“Sentinel has been investing and managing funds on behalf of our members and pensioners for 70 years and has weathered numerous market swings – from boom to bust – and dramatic political shifts, both locally and internationally. We have long accepted the realities of our investment environment and have evolved a long-term strategy to invest prudently within all scenarios.” *Sentinel 2016 joint leadership review*

The year under review has again been a challenging one, to say the least, yet overall performance achieved reflects the effects of prudent and innovative structures put in place over a number of years to minimise the impact of poor performing investment markets and to protect capital.

Sentinel continued to make progress on all the strategic objectives outlined in the previous year, but was again unable to substantially grow the Fund’s membership base. Continued uncertainty with regard to the implementation of retirement reform, originally intended for 1 March 2016, remained a major factor impacting this.

AB la Grange Chairman of the Board FJ Visser Chief Executive Officer

Sentinel’s four strategic pillars for sustainability and growth

Consistently excellent investment returns

As stated in our 2016 joint leadership review, South African and world markets have been volatile since 2008, and are expected to remain so for the foreseeable future. This statement held true for the year under review as the South African economy slowed even further and entered into a technical recession.

The year has been characterised by extreme domestic market uncertainty coupled to a highly volatile South African rand. The impact of increased political uncertainty and low economic growth led to the resultant downgrading, by all major credit agencies, of South Africa’s credit rating which weighed heavily on domestic investment market volatility.

A strengthening rand reversed and the currency gains seen over a number of months were wiped out over a very short period. The attractiveness of South Africa as a stable emerging market investment destination has suffered as a result of these factors and the poor financial performance and turmoil surrounding a number of state-owned enterprises.

Sentinel too has experienced the pressure of these uncertain conditions, the toughest and most challenging in some years. This has presented extraordinary challenges to the Board of Trustees, Board committees and management. It is gratifying to note that given the huge levels of volatility and uncertainty experienced over the past year, that all of the Sentinel life-stage portfolios and the pensioner portfolio were able to deliver positive returns net of asset management and administration costs.

Sentinel's investment model, founded on well-managed risk mitigation principles and long-term return expectations from a widely diversified portfolio of South African and offshore assets, that spreads risk across numerous asset classes remains the safest approach for engaging unpredictable and uncertain markets.

The Fund outsources its investment manager function, enabling us to continually select from specialist professionals that best fit the investment strategy. We constantly monitor the performance of these investment managers and regularly conduct face-to-face appraisals with them.

Over many years Sentinel has developed a robust model to fit the risk profiles of the differing investment portfolios for members and pensioners. Based on 59 investment mandates vested in 33 selected investment managers, we diversified beyond the traditional local and offshore asset classes to also include private equity, hedge funds and unlisted property as these alternative assets are expected to deliver real net returns in excess of the returns provided by traditional asset classes. Currently Sentinel has a policy of utilising the full allocation of investments the Fund is allowed to make offshore and in Africa.

Minimal costs

Sentinel is guided by the same non-profit principle that characterised the mutual societies that thrived in South Africa until the 1990s. We offer a highly competitive fee structure and our database technology can handle large or small employers with equal proficiency. We exist for our members, pensioners and beneficiaries. The Fund is service rather than profit driven. We, therefore, work continuously on behalf of our stakeholders to manage administration and investment management costs effectively.

The Fund invests in value-adding infrastructure such as advanced IT and member communication systems. Our focus on total cost has resulted in the costs to members and pensioners remaining significantly lower than competing funds, which grows the investment fund pool and ultimately the value of benefits paid to members, pensioners and beneficiaries.

Top-class governance

Sentinel prides itself on the industry leading governance structures and reporting mechanisms it has put in place over many years. In our 2016 integrated annual report, Sentinel introduced several best practice reporting principles as recommended by the International Integrated Reporting Council (IIRC). These included a business model infographic, a focused approach to the Fund's material issues, and the incorporation of the 'six capitals' concept. In striving to achieve our goal of presenting an even more informative and transparent integrated annual report, these concepts have been further expanded on in this our sixth integrated annual report.

The King IV Code of Corporate Governance (King IV) was released on 1 November 2016 and is effective for financial years commencing from 1 April 2017. King IV builds on King III and moves from an 'apply or explain' approach to an 'apply and explain' approach.

Since the draft King IV report was published, Sentinel has been busy evaluating the code and impact thereof on our reporting and business processes. King IV will be implemented to ensure that Sentinel remains at the leading edge of governance initiatives.

The Sentinel Board of Trustees and Board subcommittees undergo an appraisal process annually. The Fund exceeds the requirements of PF130 in the manner in which it formally appraises its Board, executive officers and service providers each year.

First-rate administration
Our commitment to service excellence and the maximisation of efficiencies to enhance cost effectiveness is driven by technology and a motivated highly skilled workforce. A stable management team and staff complement, with low employee turnover numbers, has resulted in Sentinel being able to retain expertise and institutional memory in the organisation and an administration function that remains consistently first rate. We are, however, mindful of the need to transform in line with South Africa's demographics, and remain diligent in our employment equity planning and ensuring that this process meets our set targets.

All employees have individual career paths, including a performance management system with clear and measurable objectives, allowing them to be developed up through the levels in a manner that retains the expertise required for Sentinel to maintain its exceptional service standards. In addition, through a study assistance programme, employees are encouraged to further their knowledge and education to the benefit of the organisation.

Combined assurance

During the year under review, Sentinel has further enhanced its comprehensive combined assurance framework optimising the assurance coverage obtained from management, internal and external assurance providers in the risk areas affecting the Fund.

We have also evolved our risk management process by implementing a dynamic risk identification and reporting mechanism that enables newly identified material risks to be monitored from an early stage. These risks are, therefore, evaluated and continuously monitored with the Fund's risk register being updated as and when changes take place.

Annuitisation

Many members, both contributing and deferred, joined Sentinel when they first entered employment and will remain under our financial care until their last day dawns. The Fund provides a seamless and zero cost transition from being a member to becoming a pensioner in the Fund. There are no advantages in converting retirement savings into other service provider annuities, while there are possibly financial and administrative penalties.

Sentinel provides retirees with a range of options at retirement including a guaranteed annuity option and an in-house living annuity option.

The actual annuity income that retirees earn is based on their accumulated retirement savings which depends on how long they have contributed to the Fund and whether they have contributed consistently at the recommended level over this period. The industry targets a replacement ratio of 75% of final salary, but members who join the Fund early in their careers can, from the age of 60 years, anticipate a pension in excess of this. Sentinel performs an asset liability modelling (ALM) exercise at least every 18 months in support of achieving this outcome.

Cybercrime

The world has become a small place – global interaction and reach is now the norm, not just the domain of a few. In our interconnected world, the dangers and risks posed by cybercrime needs to be faced squarely and is ranked among the top risks by many organisations, including Sentinel.

During the financial period, a number of highly publicised international cybercrime attacks took place, the most notable being the WannaCry ransomware attacks that impacted large organisations around the globe. As the custodian of personal data for many thousands of private individuals, Sentinel has proactively invested considerable time and resources to building up layered defences against potential hacking attempts and was fortunately spared any damage or loss as a result of these attacks.

As technology and cybercrime rapidly evolves, our IT department will continually evaluate and update these defences to mitigate the risk of an attack on the Fund.

Retirement reform

National Treasury published regulations with regard to lowering charges and improving market conduct for retirement funds. Sentinel already complies with the vast majority of these and welcomes most of the revised regulations.

The continued postponement of the implementation of annuitisation regulations is, however, a concern as it adds to the uncertainty experienced by existing and prospective members and participating employers.

Transformation

As a retirement fund governed by the Pension Funds Act, Sentinel does not have shareholders. We support Black Economic Empowerment (BEE) and transformation via three channels. The first is through our internal Employment Equity (EE) plan, in which we develop employees from designated groups up through the ranks. The second is by recruiting promising graduates as interns and training them in the financial, investment and retirement fund fields. Thirdly, we support a black investment manager incubation programme that assists start-up black investment management firms to establish themselves in this industry and support these managers after they have graduated from the programme into the mainstream investment management industry. This programme has been under way for a number of years and is proving highly successful in bringing fresh young black talent into the institutional investment industry. As at 30 June 2017, 12 black investment management firms have graduated from the programme, while a further 10 black investment management firms are being supported.

Outlook for 2017/18

The domestic arena, which houses the bulk of Sentinel's assets, is in a cauldron of uncertainty and turmoil. This mix has the potential for long-term instability creating irrational decisions and behaviour. Stabilising the economy, creating an environment of certainty with regard to policy decisions and game plan, and setting the scene for longer-term sustainable inclusive growth is paramount in ensuring the financial stability of all South Africans and in particular those whom we serve.

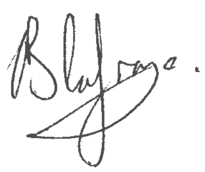
Sentinel has for more than 70 years weathered many storms. The Fund has, through its well-diversified asset base and robust investment strategy, overcome many market, political and international rollercoaster ups and downs. We are therefore confident that although the next 12 months will be challenging, if not difficult, Sentinel will navigate this successfully within the ambit of acceptable risk tolerance levels.

Appreciation

The past year has been a tough one, the goal posts of 'normal' have shifted. Extracting value, while remaining cognisant of the associated risks in a very fast-changing environment of general uncertainty, has become a daily challenge.

We express our deep gratitude to the broader Sentinel team that took up the challenge and made another successful year possible. We thank our Board members, committee members, management and staff for their diligence, commitment and efforts. In particular, we thank Mr Madula Mananye, our Principal Officer, Mr John Liackman, the Chairman of the Investment Committee, Mr Francois Cooper, the Chairman of the Audit and Risk Committee, and Mr Abe Bardin, the Chairman of the Human Resource and Remuneration Committee.

We extend our sincere appreciation to all Sentinel service providers and business partners for their contribution to our commitment of excellent service and also to our participating employers, members and pensioners for their continued loyalty and support, even during the difficult times of late.



AB la Grange
Chairman of the Board
5 October 2017

FJ Visser
Chief Executive Officer

The past financial year was challenging with low investment returns being experienced in financial markets and by the Fund. Notwithstanding this the Fund is in a sound financial position and able to meet its liabilities.

This report details and evaluates the financial wellbeing of the Fund against the following important criteria:

- The funding level of the pensioner reserve and ability to grant pension increases
- The funding level of the risk benefit reserve and the ability to service risk benefit offering
- Ability to fund cash needs as required
- Investment performance
- Cost controls in administering and investing member assets.

Pensioner reserve funding level

This reserve is evaluated on an annual basis by the Fund's external valuator to ensure its assets are sufficient to meet future pensioner liabilities. The main assumptions used to determine the solvency of this reserve are also evaluated annually to ensure reasonableness and relevance to the Fund's actual liability profile. The Board has, in conjunction with the investment consultant, adopted an asset allocation in respect of the pensioner reserve that is based on a liability-driven investment approach. The overall result of the asset allocation and future return assumptions is an expected real return (discount rate) of 4,4% per annum at 30 June 2017 (June 2016: 3,6%). This rate is monitored and reviewed on a monthly basis.

However, since the target pension increase is 80% of inflation, the Fund formally uses a discount rate of 5,7% (expected future real investment return minus 80% of inflation) to value its liabilities. This is done to ensure that the Fund maintains an adequate solvency reserve (above 100%). The Board, in conjunction with the valuator, uses the real return rate of 4,4% (100% of CPI) to determine the affordability of pension increases and to determine investment strategy.

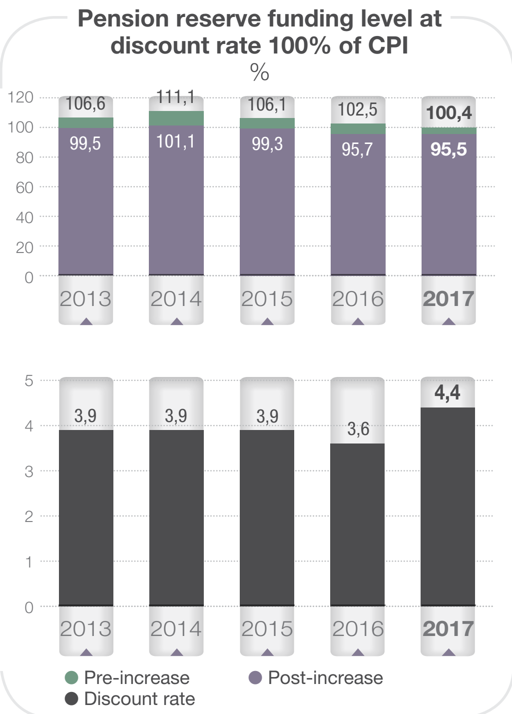
JS Fouché Chief Financial Officer

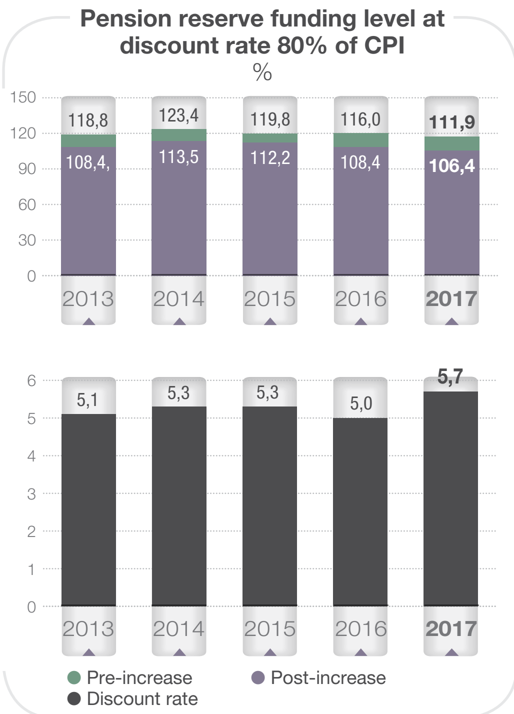
A brief summary of the valuation assumptions used is set out below (previous two statutory valuation date assumptions provided for comparative purposes):

	30 June 2017	30 June 2015 (Statutory)	30 June 2012 (Statutory)
Net post-retirement discount rate (80% of CPI*)	**5,7%**	5,3%	5,8%
Net post-retirement discount rate (100% of CPI)	**4,4%**	3,9%	4,7%
Mortality – pensioners	**Based on PA90 table with a mortality improvement of 0,5% per annum applied from 1 July 2009**	Based on PA90 table with a mortality improvement of 0,5% per annum applied from 1 July 2009	Fund-specific table
Mortality – disability pensioners	**PA90 table rated up by 4 years**	PA90 table rated up by 4 years	Fund-specific table
Spouse's age difference (if unknown)	**4 years**	4 years	4 years
Expenses (as % of pensioner payroll)	**1,0%**	1,0%	1,0%

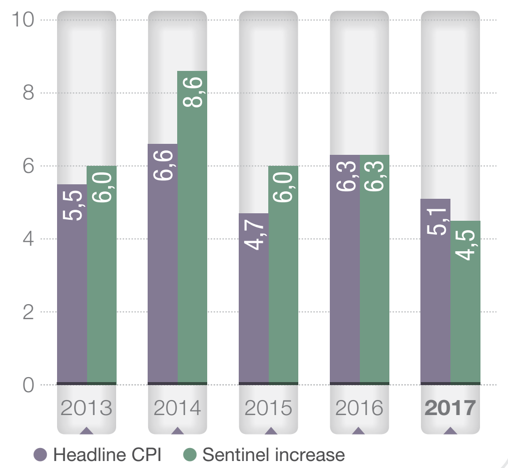
** Consumer Price Index.*

The valuation results for the last five years are reflected in the graphs below. Valuations reflected are based on the two different discount rates used, and before and after the October pension increase and any bonus (this indicates the effect of the increase and bonus on the financial year-end funding level of the same year).

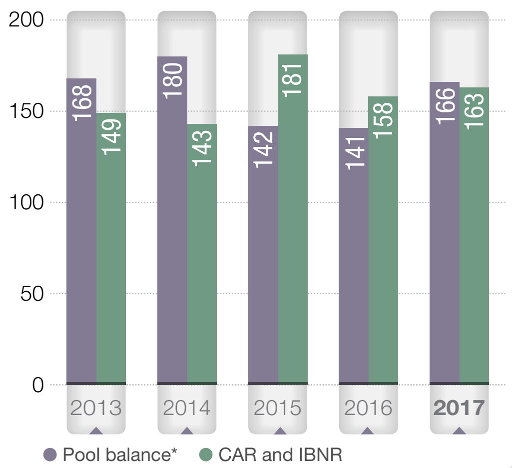




Pension increase granted
%



Risk pool balance at 30 June
Rm



** Includes unallocated contributions at financial year-end.*

The results confirm that the funding level of the reserve at June each year remained between 95% to 100% (measured at 100% of CPI discount rate) even after taking into account the October pension increase and bonus. The Fund has therefore been able to grant pension increases in line with or in excess of CPI.

A solvency reserve of between 6,4% and 13,5% in excess of 100% (at 80% of CPI discount rate, post the October pension increase and bonus) was maintained at June each year from 2013 to 2017.

Risk benefit reserve

The risk benefit reserve balance of R166 million (2016: R141 million) at 30 June 2017 (including unallocated contributions of R24 million at 30 June 2017) was higher than the actuarially recommended reserve level of R163 million. The changes implemented on 1 January 2016 were effective in stabilising the reserve pool balance.

Cash flow

The Fund continues to experience large cash outflows and therefore needs to maintain a core of liquid investments. Below is a summary of the annual net outflows.

	Total 2017 (Rm)	Total 2016 (Rm)
Contributions and transfers received	3 230	2 808
Investment income	1 596	1 540
Less: Benefits and transfers paid and expenses	(7 390)	(8 218)
Net cash outflow	2 564	3 870

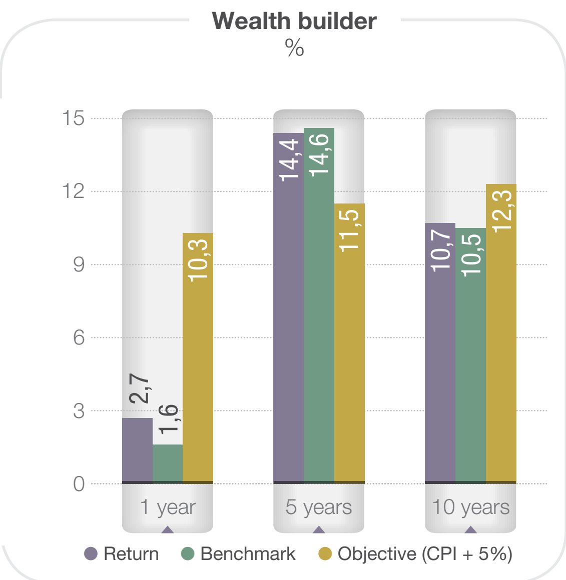
The Fund monitors its daily, monthly, quarterly and annual cash flows to ensure assets are liquidated in a timely and responsible manner when required. This liquidation process is based on a well-documented rebalance strategy that forms part of the Fund's investment strategy.

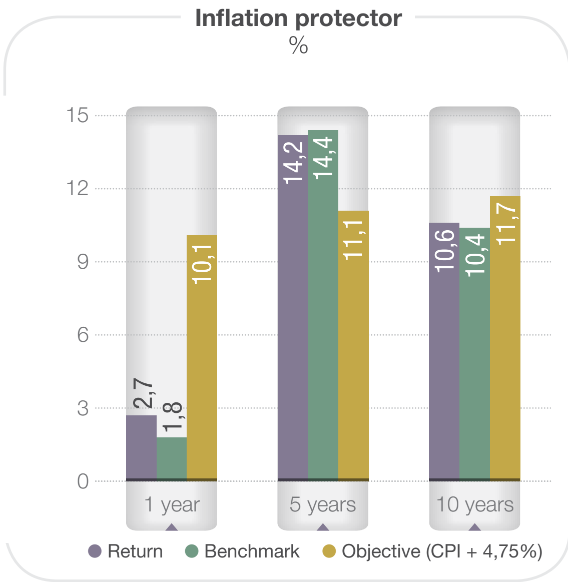
The following investments are less liquid and are carefully monitored to ensure that these remain within acceptable limits:
– Private equity
– Frontier markets
– Credit bonds
– Hedge funds
– Unlisted property.

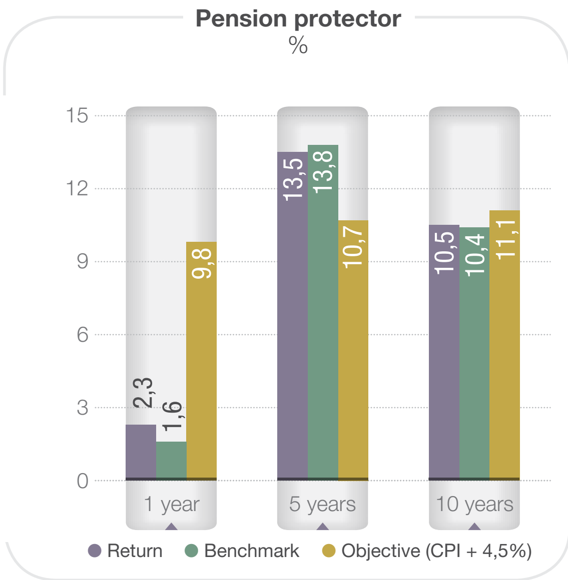
Investment performance

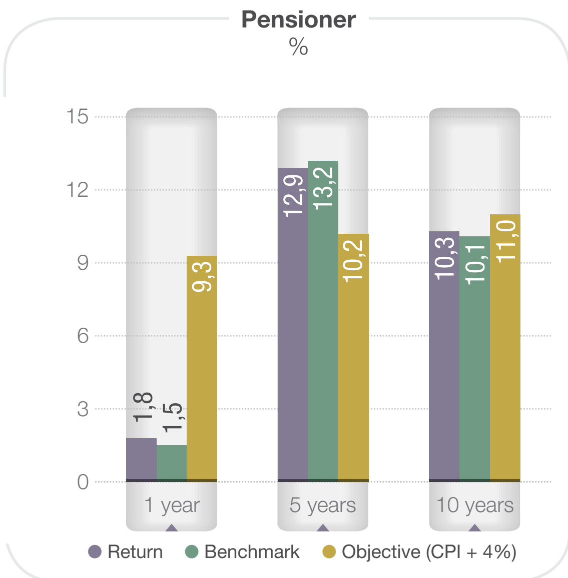
While Sentinel managed to meet its objective of exceeding the real-return objective over the five-year period, the devastating impact of lower or negative returns combined with higher levels of inflation can be seen over both the short-term (one year) and long-term (10 year) measurement periods. Sentinel continued to lag its asset-based benchmark over the five-year period, but as expected outperformed over the one-year and 10-year measurement periods. We remain confident that over the longer term our active approach to investment management will bear fruit. History suggests that the current high level of uncertainty and volatility in investment markets should suit active managers and will add value to investment performances.

Annualised portfolio investment returns (gross of direct costs) relative to real-return objectives and asset-based benchmarks for the financial year to 30 June 2017:









Cost management

The Board controls the cost of managing the Fund with assistance of the Audit and Risk Committee. Cost management is based on an annual budget that is approved by the Board on the advice of the Audit and Risk Committee. The actual cost is reported against the budget at Audit and Risk Committee and Board meetings. The total cost consists of two main components, being investment management cost and administration cost. Recovery of these costs is based on the member's Fund credit, while in the case of the pensioner pool and risk reserve, these are levied against the total pool value. Cost recovery ratios can fluctuate significantly from year to year as some investment managers are remunerated on investment performance relative to their benchmarks.

During the current financial year, actual recovery ratios were in line with budgeted recovery ratios.

Post-year-end events

No events have occurred since the financial year-end that materially affect the financial statements as disclosed.

Summary

As evidenced above and by the external valuator report for each financial year-end, the Fund and its reserve accounts are in a sound financial position. The pensioner reserve had a solvency reserve of 6,4% above 100% after taking into account the October 2017 increase and November 2017 bonus. The risk reserve benefit changes introduced 1 January 2016 had the desired effect by increasing the reserve to R166 million, R3 million above the required CAR and IBNR reserve.

Cash outflows remain a challenge but are being carefully managed. Investment returns were below inflation in a very challenging investment market environment.

JS Fouché
Chief Financial Officer
5 October 2017