022. February and March inflation edged to 7.0% and 7.1%, respectively, with the CPI rising by 0.7% in February and 1.0% in March. The SARB hiked interest rates by 50 bps in March 2023, following a 25bps increase in January 2023. The repo is now at 7.75%- raising borrowing costs to the highest since 2009. This sited upward risk to the inflation outlook. In anticipation of higher core goods and food prices in the near future, headline inflation is now expected to average 6.0%, revised from 5.4%. The headline forecast for 2024 and 2025 are 4.9% and 4.5% respectively, as food and fuel prices are expected to ease. The SARB is expected to increase interest rates during the course of the year (as soon as May).

### South African Inflation Rate (%)

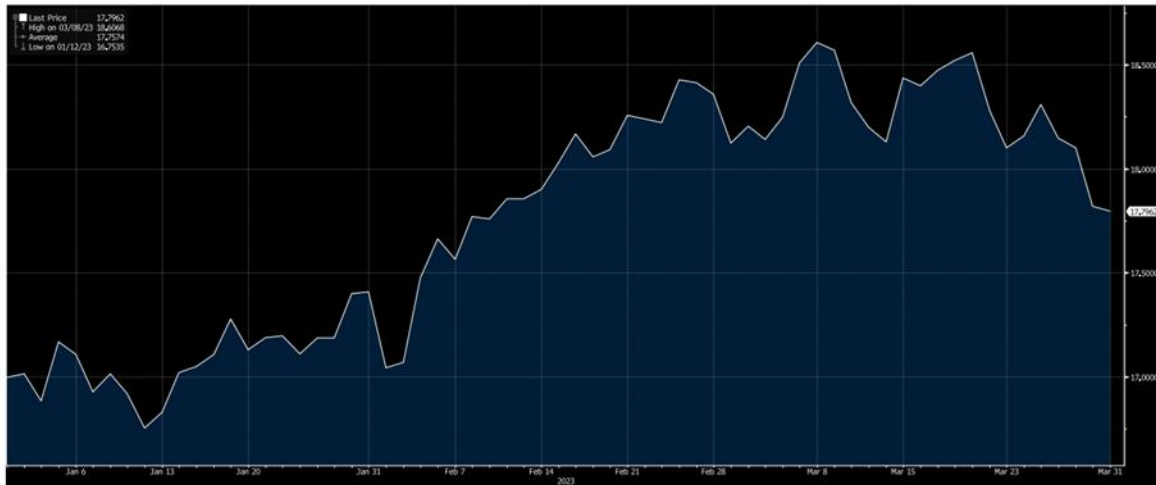


## EQUITIES AND CURRENCY

### South African Capped SWIX equities

Capped SWIX lost 2.3% following a 7.2% gain earlier in the year. Weaker commodity prices and an underwhelming China reopening resulted in drags from basic materials (-12.7) and technology (-2.9%, down from 18.1%). Consumer discretionary (3.8%), consumer staples (3.1%), health care (2.4%). Financials (2.3%) and telco's posted reasonable gains despite pressures on commodity counters from the domestic energy

constraints and higher input costs. Performance from the transport, services and construction sectors edged industrials (0.4%) into positive territory.



Source: Bloomberg

### South African Rand against the US Dollar

The Rand relatively underperformed the USD by 2.3% and 3.5% against the greenback in January and February, respectively. As a result of weak growth prospects caused by the worsening energy crisis, SA's grey listing by the Financial Action Task Force (FATF), and the country's credit rating downgrade by S&P Global, the rand has experienced relentless downward pressure in the first 2 and half months. It persisted against these odds and ended the first quarter on firmer ground- at 2.3%. The USD has experienced volatility since the start of the year as a result of swings in risk appetites based on changing market expectations on the course of the US interest rate



Source: Bloomberg

## GLOBAL MARKETS

South Africa has been grey listed for not fully complying with international standards around the prevention of money laundering, terrorist financing and proliferation financing by the (FATF). The US annual inflation slowed from 6% in February to 5% in March. The CPI edged by 0.1% from the previous month and core CPI increased by 5.6% in the year and 0.4% on the month. Borrowing costs have been increased to new highs, since the Fed raised the fed fund rate in March by 25bps, making it 5%. The Russian-Ukraine war remains a geopolitical risk and weighs heavily on European growth prospects while US financial conditions tighten as a new weakness in financial institutions emerge. As a result of the failure of some regional banks in the US, the US economy is expected to dip into a recession later on in the year. China's growth outlook has improved but is expected to remain moderate compared to historical standards. As inflation and policy rates remain high, and new weaknesses emerge in financial institutions, global financial markets are expected to remain volatile.

## 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.

## Appendix I

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

<b>Table 1</b>	<b>Current Year</b>					
<b>Base Date: 31 Dec 2022</b>	<b>SAA</b>	<b>AA Actual</b>	<b>Market Value R'm</b>	<b>Return 2022 R'm</b>	<b>Return 2022 % [net of fees]</b>	<b>B/mark Perf. % 2022</b>
Cash	2.0%	1.1%	2,004	92	4.6%	6.0%
Nominal Bonds	5.0%	5.9%	10,851	683	6.3%	5.8%
Inflation Linked Bonds	15.5%	13.8%	25,338	796	3.1%	3.0%
Listed Property	6.5%	6.0%	11,131	-565	-5.1%	-5.1%
Domestic Listed Equities	37.0%	40.9%	75,336	831	1.1%	0.3%
DM Listed Equities	19.0%	20.8%	38,379	5948	15.5%	12.4%
International Property	2.0%	0.0%	0	0	0.0%	0.0%
GEM Listed Equities	6.0%	5.3%	9,798	1086	11.1%	8.4%
Africa Bonds	0.0%	0.8%	1,477	183	12.4%	-0.5%
Africa Listed Equities	4.0%	2.6%	4,749	538	11.3%	1.3%
China A Equities	3.0%	2.8%	5,178	517	10.0%	9.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>184,241</b>	<b>10,107</b>	<b>5.7%</b>	<b>4.3%</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.

<b>Table 2</b>		<b>Alpha</b>			
<b>Base Date: 31 Dec 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	-1.3%	-0.6%	-0.3%	-0.1%
Nominal Bonds	BESA All Bond Index	0.4%	0.6%	0.6%	0.5%
Inflation Linked Bonds	EPPF Inflation Linked Bond*	0.1%	0.6%	-1.3%	-0.9%
Listed Property	All Property (ALPI)	0.0%	0.3%	1.5%	1.1%
Domestic Listed Equities	Capped SWIX Equity excl ALPI	0.8%	-1.1%	-0.5%	-1.5%
DM Listed Equities	MSCI ACWI	2.8%	-1.0%	0.1%	0.3%
International Property	FTSE EPRA/NAREIT	0.0%	0.0%	0.0%	0.0%
GEM Listed Equities	MSCI EM	2.5%	0.2%	1.0%	
Africa Bonds	Standard Bank Africa Sovereign Bond Total Return Index	12.9%			
Africa Listed Equities	MSCI EFM Africa ex ZA	9.9%	2.1%	-0.5%	
China A Equities	MSCI China A Onshore	0.1%	0.1%		
<b>Total</b>		<b>1.3%</b>	<b>-1.3%</b>	<b>0.0%</b>	<b>-0.6%</b>

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

<b>Table 3</b>		<b>Previous Year</b>				
<b>Base Date: 31 Dec 2022</b>	<b>SAA</b>	<b>AA Actual</b>	<b>Market Value Rand M</b>	<b>Return in Rand M</b>	<b>Return % [net of fees]</b>	<b>B/mark Perf. %</b>
Cash	2.0%	1.3%	2,300	85	3.7%	3.9%
Nominal Bonds	5.0%	6.7%	11,845	1,619	13.7%	12.4%
Inflation Linked Bonds	15.5%	13.7%	24,334	3,151	12.9%	12.8%
Listed Property	6.5%	6.6%	11,756	3,123	26.6%	26.3%
Domestic Listed Equities	37.0%	42.6%	75,685	14,346	19.0%	20.8%
DM Listed Equities	19.0%	19.1%	33,895	1,526	4.5%	6.2%



International Property	2.0%	0.0%	-	-	0.0%	0.0%
GEM Listed Equities	6.0%	4.4%	7,783	-1,242	-16.0%	-12.3%
Africa Bonds	0.0%	0.7%	1,315	-	0.0%	0.0%
Africa Listed Equities	4.0%	2.4%	4,235	249	5.9%	0.8%
China A Equities	3.0%	2.7%	4,721	-588	-12.4%	-9.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>177,871</b>	<b>22,270</b>	<b>10.5%</b>	<b>12.6%</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: 31 Dec 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	-0.2%	-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)	0.2%	1.5%	1.2%	0.2%
Domestic Listed Equities	Capped SWIX Equity excl ALPI	-1.5%	-1.1%	-1.7%	-1.8%
DM Listed Equities	MSCI ACWI	-1.6%	-1.5%	-0.5%	0.3%
International Property	FTSE EPRA/NAREIT	0.0%	100.0%	200.0%	300.0%
GEM Listed Equities	MSCI EM	-4.2%	-0.5%		
Africa Bonds	Standard Bank Africa Sovereign Bond Total Return Index	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%			
<b>Total</b>		<b>-1.9%</b>	<b>-1.0%</b>	<b>-1.0%</b>	<b>-1.2%</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