

## We believe that good governance is good business because it helps us deliver long-term stakeholder value. As a retirement fund, we measure ourselves against standards for good governance, internal controls, risk and compliance management that reflect best practice and high standards of stewardship.

Governance links decision-making authority to accountability and ensures that those managing Sentinel are capable and that their interests are properly aligned with the interests of those they serve. Sentinel is committed to the highest levels of corporate governance, compliance and transparency and employs five Board subcommittees to support its role in managing and monitoring the affairs of the Fund. Sentinel is committed to the principles of sustainability reporting where applicable.

Given the current operating environment, Sentinel is sustainable in its areas of operation over the short and long term. Confirmation of this, together with relevant information applicable to stakeholders, can be found throughout this integrated annual report.

### Governance practices

Sentinel is overseen by a Board with an independent mindset and financial, legal and other relevant expertise. Their knowledgeable counsel is an invaluable resource for good decision making and effective management. Strong practices have, over the years, contributed to building Sentinel's reputation as a top performer from an investment perspective, and a superior provider of pension and member services. We adhere to the governance principles enshrined in PF130 and King III.

### Responsibilities of the Board

The Board's sole function and focus is to direct, control and oversee the operations of Sentinel in accordance with the rules of the Fund and applicable laws. The Board's authority is derived from the rules of the Fund. The Board is ultimately accountable and responsible for the management and performance of the Fund. They uphold this responsibility by overseeing the strategic direction and leadership,

ensuring good corporate governance and ethics, determining policy, agreeing on performance criteria and delegating detailed planning and implementation of policy to the Executive Committee.

The Board has delegated its subcommittees to assist in discharging its duties and responsibilities. Sentinel's day-to-day management is delegated to the Chief Executive Officer, supported by the Board's further delegation of authority to other Sentinel employees covering significant operations of the Fund. No member of management is a Board member.

The Board robustly challenges and approves strategic plans, the annual budget, the Investment Policy Statement, other policies, and the Code of Conduct and Ethics for the Board, employees and service providers. The Board reviews progress against strategic objectives and confirms that strategies and decisions are aligned with the interests of all stakeholders. The Board reviews and approves its own charter and committee mandates.

The following committees support the work of the Board:

- Audit and Risk Committee
- Investment Committee
- Business Development and Review Committee
- Claims Committee
- Human Resources and Remuneration Committee.

The committees do not perform any executive functions. They provide a forum for discussing issues within their mandate and the development of recommendations for consideration and approval by the Board. A report-back of the committee meetings is done at subsequent Board meetings.

As an important component of Sentinel's governance framework, these mandates are documented for each committee and for the Board itself. These documents outline and clarify various roles and responsibilities in the Board's governance process. The Board approves and reviews the mandates, performance and effectiveness of the committees on a regular basis. Processes are followed to ensure that information, required by the Board and its committees to function properly, is accurate, complete and delivered in a timely manner.

## Effective oversight and controls

The Board meets regularly to monitor the Sentinel management's compliance with policies and its achievements against objectives. A structured approach is followed for delegation, reporting and accountability. The Board mandated various subcommittees to assist the Board in discharging its duties. Management reports to the Board regarding the changing status of risks. This supports good decision making, allowing sufficient time for Board members to probe management's evaluation of growing risks. Experts on investment and economic-related topics regularly brief the Board on key or complex matters.

## Board in action

**Meetings held: five (including strategic planning session)**

**Attendance: 80,9%**

- Strategic planning process refinement
- Review and approval of strategic objectives and operational plans
- Review vision and mission statement
- Consideration of various business development and growth alternatives

- Consideration and approval of annual pensioner increases and bonuses
- Review of the actuarial valuation of the pensioner pool
- Review and approval of annual risk benefit adjustments
- Review and approval of general and special rule amendments
- Consideration and approval of annual costs, budgets and the recovery of costs.

## Board member training

The following topics were covered at Board member training sessions conducted in-house:

- Ethics Charter
- The potential impact on the economy, investment markets and by implication on retirement funds of a sovereign ratings downgrade
- Investments in Renewable Energy
- Board Appraisal
- Broad overview of regulations currently under review and the potential impact on Sentinel Retirement Fund
- King IV in relation to Retirement Funds
- Electronic Board Packs.

## Board evaluation and assessment

The Board and its subcommittees completed a self-evaluation and assessment against the requirements of PF Circular 130 and mandated responsibilities. This evaluation is intended to assess the effectiveness of the Board and its subcommittees in key areas. The Board and subcommittees discuss how they can improve performance against their mandates.

<b>Chairman</b>	<b>F Cooper (independent non-executive)</b>	
<b>Members</b>	JPL Bezuidenhout D Smith HJ Groenewald AP van der Merwe	J de Vos Hugo J Masha HH Hickey (Mrs)
<b>By invitation</b>	AB la Grange JS Fouché MM Mananye PAC Momberg Internal auditors	FJ Visser JN Botes MJ Mitchley External auditors

## Mandate

- Management of risks and costs
- Combined assurance assessment
- Safeguarding of assets
- Technology and information framework assessment
- Review compliance with regulation, applicable laws and codes of conduct
- Monitor effectiveness of internal controls and reporting
- Approve external audit plan and fees
- Approve internal audit plan and fees
- Review and approve annual financial statements
- Review internal and external audit reports
- Evaluate internal and external audit performance.

## Committee in action

**Meetings held: three**

**Attendance: 80,95%**

- Review and approval of internal and external audit plans and fees
- Review annual financial statements and integrated annual report
- Performance assessment of management, internal audit and the external auditor
- Review internal control environment and assess risk environment

To achieve its objectives, the Audit and Risk Committee has drawn together various assurances, including those of management, internal audit, external audit and actuaries. This committee schedules meetings with the internal and external auditors that are not attended by Sentinel's management to ensure that Sentinel's standards

are respected and that policies and procedures are still relevant. The appointed internal auditor reports directly to the Audit and Risk Committee.

The Audit and Risk Committee is satisfied that Sentinel's internal controls remain effective and will enable accurate financial statements for the year to be compiled. This conclusion is based on information received from management, Sentinel's appointed actuary and the internal and external auditors.

In this year of review, the Audit and Risk Committee did not find any instances of:

- material breach of any laws or legislation
- material breach of internal controls or procedures.

## Information technology governance

The Audit and Risk Committee concluded that Sentinel's IT department manages its responsibilities in a logical and cost-effective manner. Sentinel complies with the information technology (IT) principles laid out in Chapter 5 of the King III Code.

The IT governance assessment was based on the following:

- Board responsibility
- Performance and sustainability
- Information technology governance framework
- Information technology investment
- Risk management
- Information security
- Governance structures.

## Governance and risk management performance

**KPI: Risk dashboard**

**Objective:** Ensuring residual risk is maintained within the Fund's risk tolerance range.

### Outcome – 2017

During the current financial year, the Board reassessed, through the Audit and Risk Committee, the combined assurance obtained from management, internal and external assurance providers in the risk areas affecting the Fund. The overall risk profile of the Fund was also reassessed and updated.

**The top five risks by residual risk rating are:**

Risk description	Residual rating
Exposure to the mining industry	
Constraints of the current business model, products and services to promote growth beyond the pension service offering	
Political upheaval and uncertainty	
Impact of negative cash flows on long-term investments	
Funding level of the risk pools	

**KPI: King III assessment**

**Objective:** Ensuring internal controls operate at a level considered to be good.

**Outcome – 2017**

Internal Audit is required in terms of King III, Principle 7.3 to provide a written assessment of the effectiveness of the system of internal controls to the Audit and Risk Committee. In response to the King III requirement the following written statement was provided.

**Approach**

The prevailing internal controls implemented by the Fund were assessed, based on the scope of the work as reflected in the approved internal audit plan, as follows:

- review the relevant processes at the Fund
- review of the policy and procedures relating to the processes
- performed sample testing for key controls identified.

**Assessment of internal control**

For the financial year ended 30 June 2017, internal audit report that within the scope of work performed subject to the limitations of coverage and sampling, results of their reviews completed and any open matters which are in progress of being remediated by management nothing further came to their attention that would lead them to believe that overall internal controls at the Fund are not operating satisfactory.

**Assessment of internal financial controls**

For the financial year ended 30 June 2017, based on the scope of the internal audit work performed for the Fund, the results of the internal financial controls testing, and subject to the limitations of coverage and sampling, nothing has come to the attention of the internal auditor that would suggest any significant weaknesses in the design, implementation or execution of internal financial controls and the internal auditor advised that overall the financial controls are operating effectively.

**KPI: Compliance and governance report**

**Objective:** Ensuring that the Fund maintains its excellence in compliance and governance.

**Outcome – 2017**

The Fund complies with provisions of the applicable laws, pension fund circulars and codes, except for cases where compliance requirements may not necessarily be in the control of the Fund. The Fund has reported certain funds to the Financial Services Board (FSB) that failed to pay section 14 transfers into the Fund within the stipulated period. The Fund also reported certain employers who failed to pay contributions into the Fund within the stipulated period. Life-stage portfolios and the pensioner portfolio were in ‘soft’ breach of the Regulation 28 limit on offshore exposure. The Fund has until 30 June 2018 to rectify the breach.

<b>Chairman</b>	<b>JL Liackman (Independent non-executive)</b>	
<b>Members</b>	JPL Bezuidenhout	J de Vos Hugo
	BJ Drew	AJ Jacobs
	HH Hickey (Mrs)	NA Monaheng
	D van Deventer	AJ Pienaar
<b>By invitation</b>	AB la Grange	FJ Visser
	JS Fouché	JN Botes
	MM Mananye	Investment Consultant

## Mandate

- Investment strategy review
- Member portfolio review
- Manager selection/review
- Mandate compliance
- Regulatory compliance
- Investment risk management
- Investment performance review
- Service provider selection/review.

## Committee in action

**Meetings held: five (including annual feedback session)**

**Attendance: 90%**

- Review and approval of Investment Policy Statement changes
- Review and approval of Asset Liability Modelling inputs and assumptions
- Review of shareholder engagement activity
- Review of investment structure
- Review of the appropriateness of benchmarks
- Review of conflict of interest disclosures
- Review of committee mandate
- Approval of annual shareholder engagement programme.

<b>Chairman</b>	<b>FJ Visser (Chief Executive Officer)</b>	
<b>Members</b>	JPL Bezuidenhout	VR Esselaar
	GE du Plessis	E Kekana
	SM Motloung	HJ Groenewald
	AJ Jacobs	BJ Drew
	D Smith	AC Clarke
	D van Deventer	
<b>By invitation</b>	AB la Grange	JS Fouché
	MM Mananye	MJ Mitchley
	J Viljoen	JN Botes

### Mandate

- Review and approve new benefits, products and services
- Review and approve enhancements to benefits, products and services
- Consider the potential impact of changes to legislation
- Consider matters referred by the Board.

### Committee in action

**Meetings held: three**

**Attendance: 81,81%**

- Consideration of business and product development alternatives
- Consideration of retirement fund reform and tax amendments
- Review and approve risk benefit offerings.

### Legislative update

Sentinel must comply with the laws and regulations that govern registered pension funds in South Africa. The fast pace of legislative and regulatory changes in conjunction with an increasingly complex legislative environment since the 2008 financial crisis, has made Sentinel’s advocacy on proposed laws and regulations highly important. The Fund provides comments on proposed legislation and to advocate sensible and effective regulation.

### Rule amendments

In addition to implementing changes arising from new legislation, the Fund often initiates amendments to keep it current with broader policy issues and simplify the rules where possible.

### Significant rule changes during the past financial year

The general rules of Sentinel were amended so that the Fund remains relevant and sustainable. The following significant amendments were registered and approved by the Financial Services Board (FSB):

- To allow for transfer of pensioners from other funds
- To make provision that a trustee vacancy shall not invalidate a decision of the Trustees
- To reduce the number of Trustees from 22 to 19.

<b>Chairman</b>	<b>FJ Visser (Chief Executive Officer)</b>	
<b>Members</b>	JPL Bezuidenhout	SM Motloug
	GE du Plessis	DJ Ngwane
	VR Esselaar	SF Stehring
	AP van der Merwe	D van Deventer
<b>By invitation</b>	MJ Mitchley	MM Mananye
	Manager: Claims	Manager: Legal
	Occupational health consultant	
	Death and disability assessment administrators	

## Mandate

- Allocation and distribution of death benefit lump sum amounts in terms of section 37C of the Pension Funds Act (No 24 of 1956)
- Consideration of disability benefit applications in terms of the rules
- Interpretation and clarification of the rules in relation to benefits
- Legal and adjudicator benefit matters.

## Committee in action

**Meetings held: 12**

**Attendance: 93,75%**

Review and approval of death benefit allocation to beneficiaries and nominees:

- Decided on: 242

Review and approval of disability applications:

- Reviewed: 296
- Approved: 201
- Deferred: 33 for further medical evidence
- Not approved: 95

Legal and adjudicator referrals: 7.

<b>Chairman</b>	<b>AC Bardin (non-executive)</b>	
<b>Members</b>	JPL Bezuidenhout JDFAF van Niekerk AP van der Merwe DF Maritz AB la Grange	HH Hickey (Mrs) AC Clarke S Singh K Morodi
<b>By invitation</b>	FJ Visser	

### Mandate

- Establish and maintain remuneration policy for Board, committees, executive management and other employees
- Review and approve payments and increases to Board, committees, executive management and other employees
- Monitor the effectiveness of retention and succession planning strategies and their implementation
- Ensure employment equity and workplace skills objectives are attained
- Monitor employee relations
- Trustee training
- Ethics.

### Committee in action

**Meetings held: three**

**Attendance: 91,66%**

- Review of committee mandate
- Development of mandate for the Nominations Committee
- Review of employment equity philosophy, strategy, plan and progress
- Self-appraisal of Board of Trustees
- Trustee training plan
- Review employee remuneration against benchmarks.

## Remuneration

The remuneration policy of the Fund is aligned to key strategic performance areas. Remuneration levels, and the management and staff performance bonus scheme, are reviewed annually and are designed to attract and retain key employees, while also motivating and reinforcing desired performance outputs. Remuneration for Board members is based on market trends and other relevant factors.

In performing its duties, the committee considers local and national remuneration levels. Sentinel has committed itself to fair employment policies and

practices as defined in applicable labour legislation and the Employment Equity Act (No 55 of 1998) in particular. Sentinel encourages career growth for employees from previously disadvantaged groups by providing training, development and education programmes. Career growth, in turn, contributes to Sentinel's overall business objectives. The committee plays an integral part in succession planning, especially for the Chief Executive Officer, Principal Officer and Executive Management. Sentinel has submitted its employment equity report in accordance with legislation.

	Remuneration 2017 R'000	Bonus 2017 R'000	Remuneration 2016 R'000	Bonus 2016 R'000
Board	5 117	n/a	4 979	n/a
Executive management	16 238	4 729	16 883	4 345
General employees	61 792	4 721	59 110	4 633