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Your Retirement - Our Passion

JOINT REVIEW BY THE CHAIRMAN AND CEO: EXTRACT FROM THE INTEGRATED ANNUAL REPORT 2015

In line with current best practices in integrated reporting, we decided to combine the usual Chairman's and CEO's reports into an integrated leadership report. This joint statement enables us to present an integrated and concise view on behalf of the Board of Trustees, while eliminating repetition.

What is Sentinel and where is it heading?

Sentinel was founded as the Mine Officials Pension Fund in 1946, but in recent years has evolved far beyond that original identity to become a highly competitive retirement fund available to all South Africa's employers. We had long ago understood that mining in South Africa was a mature industry based on dwindling resources, with little current incentive to expand existing operations or launch new ventures.

Over the vigorous decades when South African mining led the world, Sentinel built up the institutional expertise to provide consistently excellent returns, benefits and service to our members and pensioners at a structurally lower cost than commercial funds. Sentinel has always been a non-profit organisation, without the listed company expense of awarding dividends to shareholders. Our purpose is to provide sustainable returns to our members and pensioners in a cost effective manner, therefore they effectively reap the benefits.

Our tested and proven business model is based on recognising and managing risk, a prudent yet knowledgeable approach to investments that is unclouded by shareholder pressure, in-house expertise that oversees individually top-rated asset managers, robust IT systems and transparent, efficient operating costs, all underpinned by exemplary compliance and governance processes.

Performance review

With assets under management growing to R82,4 billion, Sentinel did remarkably well to deliver real growth in a highly unpredictable environment. Our growth was based primarily on strong performance from local and international equity markets, despite market volatility across certain asset classes.

The Fund has managed to safeguard relative performance in line with long-term real return targets. However, gaining superior asset-based returns became increasingly difficult as investment managers wrestled with volatile trading conditions.

Despite the turmoil in the mining industry, annual contributions from Sentinel's 40 863 contributing members improved slightly to R2,73 billion (2014: R2,67 billion), while R3,80 billion was paid to 34 792 pensioners and beneficiaries.

In the light of exceptionally challenging South African and global economic realities, the Audit and Risk Committee comprehensively reviewed Sentinel's most material risks. This rigorous exercise, as reviewed and signed off by the Board and the Executive, showed that all material risks are being effectively managed and mitigated.

Sailing into stormy weather

Over the financial period South Africa's economy continued losing steam, slowing to just 2% growth and well below the average GDP growth of most other sub-Saharan African economies. Large scale and uncompromising strikes in mining and manufacturing, coupled with inter-union rivalry, led to unrealistic demands and hard-fought wage negotiations.

We must also accept that South Africa's mining sector may be entering into a "perfect storm" of negative impacts, with commodity prices sliding for the third year in a row in response to weakening global demand. Since 2008, China's GDP growth and demand for commodities has kept the global economy ticking over, but its growth and stock market values have fallen alarmingly in recent months. Until a fresh commodity upturn begins, South Africa's mines in particular will struggle and several are preparing to cease operations. Our strategic decision some years ago to grow the Fund beyond the mining sector was the right call.

Looking forward, every downward correction in time leads to an upturn. Based on decades of institutional experience, we had already exited direct commodity investments two years back and are well placed with a portfolio of risk averse and capital protection bias investments until we recognise key market shifts. Our timely move to the maximum offshore exposure allowed was evidently the correct decision as our members and pensioners benefit from the hard currencies of these investments.

Looking beyond the economic picture, world stability is becoming increasingly fragile due to clashes of cultures and escalating regional conflicts. Growing numbers of refugees and economic migrants are fleeing to safer countries, which makes their populations anxious and further destabilises global security and may impact economic growth prospects.

Back home, the South African Reserve Bank (SARB) has commenced adjusting the base interest rate upwards to counter inflation and protect the rand, but the big debate over the next year will be about how to avoid losing further jobs, particularly in mining, and how to grow employment in all sectors.

Sentinel acclaimed for excellence

Sentinel's sterling performance has been recognised by winning the World Finance award for Best Pension Fund South Africa 2015 for the third consecutive year, as well as The European's 2015 award for the Best Pension Fund in Africa and also CFI.co's award for Best Fund Management Team Southern Africa 2015.

Working the business strategy: opportunities and risks

Sentinel has become a multi-industry retirement fund by redesigning its structure and products for a broader range of employers and members, while engaging with potential clients outside of the mining sector.

A key competitive advantage is that Sentinel shepherds its members seamlessly from employment to retirement without needing to pay for a financial adviser to purchase an annuity for this transition.

In recent years we have been engaging with the National Treasury and other retirement industry stakeholders to harmonise the tax treatment and regulation of retirement funds across the industry. Government's retirement reform proposals are part of a broad overhaul of the retirement industry, which aims to encourage the preservation of retirement capital, reduce retirement industry costs and improve the financial situation of especially financially vulnerable individuals. Due to issues raised late in the day, proposed regulations were not implemented on 1 March 2015 as intended, but were postponed to 1 March 2016 or a later date.

This postponement slowed our negotiations with several potential large clients, as they needed regulatory certainty before committing to agreements. We were disappointed at not being able to conclude when expected, but have continued building new relationships in anticipation of the next proposed implementation date.

Compliance and governance

Sentinel has long pursued a policy of continually reviewing and improving its products where feasible. This year, these were all re-evaluated to ensure compliance with proposed reforms and to identify matters for discussion with National Treasury.

Sentinel is one of the few privately managed retirement funds to voluntarily issue a publically available integrated annual report. We are further setting standards by instituting several corporate governance improvements that include a revised Code of Ethics and the development of a combined assurance framework. Sentinel's trustees understand and accept their fiduciary responsibilities to the Fund as a whole.

Socially responsible investing and shareholder activism

Sentinel's portfolio is diverse and widely invested. We have long held that socially responsible investment is a

key priority and, therefore, subscribe to the Code for Responsible Investment in South Africa (CRISA). We consider ourselves duty bound to be active shareholders of the companies we invest in and to influence their corporate behaviour where necessary.

Transformation and skills development

In our view, Black Economic Empowerment (BEE) is best served by enabling entrepreneurs to get off the ground. Small business development can drive new jobs and skills more effectively than other interventions.

We are actively transforming the broader asset management industry through learnerships and a specific black asset manager incubation programme that turns out highly competent black South African investment organisations.

Outlook for 2016

Sentinel's consistent record of achievements over a span of years has a far reaching positive impact on the South African economy. Large retirement funds form an integral part of the economies they operate in, not just to provide financial security, but to also help fuel sustainable economic growth for the ultimate benefit of all stakeholders.

Investment markets have become unpredictable and extremely volatile, therefore we anticipate lower returns over the next 18 to 24 months. Despite a challenging environment and our defensive stance, opportunities do arise to improve value or mitigate investment risks. We are fully confident that Sentinel has the experience and market intelligence in place to continue to deliver consistent and lower risk returns.

As the value of the rand declines we will be forced to rebalance and reduce the current direct international exposure of the Fund's investment portfolios to remain compliant with Regulation 28 of the Pension Funds Act. This will be to the detriment of opportunities that arise in global investment markets.

Appreciation

Our heartfelt appreciation to the Fund's members, pensioners and participating employers for their ongoing support and loyalty.

AB la Grange

Chairman of the Board

FJ Visser

Chief Executive Officer

The complete report is available on the Fund's web-site at www.sentinel.za.com

INVESTMENT RETURNS AS AT 30 JUNE 2015

The following table reflects the accumulated annualised gross and net investment returns earned, per portfolio, as at 30 June 2015:

Portfolio	12 months		36 months		60 months	
	Gross	Net	Gross	Net	Gross	Net
Wealth Builder	10,23%	9,73%	20,44%	19,87%	17,72%	17,12%
Inflation Protector	10,10%	9,62%	19,97%	19,49%	17,22%	16,75%
Pension Protector	9,89%	9,45%	18,80%	18,37%	16,51%	16,07%
Money Market	6,68%	6,45%	6,30%	6,12%	6,46%	6,30%
Shari'ah Portfolio		4,50%		13,30%		11,43%
Capital Protection Portfolio		7,14%		9,37%		n/a

MEMBER BENEFIT STATEMENTS 2015

Member 2015 Benefit Statements were loaded on members' personal accounts on Sentinel's secure web portal in October this year. Members who had already registered to receive electronic communication received an e-mail notice that they can access their statements on the web. Paper packs were then prepared and delivered to employers in November for members who had not registered to receive electronic communication.

JOIN THE E-BAND & RECEIVE YOUR FUND INFORMATION WITHOUT DELAY!

We can deliver your fund information, benefit statements and regular updates electronically!
You can access your account and a calculator to show different benefit scenarios whenever and wherever it best suits you!

Please register by accessing our web-site www.sentinel.za.com go to "User Login" and click on "Signup" and follow the steps.

RETIREMENT REFORM UPDATE

National Treasury released a Media Statement: Urgent Request for Public Comment on the Timing of Uniform Taxation and Annuitisation for Retirement Funds, as well as the Draft 2015 Tax Laws Amendment Bill, on 27 October 2015.

In essence, two options are proposed for "T-Day" implementation:

- Option 1 proposes implementation of reform measures for all retirement funds with effect from 1 March 2016, as originally planned and already legislated for.
- Option 2 proposes a phased-in approach for annuitisation and the deduction of member contributions for provident fund members.

Sentinel responded that it supports Option 1.

Sentinel members are reminded that, irrespective of which of these options are implemented, the new dispensation for the tax deductibility of retirement fund

contributions will be implemented with effect from 1 March 2016.

The new dispensation includes:

- Employer contributions will be treated as a fringe benefit and added to the employee's taxable income.
- The employee's tax deduction for retirement fund contributions (including the employer's fringe benefit contribution) will be limited to 27,5% of the greater of remuneration or taxable income.
- The total tax deduction will be capped on a maximum of R350,000 per year.
- Contributions exceeding the capped amount, will be carried forward and can be claimed in future years, or be deducted from benefits when these become payable.
- The deduction will apply to all pension, retirement annuity and provident fund contributions.

2015 INCREASE AND BONUS FOR PENSIONERS

The Board of Trustees is pleased to announce that a **pension increase of 6%** has been awarded on guaranteed pensions, effective 16 October 2015. This increase equates to **127,7% of CPI** at 30 June 2015. In addition to the above increase, the Trustees have also awarded a **special once-off bonus of 10% of pensioners' annual pension before the 2015 increase.**