The governance and risk management within the Fund is ultimately the responsibility of the Board. Part of this function includes the independent monitoring of risk management and compliance is delegated to the Audit and Risk Committee. The Executive Committee takes responsibility to ensure that the risk management framework is implemented.

Risk management process: The Board adopted a comprehensive enterprise-wide risk management approach, which is designed to identify, assess, communicate and mitigate risks in order to minimise their potential impact on the Fund.

Objectives: Our principal risk management and governance objective is to ensure that members and pensioners are not exposed to uncontrolled risks.

To attain this, we:
- create an awareness and understanding of risk at all levels within the Fund
- instil a culture of risk management and ownership, embedding this in the management processes of the Fund.

Our framework: The Fund uses a combined assurance framework with four levels of defence. The aim of this framework is to coordinate the efforts of all assurance providers in the Fund to avoid duplication, under and/or over assurance. This is supported by the combined assurance matrix, which details Sentinel's strategic risks, assurance providers, key control activities and key assurance processes.

First:	**Executive management**
Second:	**Internal legal/risk/compliance**
Third:	**Internal audit/subcommittees/Board of Fund**
Fourth:	**External audit/actuarial/external Legal counsel**

Executive management takes an active role in the risk management process, being ultimately responsible for the maintenance of and compliance with the risk management framework. The Executive Committee is responsible for identifying risks, with input from the Board and/or members of its subcommittees. The Executive Committee ensures that effective controls are in place to manage these risks, and monitors their application. This includes ensuring that consistent policies and procedures are in place for measuring, managing and reporting risk. The Board is kept informed through regular interaction with the Executive Committee and formal feedback at Board meetings provided by the chairman of the Audit and Risk Committee.

Our approach: The Executive Committee reviews the strategic and operational risks at every meeting of the Executive Committee and reports to the Audit and Risk Committee on a quarterly basis. The results of the review are interrogated by the committee and then incorporated in a risk management framework. The key risks of each business unit are captured in a risk register, and allocated to specific individuals or teams to drive specific actions. These risks are then consolidated to assess and define Sentinel's top strategic risks. Upon completion, the internal auditors draw up their annual internal audit plan, linking this to the strategic and operational risks identified.

Sentinel prioritises its risk exposure by considering the most appropriate approaches to determining risk appetite and risk tolerance levels. These include the analysis of financial data, fees and costs.

Significance of risks is determined on the following basis:

Impact factor	Financial – investment	Financial – operating costs	Compliance and legal	Reputation and brand
Catastrophic Major Moderate Minor Negligible	Quantified as potential effect on investment income or asset base	Quantified as potential cost as a percentage on investment income, operating budget or asset value	Quantified as potential size of legal claim against Sentinel, or potential jail terms or closure of operations	Qualitative assessment

Risk appetite

The following strategic risk heat map best depicts the Fund's risk appetite (the area in dark red depicts risks that are beyond our risk appetite):

Likelihood	Negligible	Minor	Moderate	Major	Catastrophic
Certain	Substantial	Substantial	High	Extreme	Extreme
Likely	Moderate	Substantial	Substantial	High	Extreme
Possible	Low	Moderate	Substantial	High	High
Unlikely	Low	Low	Moderate	Substantial	High
Remote	Low	Low	Moderate	Substantial	Substantial

Impact

As risk is an unavoidable consequence of the Fund's activities, managing risk is a multi-faceted process, which involves:

- independent monitoring through the internal audit function
- frequent communication via the Audit and Risk Committee to the Board
- application of sound judgement
- the early identification, understanding and reporting of risk by undertaking regular reviews to ensure appropriate actions are taken

- the proactive management of risk to ensure that the risk profile is in line with Sentinel's risk tolerance levels
- optimisation of the risk/return relationship
- ensuring adequate systems of control
- ensuring that an effective business continuity plan is in place
- ensuring that an ongoing risk management process is in place
- management, monitoring and reporting of risks to ensure that resources are optimally utilised to minimise the probability of negative events.

Compliance risk management

Regulatory compliance: In determining strategic and operational risks, we link readily identifiable strategic and operational risks to the level and acceptability of compliance with legislative requirements that are relevant to Sentinel.

Objectives: To provide a system of assurance to the Board that Sentinel complies with all applicable, laws, regulations, rules, codes and standards.

Our framework: Sentinel operates within a regulatory universe that includes laws, regulations, rules, codes and standards. Executive management and the compliance function rate compliance risk for inclusion in a compliance risk management plan. This plan is a snapshot of the compliance obligations, inherent risk rating, controls, residual risk rating and responsibilities assigned to risk owners.

Our approach: The compliance function, in conjunction with the executive management, annually reviews the compliance risk management plans to determine whether the status of the high-risk provisions of the applicable laws, regulations, rules, codes and standards have changed. These high-risk provisions are managed at executive level and are formally reported to the Audit and Risk Committee at every meeting.

Ethics

The Board recognises that good governance emanates from effective, responsible leadership, which is characterised by ethical values of responsibility, accountability, fairness and transparency.

Objectives: To build an ethical corporate culture based on trust and integrity.

Our framework: Sentinel has adopted a formal ethics charter and drafted an aspirational code of ethics for the Fund. This charter articulates Sentinel's policy regarding conflict of interest, gifts, confidentiality and fair dealing. A policy and procedure for managing conflicts of interest for the Board, officers, management and employees is in place to manage and, where possible, eliminate such conflicts. Sentinel has established an ethics hotline which is managed by an independent external reporting service, to allow employees, members, pensioners and the general public to report unethical or inappropriate behaviour, theft, corruption or fraud anonymously. This process is completely confidential.

Our approach: The Board, officers, management and employees disclose any personal or business interests that might lead to a real, potential or perceived conflict of interest. Matters reported through the hotline service are referred to the Audit and Risk Committee. The committee is responsible for ensuring that the matter is thoroughly investigated and appropriate action is taken.

Which significant risks do we face and how do we manage them?

Risks	Control
Reducing membership – the risk of losing members due to a declining mining industry and employers requiring products and service offerings beyond the pension service offerings.	The risk is managed through an active growth strategy within its current client base and targeting potential new employers.
Insufficient control and performance management of external service providers.	This is managed by formal assessments of service providers, internal and external audits, compliance monitoring and policies and procedures.
Key person dependency and employment equity risk.	This is managed by proper succession planning and people and talent development.
Political upheaval and uncertainty, degeneration of infrastructure, poor service delivery and an ungovernable South Africa.	The Fund obviously can't control these risks but ensure that the investment strategy of the Fund take these issues into account in managing the Fund's assets.
Governance risk – this risk comes through potential improper structures (including delegation of authority) between the Board, the Executive Committee and employees, leading to improper decision making.	Good governance processes that outline responsibilities and accountabilities are set by the Board and form a key part of overall risk management. The Board monitors the business activities of the Fund at least quarterly and subcommittees report on their activities to the Board at these meetings.
Fiduciary risk – the risk that fiduciary responsibilities are not fully respected or executed by the Board and service providers.	All Board members receive a comprehensive information pack which includes: – Board charter – Rules of the Fund – Duties of a trustee – Code of Conduct and Ethics – Policy and procedure for managing conflicts of interest. The Executive Committee has implemented a system of internal controls to ensure effective segregation of Sentinel's duties and operations. The Executive Committee reports to the Board quarterly on the Fund's operational activities.
Longevity risk – an actuarial term used to describe the potential risk associated with increased life expectancy among pensioners, which in turn could lead to an increased pensioner liability and an underfunded pensioner portfolio.	Actuarial analysis to identify and monitor mortality trends in Sentinel and the industry, to make recommendations to the Board regarding mortality assumptions to be used in valuing the pensioner portfolio.
Pensioner liability funding risk – the risk that pension payments and pension increases become unsustainable into the future.	The risk is managed monthly by reviewing the discount rate used to value liabilities. If the discount rate changes, the annuity tables are also updated to ensure new and current pensioners are treated fairly. The Fund also performs an asset liability analysis at least every 18 months to ensure the appropriate asset allocation mix is maintained to meet the liabilities. Mortality assumptions are also assessed annually to ensure these remain in line with the Fund's actual experience and industry trends. The estimated funding level of the pensioner pool is also calculated and monitored on a monthly basis.
Asset liability mismatch – the risk that the assets held by the Fund will not fully match the liabilities as per the Investment Policy Statement (IPS). The risk is therefore measured relative to the liabilities as defined in the IPS.	The asset liability modelling process is designed specifically to assess the risk of mismatches. The asset allocation and rebalance processes are designed to ensure Sentinel maintains an asset allocation that is appropriate to service its liabilities.
Risk benefit funding risk – the risk that benefit multiples and contribution rates are not competitive and sustainable.	This risk is managed by monitoring the assets and claims against them monthly. A claims subcommittee to the Board manages the claims by ensuring that the rules of the Fund are consistently applied. Contributions to risk cover and benefit multiples are reviewed annually by the Funds actuary to ensure this pool remains adequately funded.

Risks	Control
Legal, regulatory and policy risk – the risk that a change in laws or regulations or deviation from Sentinel's policies or inappropriate business practices will materially impact a sector, market or security. A change can increase operating costs or change the competitive landscape. Non-compliance could lead to fines or loss of licence to operate. Poor adjudicator decisions that could lead to increased cost and inefficiencies.	This risk is managed through representation on industry bodies to ensure changes are monitored and inputs provided on Sentinel's behalf. It is further managed through supervisory controls, workflow process controls and comprehensive policies and procedures. Both the internal and external audit function provide an additional level of oversight. External service providers are required to maintain adequate professional indemnity cover and internal control systems. Two independent audit firms are engaged to act as internal and external auditors. External and internal legal counsel is also engaged to advise on legal matters. The Executive Committee reports to the Board quarterly with respect to investment and contributions payment compliance. A compliance charter, a risk management plan and a compliance manual are in place. Active direct engagement with the National Treasury and the Financial Services Board to ensure changes to the regulatory environment are monitored and managed closely.
Business environment risk – the risk that Sentinel does not monitor, anticipate, understand or react timeously to changes in the external environment in which it operates.	This risk is managed through appropriate monitoring mechanisms and adjusting Sentinel's operating model. The Executive Committee actively participates in local and global industry conferences, which not only provide up-to-date information on emerging industry issues, but also networking opportunities with peer groups.
Liquidity risk – this risk would occur should Sentinel be unable to realise assets at reasonable value on demand to meet its commitments as they fall due. This risk is increased by the maturity profile of the Fund and members leaving the Fund due to retrenchments.	This risk is managed through its member growth and investment strategy including comprehensive cash flow analysis and modelling, asset/liability modelling, integrating long-term and short-term strategies and maintaining an adequate pool of high-quality marketable assets.
Investment risk – the risk of earning lower than expected returns or suffering permanent capital loss or assets not meeting liabilities. This risk includes the following: – Default (credit) risk – the risk that a counterparty fails to meet its commitment to repay capital and interest – Business risk – the risk that a company suffers and does not perform well or fails entirely – Inflation risk – the risk that future real value of investment (and therefore increases in benefit/pension) does not match increased cost of living – Interest rate risk – the risk that arises from changes in the absolute levels of interest rates, spread between interest rates and the shape of the yield curve. This has an impact on both asset (investment) and liability (benefit) values – Political risk – the risk that arises from change in political leadership or economic policy – Market risk – the risk of movement in security prices due to factors that affect the market as a whole.	This risk is managed by diversification of exposure across a spread of asset classes, regions, markets, sectors and currencies that is reviewed regularly. The IPS sets out limits in terms of permissible investments and credit quality requirements for a number of investment alternatives. Compliance monitoring and rules for correcting breaches at manager and portfolio level are strictly adhered to. The Investment Committee develops a strategic investment plan based on a liability driven investing and asset liability modelling approach. Exposure levels are reviewed and modified as required by changing conditions by either rebalancing or hedging. It is further managed by targeting specific levels of real returns through the appropriate mix of asset classes. The Executive Committee facilitates an annual formal strategy review session for the Investment Committee.
Fraud risk – the risk of intentional misrepresentation of material fact by one party, inducing another party to act, with a consequential loss or damage suffered by the latter. It includes any act, omission, and concealment of fact or abuse of position with intent to deceive, gain undue advantage or injure Sentinel's interests, whether there is any wrongful gain or loss.	This risk is managed by implementing an effective governance structure and risk management controls and procedures. The Fund has an anti-fraud and corruption policy in place. This is executed through a fraud response plan. The Executive Committee assesses risks quarterly and report to the Audit Committee its findings.

Risks	Control
	A whistle-blower hotline, managed by an external party, encourages staff members, Fund members or members of the general public, to report any misconduct. The Fund has a procurement and contract management policy and framework in place. All Board and subcommittee members, Executive Committee, staff and service providers are required to sign declarations on conflicts of interest.
Operational risk – the risk of losses arising from systems failure, processing errors, fraud (internal and external), cybercrime, forgery and other occurrences. Non-compliance with regulation and policies and procedures.	Operational risk is managed as part of routine operations by a system of internal control requiring segregation of duties, workflow, training programmes and internal and external audit reviews. The Board of Fund, in consultation with insurance advisers, regularly reviews the insurance cover of the Fund. The disaster recovery and business continuity plan involves a process to identify critical business functions, processes and procedures to be followed in the event of an unforeseen disaster. The plan provides guidance to management for the complete restoration of core business functions and IT facilities. The comprehensive disaster recovery procedure (Business Continuity Plan) incorporates full back-up of all electronic files daily and these are stored off-site. In the event of a disruption in business, Sentinel has secured two disaster recovery sites that will ensure the restoration of operations to near full capacity within 24 hours. Both the plan and the recovery facilities are tested at least once a year.

Each of these risks relate directly to one or more of the strategic risks identified by the Fund.

What opportunities do these risks create?

By managing governance, fiduciary, operational and fraud risk, Sentinel will enhance its reputation, which in turn will allow it to execute its membership growth strategy.

By managing longevity risk through appropriate strategies, Sentinel will assure the long-term sustainability of the Fund. This will ensure that Sentinel can maintain its track record with regard to increases awarded to pensioners, once again enhancing its reputation and allowing it to execute its membership growth strategy.

By managing the legal, regulatory and policy risk as well as the business environment risk, Sentinel could maintain its status as an industry trendsetter, again enhancing its reputation and allowing it to execute its membership growth strategy.

By understanding liquidity and investment risks and adopting appropriate strategies to exploit the premium available, Sentinel can enhance investment returns and execute its membership growth strategy.

Outlook

The Board and management, through the Audit and Risk Committee, continuously evaluate the operating landscape to identify new emerging risks. Cyber security has been identified as a key priority and existing controls will be enhanced and new controls introduced to ensure Sentinel's technology infrastructure and operating environment are effectively monitored and protected. Security breaches, including malware and other forms of cyber attack, could result in inappropriate use or release of confidential personal, business and/or financial information. Our internal and external auditors will conduct regular reviews to ensure that the operating environment is effectively monitored and protected.

Investment philosophy: Our investment strategy encompasses patience, discipline and perspective; focus on the long term and income protection. Our asset allocation process is designed to achieve optimal sustainable long-term investment returns at a level of risk, which the Board considers acceptable, and which is cognisant of our pay out obligations. We manage risk through diversification across geographies, asset classes, within asset classes and through position sizing. We approach investments in a responsible manner incorporating sustainability considerations, including the environmental, social and governance impact of our investments.

Sentinel's core investment beliefs:
- Market inefficiencies provide an opportunity to add value through active management
- Investment managers should be appropriately evaluated and incentivised to ensure alignment with the interests of the Fund
- Long-term performance is the culmination of various short-term outcomes. We seek to enhance long-term results by also understanding when shorter-term mispricing provides opportunities and ensuring implementation in a risk-controlled manner
- Long-term investments should be used to contribute to the transformation of the investment industry, the broader economy and society.

Our objectives: The objective of the Fund, in terms of its rules, is to provide retirement and other benefits for members and pensioners. The principal long-term goal of the Fund is to optimise the benefits of our members and pensioners, having due regard to the term and nature of obligations and the associated investment risks.

In reaching this primary long-term goal, we strive to achieve the following associated secondary goals:
- Active members achieving a pension on retirement, which has a maximum reasonable size (ie able to purchase an annuity equal to 75%* of the member's salary at retirement for a person that has contributed at least 15% of salary for 40 years to the Fund)
- Appropriate benefits and inflationary growth in pensions during retirement, targeting a minimum increase of 80% of headline inflation, while protecting income
- Provision for disability and any dependants in the event of death
- Ensuring that, at the time of leaving the services of an employer, members are not prejudiced through short-term risk or adverse pricing
- Optimal choice of investment portfolios, given dynamic markets and changing member risk profiles
- Being a responsible investor.

** In the context of a defined contribution fund the achievement of this goal is dependent entirely on the individual member's total retirement savings (ie including savings outside of the Fund). Individual members, and not Sentinel, will be best placed to monitor this through time. Members wishing to target a higher replacement ratio have three options, work longer, save more or accept higher investment risk.*

Key inputs used in the development of the investment strategy of the Fund include:
- The nature of the Fund, being defined contribution for active members and defined benefit for pensioners
- The Rules of the Fund
- Characteristics of membership derived from member data and mortality assumptions provided by the Actuary
- Statutory requirements, in particular the Pensions Fund Act
- The funding level of the pensioner portfolio

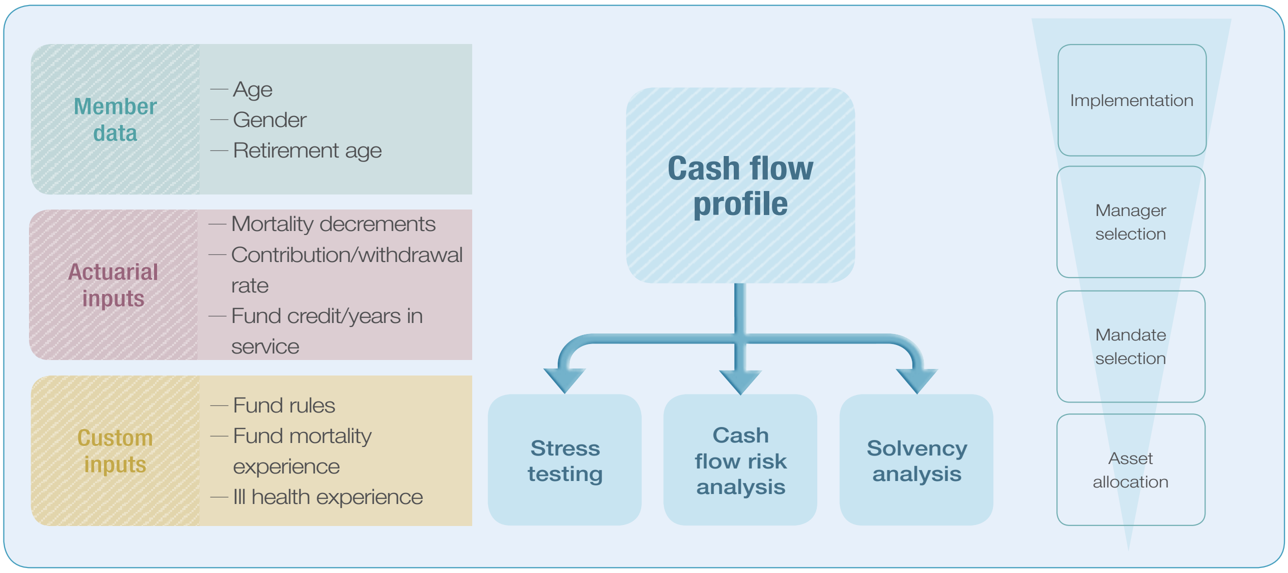
– Limitations placed on asset classes, either by the Rules of the Fund or Regulation 28.

Our approach: The asset liability modelling (ALM) process entails predicting future liabilities and matching these with an optimal set of assets to meet the liabilities at all levels of risk over time.

The Fund has a stream of potential cash flows that are required to meet future liabilities. These liabilities are the primary driver of the Fund's asset profile.

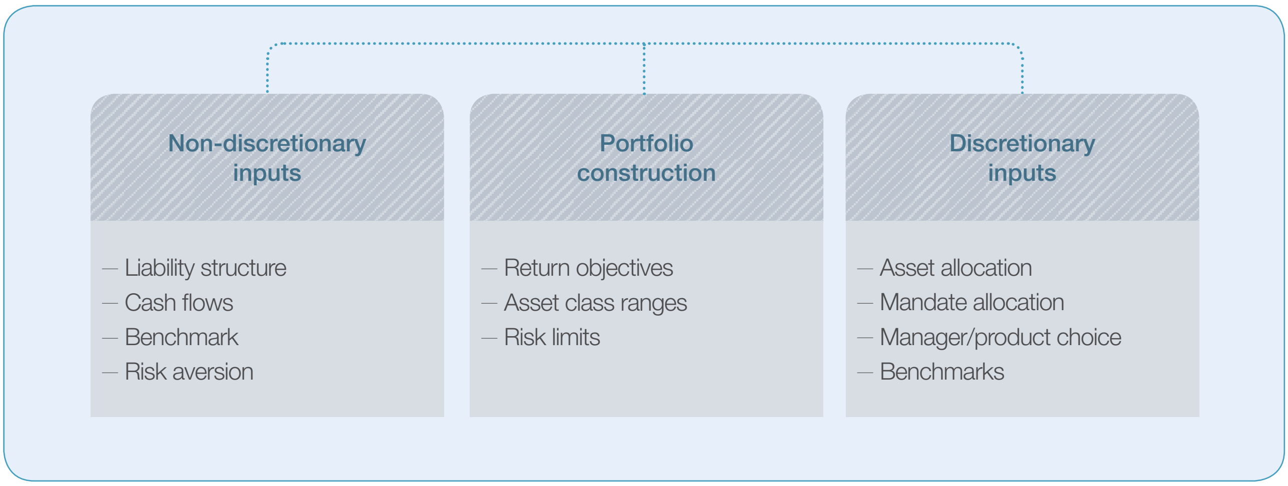
The Fund pursues a liability-driven investment (LDI) strategy that is tailored specifically to meet future cash flow needs (ie Fund liabilities). This provides a level of confidence that the Fund will be adequately funded to meet its liabilities over the long term, while addressing shorter-term cash flow needs. The LDI strategy seeks to minimise the volatility in the funding level (ratio of assets to liabilities) of the Fund's portfolios. By implication any external investment shock on the asset side is matched by a similar, but offsetting, impact on the liability side. The net effect is a funding level that is largely immune to shock.

Phase 1: Liability modelling – establishing the liability profile



Asset liability modelling (ALM) enables the Fund to gain valuable insight into the liability structure of the different portfolios and stochastically models an asset structure to suit these liabilities. The ALM results provide a solid platform from which to make informed decisions regarding an appropriate investment strategy for the different portfolios.

Phase 2: Asset modelling – selecting the appropriate asset mix to meet the liability profile. Only primary assets are modelled



In recognition of the consequences of a defined contribution scheme, different member profiles and the existence of substantially different pensioners, a variety of different portfolios are defined and created for members in the form of a 'life-stage' range, where members will migrate to different portfolios as they approach and reach retirement. The goals of each portfolio within the Fund, taking into account the risk tolerance, investment risks and expected market conditions will determine the appropriate strategic asset allocation as well as manager and mandate selection. The strategic asset allocation as well as the manager and mandate selection may be amended from time to time. Risk/return objectives may be amended from time to time due to changes in liability profile, capital market risk/return expectations or the investment outlook and environment.

The Board of Fund follows a multi-portfolio approach for the various members of the Fund, each portfolio designed for specific members or purpose. Each portfolio therefore has different risk and return characteristics. Implicit to this selection is a component designed as a default 'life-stage' approach to pension funding for members, the balance used to ensure complete investment choice options.

With this approach the Board has selected:

1. Three distinct market-linked 'life-stage' portfolios as the default for active members
2. A low risk capital protection portfolio, a Shari'ah compliant portfolio and a money market portfolio that, together with the three 'life-stage' portfolios ensure a complete set of investment choice options
3. A portfolio designed to deal specifically with pensioners.

The Board of Fund approved two approaches in determining how members will be allocated to portfolios:

i. **The first is default portfolio choice:** In the absence of any specific member instructions, the Fund allocates members into one of three portfolios depending on their age and term to retirement. This approach ensures that the individual member's risk reduces as the member approaches his/her retirement date. 'Life-stage' switches are carried out in the month of the member's birthday in the year of a switch as determined by the life-stage portfolio's term to retirement. At retirement date, the market value of a member's accumulated contribution, less any lump sum taken, is moved to the pensioner portfolio, where such assets are used to provide an annuity income, in terms of the pensioner income choice options, determined by the ruling pension conversion rates indicated by the scheme. Alternatively, a member may withdraw from the Fund up to one day before normal retirement date, transfer to an approved fund and then purchase a pension from an external provider of pension annuities.
ii. **The second is member investment choice:** The member can elect any of the portfolios available. While this option is available to all members, it is intended for the more sophisticated members with a better understanding of their specific circumstances and risk preferences. Returns earned by members are dependent on the investment portfolio choice. This allows recognition of the risk taken by the members in the different products. Under flexible investment choice, members are allowed full discretion in switching between portfolios. Two free investment choice switches per annum are allowed. All subsequent switches for the year attract a switching fee of 10 basis points, subject to a maximum of R5 000.

Portfolios are designed to meet the specific needs of each category of members and as such have different risk and return profiles as reflected below:

	Member portfolio			
	Pensioner portfolio	**Wealth builder**	**Inflation protector**	**Pension protector**
Portfolio type	Annuity income	Aggressive	Moderate	Conservative
Life stage	Post-retirement	More than 12 years to retirement	Between 12 and five years to retirement	Less than five years to retirement
Investment objective	Inflation plus 4%	Inflation plus 5%	Inflation plus 4,75%	Inflation plus 4,5%
Risk tolerance	7% around benchmark	10% around benchmark	9% around benchmark	8% around benchmark

Each market portfolio is managed by allocating a different weight to each of the asset classes using the same underlying investment managers as building blocks. The asset allocation differences are used to adjust the risk and return profiles for the different portfolios.

Asset allocation ranges are reflected below:

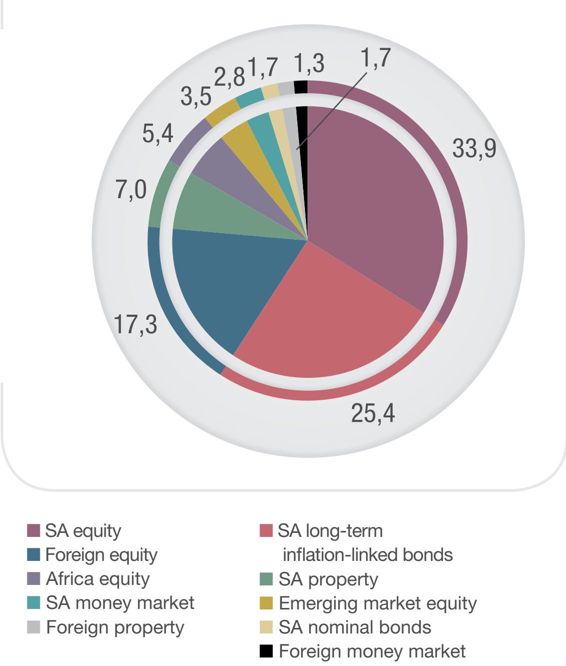
Asset class	Pensioner %	Wealth builder %	Inflation protector %	Pension protector %
SA equity	19 – 27	42 – 50	33 – 41	21 – 29
SA property	3 – 11	3 – 11	3 – 11	3 – 11
SA nominal bonds	0 – 9	0 – 5	1 – 11	0 – 9
SA short-term inflation-linked bonds	0 – 5	0 – 5	0 – 5	0 – 5
SA long-term inflation-linked bonds	28 – 38	9 – 19	12 – 22	26 – 36
SA money market	2 – 4	2 – 4	2 – 4	2 – 4
Africa equity	2 – 8	2 – 8	2 – 8	2 – 8
Foreign equity	13 – 21	13 – 21	13 – 21	13 – 21
Foreign property	0 – 7	0 – 7	0 – 7	0 – 7
Foreign bonds	0 – 5	0 – 5	0 – 5	0 – 5
Foreign money market	0 – 1	0 – 1	0 – 1	0 – 1
Emerging market equity	0 – 8	0 – 8	0 – 8	0 – 8

All portfolios are subject to Regulation 28 compliance.

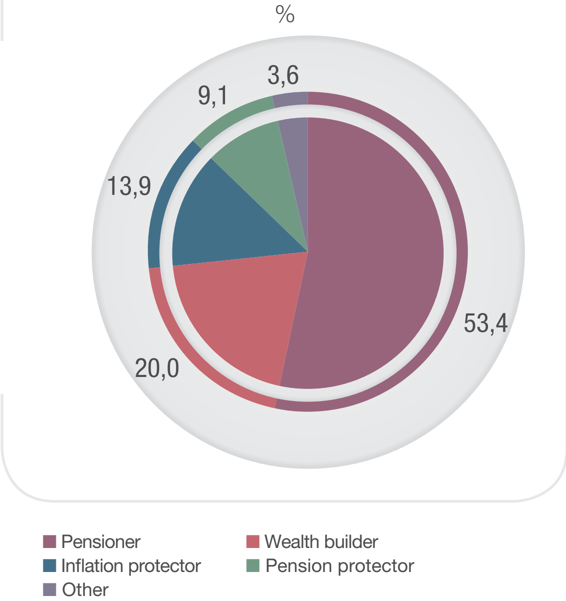
Portfolios have a range of exposures between 1% and 5% for unlisted property, 0% and 10% for hedge funds and 3% and 7% for private equity.

The asset allocation of portfolios is allowed to move within ranges and is monitored on an ongoing basis. Should an asset class move beyond the approved range, an asset class reallocation will be triggered based on an approved asset rebalance process. The investment strategy dynamically adjusts for major local and foreign market or economic shifts. In this regard portfolios are specifically protected when circumstances require. Short-term asset/market pricing discrepancies are further exploited through a global tactical asset allocation mandate.

Total asset allocation
30 June 2017
%



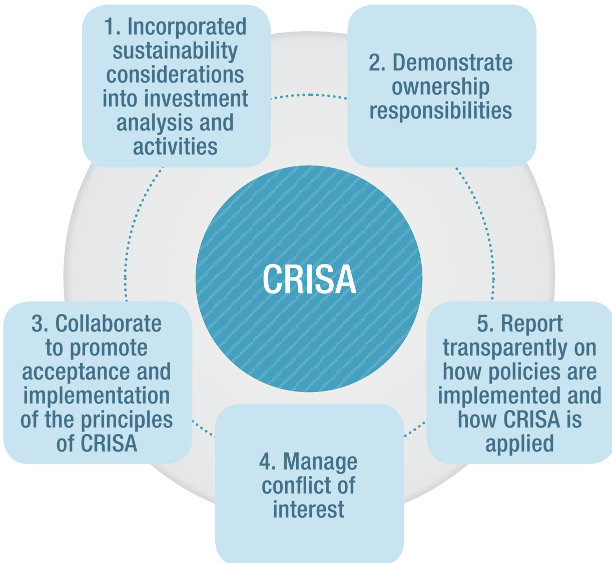
Money invested in the differents portfolios
30 June 2017
%



The IPS of the Fund complies with all material requirements of Circular PF130, King III as well as the CRISA Code and is available for inspection by stakeholders at Sentinel's registered office.

Responsible investing

As a responsible investor, we take shareholder engagement seriously and employ the Code for Responsible Investing in South Africa (CRISA) as a framework for implementing our active ownership. We adhere to the following guiding principles of the CRISA Code:



The Fund and its role-players should be cognisant of the environmental, social and governance factors that impact its operating environment. The Board of Fund recognises responsible investing (including proxy voting and high-impact investments) as part of the Fund's investment strategy and will review it from time to time.

All investments should meet responsible investment guidelines. Investment managers in particular are expected to consider and apply responsible investment principles. Investment managers will be expected to provide a written report, on request, on their responsible investment approach.

Our partners: We engage service providers who we believe will contribute to us attaining our long-term goals. To achieve an optimal risk/return profile we apply a well-diversified multi-manager investment structure.

The Fund employs a 'building block approach' whereby a variety of specialist investment managers are selected based on perceived skill and potential benchmark outperformance for mandates selected for each asset class. This approach includes considering the merits of active and passive investments. Diversification is applied across and within asset classes, is considered prudent and decreases portfolio risk. Cost considerations that apply to diversification is taken into account and a balance is struck between the mitigation of risk and the cost associated with diversification. The Fund employs the services of a tactical asset allocation (TAA) expert to enhance the performance of the Fund through positioning the asset allocation of the Fund slightly differently to the strategic asset allocation in order to benefit from short-term market mispricing.

Manager choice risk is taken to add additional alpha (ie to make up the difference between expected asset class returns and targeted portfolio returns). The Fund's assets are managed by appointed investment managers, with best-in-class managers selected for all mandates. Each of the appointed managers pursues their own strategies and controls the investments of their particular portfolio only. Each investment manager is expected to exercise judgement in choosing appropriate investments. Investment managers are monitored and managed dynamically for maximum management and performance efficiency. Our monitoring includes a formal annual feedback session to the Investment Committee. With the exception of unlisted investments, all mandates report market values and exposures daily. The daily market values (prices) are compared to live system prices (Bloomberg and I-Net) and benchmarks to ensure accuracy and reasonability of reported values. These daily market values, together with any cash flows, are used to strike member portfolio unit prices on a daily basis, which in turn allows our members to switch between portfolios each day. The daily exposures are used to measure and ensure compliance with Regulation 28 and mandate limits. The performance of investment mandates and asset classes are measured and compared to benchmarks daily. Discrepancies are immediately followed up in every instance.

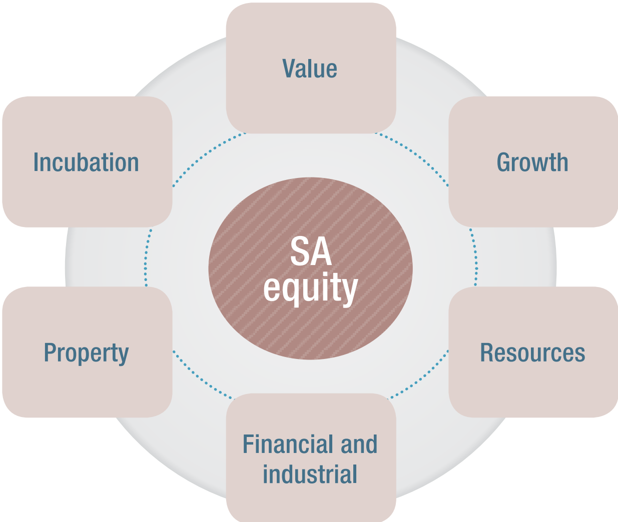
The approach applied by the Fund is that of mandate blending, which recognises distinct style components in the portfolio and manages them separately in order to reduce the implicit risks and biases resulting within each mandate. Benchmarks provide the rational anchor for the long-term investment strategy of each portfolio. Benchmarks are set for each asset class and each mandate. In addition a performance target is set for each mandate, which require the manager to add performance alpha over and above the benchmark return. All portfolio, asset class and investment manager risk and return are also subject to a peer group review.

Portfolio performances are measured against both an inflation-linked long-term performance objective as well as against an asset-based performance benchmark. The asset-based performance benchmark is the weighted average performance of the strategic allocation to underlying asset classes. While long-term performance is measured over 60 month cycles, it is recognised that sound long-term performance is dependent upon an accumulation of sound short-term performances. Shorter-term performances are therefore monitored and used to assess the impact of change.

Sentinel currently contracts the services of 33 investment managers (59 active investment mandates). These numbers do not include underlying managers in the case of multi-manager or fund-of-fund structures. In addition, we employ the services of nine securities lending desks to generate additional income, which is used to reduce costs to members.

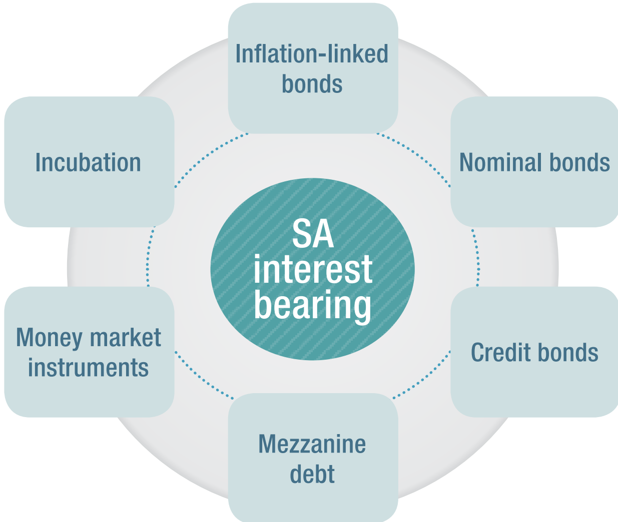
South Africa – listed equity

The benchmark for equity managers is the FTSE/JSE shareholder weighted total return index, adjusted subject to mandates. The benchmark for listed property managers is the FTSE/JSE South African listed property total return index.



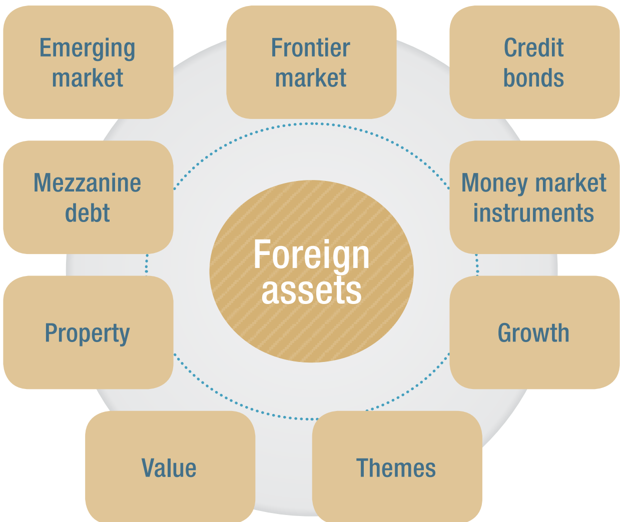
South Africa – interest bearing

Given its characteristic of being a natural hedge for pension fund liabilities, Sentinel's bond exposure is largely through inflation-linked bonds. Our benchmark for nominal bond managers is the BEASSA total return all bond index. For inflation-linked bond managers, we utilise the JSE Composite Inflation-linked Index (CILI) 12 years and over total return index. Our benchmark for money market managers is the Alexander Forbes composite short-term fixed interest index.



Foreign

The benchmark for Africa equity managers is the MSCI EFM Africa (ex SA) total return index; the S&P All Africa (ex SA) capped total return index or a combination thereof. The benchmark for foreign equity managers is either the MSCI (World) (Net) total return index or the MSCI (All Country World) (Net) total return index, adjusted subject to mandates. The benchmark for emerging market equity managers is a combination of MSCI Emerging Markets (ex SA) total return index. The benchmark for foreign listed property managers is the FTSE EPRA/NAREIT Developed Rental total return index. Sentinel is exposed to credit bonds, but the fixed interest beta is swapped for equity beta and hence classified as equity within the asset allocation.



Alternatives

Sentinel invests in a combination of fund-of-private equity funds, single private equity funds, fund-of-hedge funds and unlisted real estate funds.

Outlook

The Board and the Investment Committee have identified the following issues to focus on in the upcoming period:

- Continued optimisation of the inflation-linked asset structure through the introduction of further alternatives, including infrastructure, renewable energy and unlisted real estate
- Review and enhancement of the multi-manager structure and our product offering
- Continued focus on improving the Fund's cash flow profile
- Ensuring compliance with the newly introduced Regulation 37: default investment portfolios.

Member/participating employer growth

Our objective: Our principal goal is to ensure Sentinel's long-term sustainability.

In reaching this goal Sentinel works to achieve the following secondary goals:

- Promote Sentinel's reputation to potential new clients and their employees by offering a superb value proposition, ie superior long-term investment performance and pension increase history linked to low-cost structures
- Approach our employer clients to offer membership opportunities to new and existing employees
- Offer the right product combinations without jeopardising the value proposition
- Use systems, policies and other capabilities to entrench Sentinel's market leadership position and products to the existing membership base
- Create a long-term positioning strategy and define a niche marketing strategy
- Carefully manage risks and threats
- Manage market perceptions:
  - Look and feel
  - Communication
  - Gradual repositioning
- Development of a growth and retention plan based on the following:
  - Appropriate products
  - Marketing structure and options
  - Target markets
  - Controlled growth
  - Leading role in industry consolidation
  - Existing member retention.

Our approach: We aim to provide appropriate benefit products and options within the ambit of legislation. We actively engage with members, pensioners, organised labour and employers and promote Sentinel through effective communication, education and advice. Our aim is to influence and guide the decision-making process of members, pensioners, organised labour and employers.

Outlook

The Board and Business Development and Review Committee have identified the following focus areas for the coming financial year:

- Development of a growth and retention plan supported by relevant products and resources
- Development of a marketing strategy and plan
- Expansion of the product range to ensure a comprehensive employee benefit offering
- Ensuring compliance with the newly introduced Regulation 38: default preservation and portability and Regulation 39: annuity strategy.

Our objectives: Our goal is to attract and retain people with the appropriate skills and talent and to create the right culture, so as to ensure that the human resource function can support the attainment of the Fund's strategic imperatives.

Our approach: We believe that with transformation and capability growth within the right psychosocial environment we will be able to support the Fund's overall business objectives. To this end, we strive to create a learning organisation in which self-development, education, training, coaching and exposure is encouraged and supported for all employees. In particular, we encourage career growth for previously disadvantaged groups through training, development and education programmes. Sentinel is committed to the underlying principles of the Employment Equity Act and the Basic Conditions of Employment Act.

We continually enhance systems and processes to meet the unfolding needs of members and pensioners. To ensure our skills set can meet the challenges inherent to the process, we continuously build our intellectual capital. Our employees are engaged with our Ethics Charter, which guides our behaviour.

Outlook

The following initiatives are planned for the upcoming period:

- Initiation of a broad-scale technical and skills development strategy based on the completed employee skills audit to match competency and technical skills mapping for the purpose of capacity development and succession planning
- Continued focused development of previously disadvantaged and other key individuals through coaching, training, mentoring and educational support
- Implementing individual development plans to address transformation objectives
- Identifying opportunities to accelerate progress in employment equity
- Identify new candidates for the learnership programme, while streamlining the current programme
- Finalising the automation of the majority of our HR administrative functions
- Identifying specific opportunities to structure areas of the Fund so as to optimise productivity and facilitate transformation
- Streamlining business intelligence from the HR function.

Our objectives: Our principal goal is to ensure that the Fund can serve the needs and service expectations of our stakeholders, efficiently and cost-effectively.

In reaching this goal we work toward the following secondary goals:
- Ensuring that systems are operational 24x7
- Ensuring that systems are operated within the rules of the Fund and applicable laws
- Protect data and systems
- Archive all data daily and store securely offsite for minimum five years
- Take advantage of new technology to enhance the overall service delivery of the Fund.

Our approach:
- We embrace information technology as a critical enabler for business
- Our software and system providers are known world leaders in their respective fields
- Our use of appropriate technology, enables Sentinel to offer its stakeholders the best solutions and services available.
- Employees regularly attend IT training and seminars to stay abreast of new opportunities and threats.
- Sentinel's comprehensive disaster recovery procedure incorporates full backup of all data daily to a secure off-site location. In the event of a business disruption, two disaster recovery sites are in place and ready to restore operations to full capacity within 24 hours. Sentinel's business continuity plan and the disaster recovery facilities are tested for readiness at least once per year.

Outlook

The next financial year will see continued focus on:
- Continuous business process management improvements and optimisations
- Improve member communication channels to facilitate effortless access to relevant information and self-help tools, 24x7
- Utilise business intelligence for management decision-making and trend identification.

Materiality

Sentinel's Board and executive management present the information in this integrated annual report as relevant or 'material' to our key stakeholders for a properly informed understanding of Sentinel's performance over the past year, as well as insights into our forward strategy. Sentinel's leadership evaluated the available information with two primary questions in mind: 'who is our reporting aimed at' and 'what decisions they will be able to make from our reporting?'.

When deciding what information should be included in this report, we considered the relative importance of each matter in terms of the known or potential effects of these on Sentinel's ability to continue creating value. These were prioritised for relevance to the report users, so that non-pertinent information could be set aside, or shared through other channels. We intend to populate a complete integrated annual report that is unburdened with the peripheral data that tends to confuse rather than enlighten.

Sentinel's potential material matters emerge through our risk management process and stakeholder feedback. The Audit and Risk Committee meets three times a year to review all risk management processes, procedures and outcomes. These risks are discussed in the report of the Board of Fund.

Identified material issues are put through a materiality process that considers a topic's qualitative and quantitative aspect; the influence, legitimacy and urgency of the stakeholder raising the topic; the boundary of the topic; and Sentinel's ability to affect change with regard to our impact on the topic. The materiality processes involve getting the Board and executive management to workshop and prioritise identified issues. Ultimately the decision to report a topic as a material matter is based on the Board and management's view of the topic.

Sentinel's material matters

Investment management in low return environment

The Fund has managed to safeguard relative performance in line with long-term real return targets. This is becoming increasingly difficult in the current low return investment environment when combined with higher levels of inflation. Global geopolitical upheaval and uncertainty, continued local political and policy uncertainty, degeneration of infrastructure and poor service delivery also did not ease the pressure on the investment environment.

Our tested and proven business model is based on recognising and managing risk through a prudent yet knowledgeable approach to ensure investments are well diversified across regions and managers. Sentinel deploys in-house expertise to oversee individually top-rated investment managers, robust IT systems and transparent governance processes.

Declining mining industry

Mining in South Africa is considered a mature industry based on dwindling resources. Low commodity prices and regulatory uncertainty offer little incentive to expand existing operations or launch new ventures. The spate of mine closures or downsizing continued during this financial year and prompted many retrenched miners to withdraw their funds to either use their retirement capital to survive during difficult economic circumstances or reinvest elsewhere at an increased investment cost.

Although Sentinel restructured as a multi-industry retirement fund to serve a broader range of employers and members outside of the mining sector, attracting new employers has proved to be difficult as many employer companies prefer a 'one stop' service provider that can offer them pension fund, provident fund and other related products and services as a holistic solution to their employee's needs.

This, coupled to the decision by government to postpone until March 2019 implementation of the Taxation Laws Amendment Act, which was scheduled to become effective on 1 March 2016, has been a setback to our growth plan, as provident fund members transferring to Sentinel before this date will not enjoy the proposed protected vested rights. As a result, several employers linked to provident funds, have suspended their potential participation in Sentinel.

Total asset value, at present, remains sufficient for Sentinel to maintain our competitive cost structure and we are actively attempting to market the Fund to prospective new participating employers.

Sustainability of pension portfolio benefits (mortality and ageing pensioner population)
People, in general, are becoming more conscious about adopting healthy lifestyles, while pharmaceuticals and medical technology continues to improve rapidly. As a consequence, individuals are generally living longer. The effect on retirement funds such as Sentinel is that we will make more payments per pensioner than previously.

High levels of inflation and other economic disruptions may substantially reduce the real value of pensions being paid. Sentinel is required to pay guaranteed pensions until the death of the recipient, regardless of the value of the pension or of the funding asset. Nevertheless, in terms of the Sentinel ethos, we always strive to keep pensions as close to the real value of the pensioner's retiring salary as we realistically can.

Sentinel continually works to balance the short-term expectation of the pensioner against the longer-term drag of inflation to protect the sustainability of the Fund. We do this by annually assessing mortality assumptions against the Fund's actual experience and industry trends. The estimated funding level of the pensioner pool is also calculated and monitored on a monthly basis.