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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](http://www.sentinel.za.com)**

# PENSIONER BENEFIT STATEMENTS 2015

## AVAILABLE ON THE WEBSITE!

Pensioner 2015 Benefit Statements are available on the Sentinel secure website. To gain access to your personal records, you must register at [www.sentinel.za.com](http://www.sentinel.za.com). Go to "User Login" click on "Signup" and follow the instructions.

### 2015 INCREASE AND BONUS FOR PENSIONERS

The Board of Trustees is pleased to announce that a **pension increase of 6%** has been awarded 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**.

A pro-rata increase, and bonus, was awarded to pensioners who retired during the year, i.e. within 12 months before 16 October 2015.

The Fund's investment strategy has proven to be successful over a number of years. However, pensioners are alerted that current highly volatile investment markets and anticipated lower economic growth are expected to result in lower investment returns into the foreseeable future.

### COST RECOVERY FEE 2015/2016

Sentinel's "Total Cost" recovery methodology includes all investment, fund entity and administration costs and is based on assets held in the Fund. This fee is charged on a pooled basis to the Pensioner Portfolio.

The following table reflects the budgeted and actual fees that were recovered in the 2015 financial year as well as the budgeted fees for the 2016 financial year for the Pensioner Portfolio:

Description	2015 Budget	2015 Actual	2016 Budget
Pensioner Portfolio	0.48%	0.41%	0.45%

### PENSIONER ROAD SHOW 2015

Sentinel's Annual Pensioner Road Show is a highlight for those pensioners who attend, as they do not only obtain updated information about their Fund, they also enjoy refreshments with old acquaintances before and after the presentation.

This year's event was hosted at:

- 28 venues throughout South Africa, between 10 and 31 July 2015.
- 4 venues in the neighbouring countries, between 12 and 20 May 2015.

Various topics that are of interest to pensioners in general were covered in the presentation. These included, amongst others, the Fund's pension increase methodology, investments and costs, retirement reform and personal financial matters. It has become practice to present statistical information on pensioners, including the oldest living pensioner's experience in the Fund, much to the delight of the audience.

In the neighbouring countries, a walk-in centre simulation enabled assistance with fund related enquiries to members, pensioners and widows.

Attendance this year was slightly better than last year with 3,784 attendees (3,772 in 2014), notwithstanding the fact that three (3) of the local venues were changed to more appropriate facilities. Klerksdorp attracted the largest audience with 440 attendees. Unfortunately one of our pensioners at the Klerksdorp venue suffered a severe heart attack and passed away on the scene.

Fortunately there were, again, many highlights! In Johannesburg three pensioners attended that were members of the MOPF when it was originally formed on 1 March 1946. At all venues, pensioners expressed their sincere appreciation for the manner in which Sentinel nurtures their affairs.