

Annual financial statements

Approval of financial statements

The annual financial statements of the Sentinel Retirement Fund are the responsibility of the Board. The Board fulfils this responsibility by ensuring the implementation and maintenance of accounting systems and practices, adequately supported by internal financial controls.

These controls, which are implemented and executed by the Fund's employees, provide reasonable assurance that:

- The Fund's assets are safeguarded
- Transactions are properly authorised and executed
- The financial records are reliable.

The summarised financial statements set out on pages 84 to 100 have been prepared for communication purposes with limited disclosure compared to the regulatory financial statements that are compiled in terms of the Regulatory Reporting Requirements for Retirement Funds in South Africa. The regulatory financial statements have been prepared for reporting to the Financial Services Board (FSB). The summarised financial statements set out on pages 84 to 100 have been prepared in accordance with the criteria as set out in Note 1.1 of the notes to the summarised financial statements.

The independent auditors, PricewaterhouseCoopers Inc., have reported on the regulatory financial statements, in the course of executing their statutory duties. They have been given unrestricted access to all financial records and related data, including minutes of all relevant meetings. In addition, the independent auditors reported on whether the summarised financial statements are derived from the regulatory financial statements. The Board believes that all representations made to the independent auditors during their audit were valid and appropriate. The report of the independent auditors is presented on page 82.

The summarised financial statements of the Fund set out on pages 84 to 100 were approved by the Board of Fund. The financial statements have been signed by the Chairman, two Board members and the Principal Officer on behalf of the Board.



AB la Grange
Chairman



AM Clarke (Ms)
Board member



DE Watcham
Board member



MM Mananye
Principal Officer

5 October 2017

Statement of responsibility by the Principal Officer

I confirm that for the period under review the Sentinel Retirement Fund has timeously submitted all regulatory and other returns, statements, documents and any other information as required in terms of the Pension Funds Act and to the best of my knowledge all applicable legislation.



MM Mananye
Principal Officer

5 October 2017

Report of the independent auditor

Independent auditor's report on the summary financial statements

To the Board of Fund of Sentinel Retirement Fund

Opinion

The summary financial statements of Sentinel Retirement Fund, set out on pages 84 to 100, which comprise the summary statement of funds and net assets as at 30 June 2017, and the summary statement of the revenue account, statement of changes in accumulated funds, statement of changes in underlying funds and cash flows for the year then ended, and related notes, are derived from the audited regulatory financial statements of Sentinel Retirement Fund for the year ended 30 June 2017.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited regulatory financial statements, in accordance with the basis described in Note 1.1 on page 87.

Summary financial statements

The summary financial statements do not contain all the disclosures required by the Regulatory Reporting Requirements for Retirement Funds in South Africa. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited regulatory financial statements and the auditor's report thereon.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited regulatory financial statements in our report dated 5 October 2017.

The audit report on the regulatory financial statements included an emphasis of matter paragraph drawing attention to the principal accounting policies of the regulatory financial statements in which the applicable financial reporting framework, as prescribed by the Registrar, is identified. The paragraph states that consequently the regulatory financial statements and related auditor's report may not be suitable for another purpose. As a result the summary financial statements may also not be suitable for another purpose.

Board of Fund's responsibility for the summary financial statements

The Board of Fund are responsible for the preparation of the summary financial statements in accordance with the basis described in Note 1.1 on page 87.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited regulatory financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised) *Engagements to Report on Summary Financial Statements*.



PricewaterhouseCoopers Inc.

Director: JJ Grové

Registered Auditor

2 Eglin Road, Sunninghill, 2157

5 October 2017

Report of the consulting actuaries

The last statutory actuarial valuation of the Sentinel Retirement Fund was completed as at 30 June 2015, and confirmed that the Fund's assets exceeded its liabilities, and the Fund is still in a sound financial condition.

An interim actuarial valuation was carried out as at 30 June 2017, and confirmed that the Fund is still in a sound financial condition.

Contributory and non-contributory members have their own individual fund credits, which are matched by equivalent assets at 30 June 2017. In addition, there is a risk reserve of R165 million and a mismatch reserve of R43 million.

The pensioners have a separate pool of assets in the Fund. This pool was 111,9% funded, including the recommended reserves, as at 30 June 2017, before any bonus or pension increase was awarded in October 2017.



AR Pienaar

Fellow of the Actuarial Society of South Africa

In my capacity as valuator of the Fund and as an employee of Alexander Forbes Consultants and Actuaries.

Sandton

5 October 2017

Annual financial statements continued

Statement of funds and net assets as at 30 June 2017

	Note	2017 Rm	2016 Rm
Funds			
Member accounts and reserves			
Members' individual accounts*		37 524	37 906
Pensioner reserves		43 880	45 778
Risk reserves		141	117
Other reserves		44	40
Amounts to be allocated		258	248
Total funds and reserves		81 847	84 089
Employment of funds			
Furniture and equipment at book value	2	4	6
Investments at fair value	3	82 094	83 881
Current assets		393	1 024
Accounts receivable		172	805
Contributions receivable		199	163
Transfers receivable		8	21
Cash and bank		14	35
Total assets		82 491	84 911
Non-current liabilities		216	175
Unclaimed benefits		216	175
Current liabilities		428	647
Accounts payable		186	409
Benefits payable		240	238
Transfers payable		2	–
Net assets		81 847	84 089

* Included in members' individual accounts are flexible annuitants of R486 million (2016: R441 million) who have exercised their option of a flexible pension in terms of rule 5.2.4 of the Fund.

Revenue account for the year ended 30 June 2017

	Note	2017 Rm	2016 Rm
Income			
Interest		553	500
Collective investment schemes distribution		133	133
Income from insurance policies		–	9
Fair value gain on investments		1 254	7 129
Expenditure		(414)	(390)
Administration expenditure	6	(414)	(390)
Net fair value revenue for the year		1 526	7 381

Statement of changes in funds and net assets for the year ended 30 June 2017

	Note	2017 Rm	2016 Rm
Balance at the beginning of the year		84 089	81 645
Add: Contributions received and transfers in		3 253	2 847
– Employees		1 054	1 010
– Employers		1 792	1 731
– Transfers from other funds		407	106
Less: Benefits awarded and transfers out		(7 021)	(7 784)
– Pensions		(4 113)	(3 921)
– Lump sums awarded	8	(2 844)	(3 823)
– Transfers to other funds		(64)	(40)
Add: Net fair value revenue for the year		1 526	7 381
Balance at the end of the year		81 847	84 089

Statement of changes in underlying funds for the year ended 30 June 2017

	Members Rm	Pensioners Rm	Risk benefits Rm	Other reserves Rm	To be allocated Rm	Total Rm
Opening balance	37 906	45 778	117	40	248	84 089
Contributions	2 541	–	308	–	(3)	2 846
Benefits	(2 844)	(4 113)	–	–	–	(6 957)
Administration fees	(68)	(77)	–	–	(1)	(146)
Growth/(deficit) allocation	962	676	1	4	29	1 672
Gross growth and investment income	1 088	814	2	4	32	1 940
Less: Portfolio management fees	(126)	(138)	(1)	–	(3)	(268)
Transfer from other funds	420	–	–	–	(13)	407
Transfers between reserves	(1 331)	1 616	(285)	–	–	–
Transfers to other funds	(62)	–	–	–	(2)	(64)
Closing balance	37 524	43 880	141	44	258	81 847

Cash flow statement for the year ended 30 June 2017

	Note	2017 Rm	2016 Rm
Cash flow from operating activities			
Investment income received		1 596	1 540
Cash payments to employees and suppliers for administration of the Fund		(398)	(400)
Net cash flow from operations	9	1 198	1 140
Net cash (outflow) from transactions with members		(3 762)	(5 010)
Contributions and transfers received		3 230	2 808
Benefits and transfers paid		(6 992)	(7 818)
Cash (deficit)/surplus		(2 564)	(3 870)
Net cash inflow/(outflow) from investing activities			
Purchases of furniture and equipment		(1)	(4)
Net purchases and disposals of investments, including movement in cash and short-term deposits		2 544	3 869
Net decrease in cash and bank for the year		(21)	(5)
Cash and bank at the beginning of the year		35	40
Cash and bank at the end of the year		14	35

1. Principal accounting policies and presentation

- 1.1** The summarised annual financial statements were derived from the regulatory annual financial statements which were compiled in terms of the Regulatory Reporting Requirements for Retirement Funds in South Africa.

The purpose of the summarised annual financial statements is to give the reader a broad overview of the financial position of the Fund as well as other relevant cash flows and income and expense account movements, without providing the level of detail as per the regulatory financial statements for the following reasons:

- Summarised data is provided to take account of the fact that investments are managed within a multi-manager structure. The regulatory financial statements are geared towards extensive detail on individual investments that are not relevant in a multi-manager structure, as the multi-manager structure is more tailored towards the type of mandates and managers itself.
- Cash flow information is provided as it is giving essential information in respect of the Fund. The cash flow information is derived from the information disclosed in the regulatory financial statements.
- The revenue account (investment income and expenditure) and the changes in accumulated funds (member/pensioner transactions) are disclosed separately for enhanced understanding of these items.

1.2 Equipment

Depreciation is calculated on the straight-line method to write off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful lives as follows:

Furniture and fittings	5 years
Office equipment	3 years
Computer equipment and software	3 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Impairment losses are recognised.

Gains and losses on disposal of equipment are determined by reference to their carrying amount and are taken into account in determining the net surplus or deficit.

Maintenance and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are charged against income.

1.3 Financial instruments

Measurement

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of any other entity. A financial asset or a financial liability is recognised when its contractual arrangements become binding and is derecognised when the contractual rights to the cash flows of the instrument expire or when such rights are transferred in a transaction in which substantially all risks and rewards of ownership of the instrument are transferred.

Financial instruments carried on the statement of net assets and funds include cash and bank balances, investments, receivables and accounts payable.

Notes to the financial statements for the year ended 30 June 2017 continued

1. **Principal accounting policies and presentation** continued

1.3 **Financial instruments** continued

Financial instruments are recognised on acquisition using trade date accounting, which includes transaction costs. Upon initial recognition financial instruments are designated at fair value through the statement of changes in net assets and funds as the assets or liabilities are managed, evaluated and reported internally on a fair value basis and/or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Subsequent to initial recognition, these instruments are measured as set out below.

1.3.1 **Investments**

Investments are classified at fair value through the statement of changes in net assets and funds and are measured at fair value.

Loans (other than housing loans) – loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market other than those that the Fund intends to sell in the short term or that is designated as at fair value through the statement of changes in net assets and funds. Loans and receivables are measured at fair value.

Debentures

Debentures comprise investments in listed and unlisted debentures.

Listed debentures

The fair value of listed debentures traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statements of net assets and funds date.

Unlisted debentures

Unlisted debentures are financial assets with fixed or determinable payments and fixed maturity. Fair value is estimated using pricing models or by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of the unlisted debenture.

Bills and bonds

Bills and bonds comprise investments in government or provincial administration, local authorities, participating employers, subsidiaries or holding companies and corporate bonds.

Listed bills and bonds

The fair value of listed bills and bonds traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statements of net assets and funds date.

Unlisted bills and bonds

A market yield is determined by using appropriate yields of existing bonds and bills that best fit the profile of the instrument being measured and based on the term to maturity of the instrument. Adjusting for credit risk, where appropriate, a discounted cash flow model is then applied, using the determined yield, in order to calculate the fair value.

1. Principal accounting policies and presentation continued

1.3 Financial instruments continued

1.3.1 Investments continued

Equities

Equity instruments consist of equities with primary listing on the JSE, equities with secondary listing on the JSE, foreign listed equities and unlisted equities.

Equity instruments designated as fair value through the statement of changes in net assets and funds by the Fund are initially recognised at fair value on trade date.

Listed equities

Equity instruments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net assets and funds. The fair value of equity instruments with standard terms and conditions and traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statements of net assets and funds date.

Unlisted equities

If a quoted closing price is not available, ie for unlisted instruments, the fair value is estimated using pricing models, or by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of equity instruments.

Preference shares

Listed preference shares

The fair value of listed preference shares traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statement of net assets and funds date.

Unlisted preference shares

In respect of unlisted preference shares, the fair value is determined by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of preference shares.

Insurance policies

Non-linked insurance policies

Non-linked insurance policies with insurers are valued on the basis of the policyholder's retrospective contribution to assets (ie accumulation at the actual investment return achieved on gross premiums).

1. **Principal accounting policies and presentation** continued

1.3 **Financial instruments** continued

1.3.1 **Investments** continued

Linked or market-related policies

If the policy is unitised, the value is equal to the market value of the underlying units. Other linked or market-related policies are valued at the market value of the underlying assets for each policy, in line with the insurer's valuation practices.

Private equity investments

Private equity investments are investments in equity capital that are not quoted on a public exchange. Private equity investments are valued in accordance with the international private equity and venture capital valuation guidelines.

Collective investment schemes

Investments in collective investment schemes are valued at fair value which is the quoted unit values, as derived by the collective investment scheme manager with reference to the rules of each particular collective investment scheme, multiplied by the number of units.

Derivative market instruments

Derivative market instruments consist of options, equity linked instruments, futures/forwards – SAFEX/foreign, currency swaps and interest rate swaps, financial option contracts, financial options on futures contracts and bond option contracts.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from regulated exchange quoted market prices in active markets, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The Fund does not classify any derivatives as hedges in a hedging relationship.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (ie the fair value of the consideration given or received) unless the fair value of that instrument is evidence by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) based on a valuation technique whose variables include only data from observable markets.

Options

Options are valued using option pricing modules.

Futures/forward contracts

The fair value of publicly traded derivatives is based on quoted closing prices for assets held or liabilities issued, and current offer prices for assets to be acquired and liabilities held.

Swaps

Swaps are valued by means of discounted cash flow models, using the swap curve from a regulated exchange (BESA) to discount fixed and variable rate cash flows, as well as to calculate implied forward rates used to determine the floating interest rate amounts. The net present values of the fixed leg and variable leg of the swap are offset to calculate the fair value of the swap.

1. Principal accounting policies and presentation continued

1.3 Financial instruments continued

1.3.1 *Investments* continued

Investment in participating employers

Investments in participating employer(s) may comprise loans, investments in listed and unlisted equities and other investments. Refer to respective policies for basis of accounting.

Hedge funds

Hedge fund investments are designated as fair value through the statement of changes in net assets and funds by the Fund and are initially recognised at fair value on trade date.

Listed hedge funds

Hedge fund investments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net assets and funds. The fair value of hedge fund investments traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statement of net assets and funds date.

Unlisted – where investor (fund) has no right to the underlying instrument – investment partners

Hedge fund investments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net assets and funds. The value of the financial asset owned by the Fund is measured in relation to the percentage holdings by each investment partner in the total fair value of the hedge fund. The fair value is estimated using pricing models or by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of hedge fund instruments.

Unlisted – where investor (fund) has a right to the underlying instrument

Hedge fund investments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net assets and funds. As the Fund has the right to the underlying instrument, a look through principle is applied, and the underlying instrument are separately measured and disclosed. The fair value is estimated using pricing models or by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of the hedge fund instrument.

Structured products

Investments in structured products are valued at the gross total fair value of all the underlying instruments included in the structure and/or arrangement. If there are instruments within the structured product that require different treatment, these may need to be treated separately.

1.3.2 *Accounts receivable*

Accounts receivable are financial assets measured initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment.

1.3.3 *Cash and cash equivalents*

Cash and equivalents comprise cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and exposed to insignificant amount of risk. Cash and cash equivalents are measured at fair value.

Notes to the financial statements for the year ended 30 June 2017 continued

1. **Principal accounting policies and presentation** continued

1.3 **Financial instruments** continued

1.3.4 **Accounts payable**

Accounts payable are financial liabilities measured initially at fair value, net of transaction costs that are directly attributable to the liability and subsequently measured at amortised cost using the effective interest rate method.

1.4 **Reserves**

Reserve accounts comprise particular amounts of designated income and expenses as set out in the rules of the Fund and are recognised in the year in which such income and expenses accrue to the Fund.

1.5 **Surplus**

Surplus apportionments are recognised on the date of approval of the surplus apportionment scheme by the Registrar. Surplus is measured at the values contained in the approved surplus apportionment scheme, adjusted for investment return or late payment interest until date of approval of the scheme as determined by the rules of the Fund.

1.6 **Impairment**

Financial assets carried at fair value or amortised cost

The Fund assesses at each statement of net assets and funds date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held to maturity investments carried at fair value or amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of changes in net assets and funds. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Fund may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed in the statement of changes in net assets and funds.

1. **Principal accounting policies and presentation** continued

1.6 **Impairment** continued

Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's net carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For this purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment of loans and receivables

A provision for impairment of loans and receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to their original terms.

1.7 **Provisions, contingent liabilities and contingent assets**

Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

Contingent liabilities

A contingent liability is not recognised in the statement of net assets and funds, but disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets

A contingent asset is not recognised in the statement of net assets and funds, but disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

1.8 **Contributions**

Contributions are measured at the fair value of the consideration received or receivable.

Contributions are accrued and recognised as income in accordance with the actuarial recommendations, and the rules of the retirement fund. Contributions received are apportioned between retirement funding and funding for risk and other expenses. The apportionment is governed by the rules of the Fund and actuarial recommendations.

Contributions are brought into account on the accrual basis, except for voluntary contributions which are recognised when they are received.

Any contributions outstanding at the end of the reporting year are recognised as a current asset – contributions receivable. Any contributions received in advance at the end of the reporting year are recognised as a current liability – accounts payable.

1. **Principal accounting policies and presentation** continued

1.8 **Contributions** continued

Interest charged on late payment of contributions

Compound interest on late payments or unpaid amounts and values shall be calculated for the year from the first day of the month following the expiration for the year in respect of which the relevant amounts or values are payable or transferable until the date of receipt by the Fund.

1.9 **Foreign currencies**

Transactions in foreign currencies are accounted for at the ruling rate of exchange on the transaction date. Assets and liabilities in foreign currencies are converted at the ruling rate of exchange on the statements of net assets and funds date.

Gains and losses on conversion are dealt with in the statement of changes in net assets and funds.

Income and expenditure relating to foreign investments are converted to South African currency at appropriate weighted average exchange rates, for the period.

1.10 **Investment income**

Investment income comprises dividends, interest and adjustment to fair value.

Dividends

Dividend income is recognised in the statement of changes in net assets and funds when the right to receive payment is established – this is the last date to trade for equity securities. For financial assets designated at fair value through the statement of changes in net assets and funds, the dividend income forms part of the fair value adjustment.

Interest

Interest income in respect of financial assets held at amortised cost is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

Collective investment schemes' distribution

Distribution from collective investment schemes are recognised when the right to receive payment is established.

Income from policies with insurance companies

Income from investment policies from insurance companies is included in the adjustment to the movement of the financial asset.

Interest on late payment of contributions, surplus improperly utilised and/or loans and receivables

Interest on late payment of contributions, surplus improperly utilised and/or loans and receivables is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

Adjustment to fair value

Gains or losses arising from changes in the fair value of financial assets at fair value through the statement of changes in net assets and funds are presented in the statement of changes in net assets and funds in the year in which they arise.

Expenses incurred in managing investments

Expenses in respect of the management of investments are recognised as the service is rendered.

1. **Principal accounting policies and presentation** continued

1.10 **Investment income** continued

Interest paid on borrowings

Interest expense is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

Derivative instruments

Changes in the market value of traded futures contracts and options are accounted for against net fair revenue for the period during which the changes take place.

Scrip lending

Income generated from scrip lending is recorded in the period of receipt. Contractual arrangements exist with various scrip lending agents. Scrip lending positions are not disclosed separately but are reported as part of the underlying holdings.

1.11 **Benefits**

Benefits payable and pensions are measured in terms of the rules of the Fund.

Benefit payments and monthly pension payments are recognised as an expense when they are due and payable in terms of the rules of the Fund. Any benefits not paid at the end of the reporting year are recognised as a current liability – benefits payable/due.

1.12 **Unclaimed benefits**

Benefits which remain outstanding for a period of 24 months or more, are classified as unclaimed benefits.

1.13 **Transfers to and from the Fund**

Sections 14 and 15B transfers to or from the Fund are recognised on the date of approval of the scheme/arrangement of transfer of business by the Financial Services Board, as contained in the approval certificate from the Registrar.

Individual transfers (section 13A(5) transfers) are recognised on the earlier of receipt of the written notice of transfer (recognition of transfer) or receipt of the actual transfer value.

All the above transfers are measured at the values as per the section 14 application or the value of the transfer at effective date of transfer adjusted for investment return or late payment interest as guided by the application.

Transfers receivable at the end of the reporting year are recognised as a current asset measured at the fair value of the transfer application at effective date of transfer.

Transfers payable at the end of the reporting year are recognised as a current liability measured at the value of the transfer application at effective date of transfer adjusted for investment return or late payment interest as guided by the application.

1.14 **Administration expenses**

Expenses incurred in the administration of retirement funds are recognised in the statement of changes in net assets and funds in the reporting year to which they relate.

In the event that an expense has not been paid at the end of a reporting year the liability will be reflected in the accounts payable note. If the expense was paid in advance or overpayment occurred, the applicable amount will be disclosed under the accounts receivable note.

Notes to the financial statements for the year ended 30 June 2017 continued

1. **Principal accounting policies and presentation** continued

1.15 **Related parties**

In considering each possible related-party relationship, attention is directed to the substance of the relationship and not merely the legal form.

If there have been transactions between related parties, the Fund shall disclose the nature of the related-party relationship as well as the following information for each related-party relationship:

- the amount of the transactions;
- the amount of outstanding balances;
- their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in the settlement;
- details of guarantees given or received;
- provisions for doubtful debts related to the amount of outstanding balances; and
- the expense recognised during the year in respect of bad or doubtful debts due from related parties.

1.16 **Member individual accounts**

Member individual accounts comprise the funds attributable to individual members, represented by investments and cash balances.

1.17 **Retirement benefits as employer**

Pension

Employees are employed by the Sentinel Retirement Fund. Pension contributions are made to the Fund and are charged against administration expenditure as incurred. Employees' benefits are determined on a pure defined contribution pension fund structure.

Medical aid

The Fund provides post-retirement benefits to employees who retired before 1 August 1999 by funding a portion of the medical aid contributions of retired employees. Provision is made for this estimated liability.

1.18 **Housing loan guarantees**

The Fund provides housing loan guarantees to members which are secured by members' fund credits, in terms of its rules and the provisions of section 19(5) of the Pension Funds Act (No 24 of 1956).

1.19 **Amounts to be allocated**

Amounts to be allocated represent transactions through the Fund which have not yet been allocated to members or reserves.

	Computer equipment and software Rm	Office equipment Rm	Furniture and fittings Rm	Total Rm
2. Furniture and equipment				
Current				
Cost				
At beginning of period	43	2	6	51
Additions	1	–	–	1
Balance at 30 June 2017	44	2	6	52
Accumulated depreciation				
At beginning of period	40	2	3	45
Depreciation	2	–	1	3
Balance at 30 June 2017	42	2	4	48
Carrying value at 30 June 2017	2	–	2	4
Previous				
Cost				
At beginning of period	41	2	4	47
Additions	2	–	2	4
Balance at 30 June 2016	43	2	6	51
Accumulated depreciation				
At beginning of period	34	2	3	39
Depreciation	6	–	–	6
Balance at 30 June 2016	40	2	3	45
Carrying value at 30 June 2016	3	–	3	6

Notes to the financial statements for the year ended 30 June 2017 continued

	2017			2016		
	Total Rm	Local Rm	Foreign Rm	Total Rm	Local Rm	Foreign Rm
3. Investments at fair value						
Cash	5 308	3 576	1 732	4 446	2 852	1 594
Commodities	127	127	–	122	122	–
Debt instruments	17 934	15 545	2 389	20 141	17 769	2 372
Equities	23 300	22 301	999	24 181	22 043	2 138
Insurance policies	5 190	5 190	–	4 558	4 558	–
Collective investment schemes	21 370	7 050	14 320	14 967	2 422	12 545
Hedge funds	1 234	–	1 234	6 321	5 077	1 244
Private equity funds	5 697	2 704	2 993	6 750	3 957	2 793
Investment in participating employers	1 627	1 627	–	1 600	1 600	–
Derivative market instruments	307	(64)	371	795	144	651
Total investments	82 094	58 056	24 038	83 881	60 544	23 337
	Exchange rate conversion at 30 June 2017		2017 Rm	%	2016 Rm	%
Currency profile						
Investment held in:						
South African rand			58 056	71	60 544	72
US dollar	13,12		24 038	29	23 337	28
			82 094	100	83 881	100

	At 30 June 2017 Net fair value Rm	At 30 June 2016 Net fair value Rm
4. Derivative instruments		
Total derivative instruments	307	795

Net fair value

Net fair value represents the net fair value of all outstanding derivative financial instruments at year-end. The fair value represents the market value if the rights and obligations arising from derivative instruments were closed out by the Fund in orderly market conditions at year-end. Fair values are obtained using quoted market prices, discounted cash flow models and option pricing models, where appropriate.

5. Housing loan guarantees

The Fund has granted housing loan guarantees to IEMAS Cooperative Limited for loans granted to 3 820 members. Guarantees amounting to R707,8 million were in place as at June 2017 (2016: R669,9 million) and are automatically renewed as long as the loan exists and the member remains with the Fund. The outstanding loan amounts relating to these guarantees at year-end amounted to R529,9 million.

The amount of the guarantee may not exceed 50% of the fund credit that a member would receive if membership of the Fund was terminated for any reason, and the maximum term of 30 years may not extend beyond normal retirement date.

	2017 Rm	2016 Rm
6. Administration expenditure		
Investment management cost	268	247
Fund administration cost	146	143
	414	390

Included under administration expenditure are Trustee costs of R5 116 551 (2016: R4 978 557).

7. Post-retirement medical aid – former employees

The Fund provides post-retirement healthcare benefits to former employee retirees. Valuation of this obligation is carried out by independent qualified actuaries every two years. The liability was last valued at 31 December 2015 as R9,9 million. The amounts recognised as part of creditors and provisions in the balance sheet are as follows:

Value of obligation	10	10
8. Lump sums awarded		
Commutated pensions	285	361
Death of members and pensioners	315	291
Withdrawal, retrenchment, disability and divorce benefits	2 244	3 171
	2 844	3 823

Notes to the financial statements for the year ended 30 June 2017

	2017 Rm	2016 Rm
9. Reconciliation of net fair value revenue to cash generated from operations		
Net fair value revenue for the year	1 526	7 381
Adjustments for non-cash flow items	(345)	(6 294)
Depreciation	3	6
Accounting for fair value of investments	(348)	(6 300)
Operating surplus before changes in working capital	1 181	1 087
Changes in working capital	17	53
Decrease in sundry receivables and accruals	4	67
Increase/(decrease) in sundry payables	13	(14)
Cash generated from operations	1 198	1 140
10. Commitments and contingencies		
10.1 Capital contracts		
No capital commitments exist at present.		
10.2 Derivative financial instruments		
Option contracts and futures contracts have been transacted.		
No material losses are anticipated as a result of these transactions.		
10.3 Operating lease commitments		
Within 1 year	38	38
Between 1 and 5 years	160	191
After 5 years	3	10
	201	239
10.4 Private equity		
Total undrawn private equity funds commitment	2 785	3 825
11. Related-party transactions		
In considering each possible related-party relationship, attention is directed to the substance of the relationship and not merely the legal form. The following transactions between participating employers and the Fund occurred during the period:		
Transactions for the period:		
Participating employer contributions towards retirement and expenses	1 792	1 731
Global ASP Limited operating lease expenses for the period:		
Software processing and hosting costs	27,3	25,4
Professional services retainer costs	2,5	2,6
Balances at 30 June:		
Contributions receivable from participating employers	199	163
Global ASP Limited lease balance	154	185
Direct investments held in participating employers	1 627	1 600
Board members who are members of the Fund contribute in terms of the rules of the Fund, and upon exit will receive a benefit in terms of the rules of the Fund.		
12. Subsequent events		
There were no subsequent events for the period ended 30 June 2017.		
13. Significant matters		
There were no significant matters for the period ended 30 June 2017.		