

# Annual Financial Statements

## Approval of financial statements

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

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

- the Fund's assets are safeguarded
- transactions are properly authorised and executed
- the financial records are reliable.

The summarised financial statements set out on pages 96 to 112 have been prepared for communication purposes with limited disclosure compared to the regulatory financial statements that are compiled in terms of the Regulatory Reporting Requirements for Retirement Funds in South Africa. The regulatory financial statements have been prepared and reported to the Financial Services Board (FSB). The summarised financial statements set out on pages 96 to 112 have been prepared in accordance with the criteria as set out in Note 1.1 of the notes to the summarised financial statements.

The independent auditors, PricewaterhouseCoopers Inc., have reported on the regulatory financial statements, in the course of executing their statutory duties. They have been given unrestricted access to all financial records and related data, including minutes of all relevant meetings. In addition, the independent auditors reported on whether the summarised financial statements are derived from the regulatory financial statements. The Board believes that all representations made to the independent auditors during their audit were valid and appropriate. The report of the independent auditors is presented on page 94.

The summarised financial statements of the Fund set out on pages 96 to 112 were approved by the Board of Fund. The financial statements have been signed by the Chairman, two Board members and the Principal Officer on behalf of the Board.



**AB la Grange**  
Chairman



**HJ Groenewald**  
Board member



**D Smith**  
Board member



**MM Mananye**  
Principal Officer

6 October 2016

## Statement of responsibility by the Principal Officer

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



**MM Mananye**  
Principal Officer

6 October 2016

### **Independent auditor's report on summary financial statements to the Board of Fund of the Sentinel Retirement Fund**

The summary financial statements, set out on pages 96 to 112, which comprise the summary statement of funds and net assets as at 30 June 2016, and the summary statement of the revenue account, statement of changes in accumulated funds, statement of changes in underlying funds and cash flows for the year then ended, and related notes, are derived from the audited regulatory financial statements of Sentinel Retirement Fund for the year ended 30 June 2016. We expressed an unmodified audit opinion on those regulatory financial statements in our report dated 6 October 2016. Our auditor's report on the audited regulatory financial statements contained an 'Other Matters' paragraph (refer below).

The summary financial statements do not contain all the disclosures required by the Regulatory Reporting Requirements for Retirement Funds in South Africa. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited regulatory financial statements of the Sentinel Retirement Fund.

### **Board of Fund's responsibility for the summary financial statements**

The Board of Fund is responsible for the preparation of a summary of the audited regulatory financial statements in accordance with the basis described in Note 1.1 on page 99.

### **Auditors' responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, 'Engagements to Report on Summary Financial Statements'.

### **Opinion**

In our opinion, the summary financial statements derived from the audited regulatory financial statements of Sentinel Retirement Fund for the year ended 30 June 2016 are consistent, in all material respects, with those regulatory financial statements, in accordance with the basis described in Note 1.1 on page 99.

### **Financial reporting framework**

Without modifying our opinion, we draw attention to the principal accounting policies of the regulatory financial statements in which the applicable financial reporting framework is identified, as prescribed by the Registrar. Consequently the regulatory financial statements and related auditor's report, as well as the summarised financial statements and related auditor's report, may not be suitable for another purpose.

### **Other matters**

The 'Other Matters' paragraph in our audit report dated 6 October 2016 states that as part of our audit of the regulatory financial statements for the year ended 30 June 2016, we have compared the totals reflected in Schedule IA to the totals reflected in the underlying Fund's accounting records to determine whether such totals have been correctly extracted. The paragraph states that we have not performed any additional procedures to substantiate the disclosures of the individual totals included in Schedule IA and accordingly do not express an opinion on the schedule. The paragraph does not have an effect on the summary financial statements or our opinion thereon.



**PricewaterhouseCoopers Inc.**

Director: JJ Grové

Registered Auditor

2 Eglin Road

Sunninghill

2157

6 October 2016

## Report of the consulting actuaries

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

An interim actuarial valuation was carried out as at 30 June 2016, and confirmed that the Fund is still in a sound financial condition.

Contributory and non-contributory members have their own individual fund credits, which are matched by equivalent assets at 30 June 2016. In addition, there is a risk reserve of R141 million and a mismatch reserve of R40 million.

The pensioners have a separate pool of assets in the Fund. This pool was 102,5% funded, including the recommended reserves, as at 30 June 2016, before any bonus or pension increase was awarded in October 2016.



**AR Pienaar**

Fellow of the Actuarial Society of South Africa

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

Sandton

6 October 2016

# Annual Financial Statements continued

## Statement of funds and net assets as at 30 June 2016

	Note	2016 Rm	2015 Rm
<b>Funds</b>			
Member accounts and reserves			
Members' individual accounts*		37 906	37 709
Pensioner reserves		45 778	43 458
Risk reserves		117	118
Other reserves		40	75
Amounts to be allocated		248	285
<b>Total funds and reserves</b>		<b>84 089</b>	<b>81 645</b>
<b>Employment of funds</b>			
Furniture and equipment at book value	2	6	7
Investments at fair value	3	83 881	80 932
Current assets		1 024	1 421
Accounts receivable		805	1 235
Contributions receivable		163	123
Transfers receivable		21	23
Cash and bank		35	40
<b>Total assets</b>		<b>84 911</b>	<b>82 360</b>
Non-current liabilities		175	206
Unclaimed benefits		175	206
Current liabilities		647	509
Accounts payable		409	281
Benefits payable		238	228
<b>Net assets</b>		<b>84 089</b>	<b>81 645</b>

\* Included in members' individual accounts are flexible annuitants of R441 million (2015: R318 million) who have exercised their option of a flexible pension in terms of rule 5.2.4 of the Fund.

## Revenue account for the year ended 30 June 2016

	Note	2016 Rm	2015 Rm
<b>Income</b>			
Interest		500	469
Collective investment schemes distribution		133	242
Income from insurance policies		9	46
Fair value gain on investments		7 129	6 592
<b>Expenditure</b>		<b>(390)</b>	<b>(389)</b>
Administration expenditure	6	(390)	(389)
<b>Net fair value revenue for the year</b>		<b>7 381</b>	<b>6 960</b>

## Statement of changes in funds and net assets for the year ended 30 June 2016

	Note	2016 Rm	2015 Rm
Balance at the beginning of the year		81 645	79 226
Add: Contributions received and transfers in		2 847	2 884
– Employees		1 010	1 020
– Employers		1 731	1 709
– Transfers from other funds		106	155
Less: Benefits awarded and transfers out		(7 784)	(7 425)
– Pensions		(3 921)	(3 799)
– Lump sums awarded	8	(3 823)	(3 432)
– Transfers to other funds		(40)	(194)
Add: Net fair value revenue for the year		7 381	6 960
<b>Balance at the end of the year</b>		<b>84 089</b>	<b>81 645</b>

## Statement of changes in underlying funds for the year ended 30 June 2016

	Members Rm	Pensioners Rm	Risk benefits Rm	Other reserves Rm	To be allocated Rm	Total Rm
Opening balance	37 709	43 458	118	75	285	81 645
Contributions	2 443	–	294	–	4	2 741
Benefits	(3 825)	(3 921)	–	2	–	(7 744)
Administration fees	(58)	(78)	–	–	(7)	(143)
Growth/(deficit) allocation	3 228	4 317	9	4	(32)	7 526
Gross growth and investment income	3 351	4 449	9	4	(40)	7 773
Less: Portfolio management fees	(123)	(132)	–	–	8	(247)
Transfer from other funds	107	–	–	–	(2)	105
Transfers between reserves	(1 657)	2 002	(304)	(41)	–	–
Transfers to other funds	(41)	–	–	–	–	(41)
<b>Closing balance</b>	<b>37 906</b>	<b>45 778</b>	<b>117</b>	<b>40</b>	<b>248</b>	<b>84 089</b>

# Annual Financial Statements continued

## Cash flow statement for the year ended 30 June 2016

	Note	2016 Rm	2015 Rm
<b>Cash flow from operating activities</b>			
Investment income received		1 540	1 718
Cash payments to employees and suppliers for administration of the Fund		(400)	(385)
<b>Net cash flow from operations</b>	9	<b>1 140</b>	1 333
Net cash (outflow) from transactions with members		(5 010)	(4 814)
Contributions and transfers received		2 808	2 894
Benefits and transfers paid		(7 818)	(7 708)
<b>Cash (deficit)/surplus</b>		<b>(3 870)</b>	(3 481)
<b>Net cash inflow/(outflow) from investing activities</b>			
Purchases of furniture and equipment		(4)	(5)
Net purchases and disposals of investments, including movement in cash and short-term deposits		3 869	3 344
Net (decrease)/increase in cash and bank for the year		(5)	(142)
Cash and bank at the beginning of the year		40	182
<b>Cash and bank at the end of the year</b>		<b>35</b>	40

## 1. Principal accounting policies and presentation

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

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

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

### 1.2 Equipment

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

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

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

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

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

### 1.3 Financial instruments

#### *Measurement*

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

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

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

### 1. Principal accounting policies and presentation continued

#### 1.3 Financial instruments continued

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

##### 1.3.1 Investments

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

##### *Loans (other than housing loans) – loans and receivables*

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

##### *Debentures*

Debentures comprise investments in listed and unlisted debentures.

##### *Listed debentures*

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

##### *Unlisted debentures*

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

##### *Bills and bonds*

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

##### *Listed bills and bonds*

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

##### *Unlisted bills and bonds*

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

## 1. Principal accounting policies and presentation continued

### 1.3 Financial instruments continued

#### 1.3.1 Investments continued

##### *Equities*

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

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

##### *Listed equities*

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

##### *Unlisted equities*

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

##### *Preference shares*

###### *Listed preference shares*

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

###### *Unlisted preference shares*

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

##### *Insurance policies*

###### *Non-linked insurance policies*

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

### 1. Principal accounting policies and presentation continued

#### 1.3 Financial instruments continued

##### 1.3.1 Investments continued

###### *Linked or market-related policies*

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

###### *Private equity investments*

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

###### *Collective investment schemes*

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

###### *Derivative market instruments*

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

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

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

###### *Options*

Options are valued using option pricing modules.

###### *Futures/forward contracts*

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

###### *Swaps*

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

## 1. Principal accounting policies and presentation continued

### 1.3 Financial instruments continued

#### 1.3.1 Investments continued

##### *Investment in participating employers*

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

##### *Hedge funds*

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

##### *Listed hedge funds*

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

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

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

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

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

##### *Structured products*

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

#### 1.3.2 Accounts receivable

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

#### 1.3.3 Cash and cash equivalents

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

### 1. Principal accounting policies and presentation continued

#### 1.3 Financial instruments continued

##### 1.3.4 Accounts payable

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

#### 1.4 Reserves

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

#### 1.5 Surplus

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

#### 1.6 Impairment

##### *Financial assets carried at fair value or amortised cost*

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

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

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

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

## 1. Principal accounting policies and presentation continued

### 1.6 Impairment continued

#### ***Impairment of non-financial assets***

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

#### ***Impairment of loans and receivables***

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

### 1.7 Provisions, contingent liabilities and contingent assets

#### ***Provisions***

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

#### ***Contingent liabilities***

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

#### ***Contingent assets***

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

### 1.8 Contributions

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

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

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

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

### 1. Principal accounting policies and presentation continued

#### 1.8 Contributions continued

##### ***Interest charged on late payment of contributions***

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

#### 1.9 Foreign currencies

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

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

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

#### 1.10 Investment income

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

##### ***Dividends***

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

##### ***Interest***

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

##### ***Collective investment schemes' distribution***

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

##### ***Income from policies with insurance companies***

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

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

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

##### ***Adjustment to fair value***

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

##### ***Expenses incurred in managing investments***

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

## 1. Principal accounting policies and presentation continued

### 1.10 Investment income continued

#### ***Interest paid on borrowings***

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

#### ***Derivative instruments***

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

#### ***Scrip lending***

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

### 1.11 Benefits

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

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

### 1.12 Unclaimed benefits

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

### 1.13 Transfers to and from the fund

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

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

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

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

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

### 1.14 Administration expenses

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

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

### 1. Principal accounting policies and presentation continued

#### 1.15 Related parties

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

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

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

#### 1.16 Member individual accounts

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

#### 1.17 Retirement benefits as employer

##### *Pension*

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

##### *Medical aid*

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

#### 1.18 Housing loan guarantees

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

#### 1.19 Amounts to be allocated

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

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	Computer equipment and software Rm	Office equipment Rm	Furniture and fittings Rm	Total Rm
<b>2. Furniture and equipment</b>				
<b>Current</b>				
Cost				
At beginning of period	41	2	4	47
Additions	2	–	2	4
<b>Balance at 30 June 2016</b>	<b>43</b>	<b>2</b>	<b>6</b>	<b>51</b>
Accumulated depreciation				
At beginning of period	34	2	3	39
Depreciation	6	–	–	6
<b>Balance at 30 June 2016</b>	<b>40</b>	<b>2</b>	<b>3</b>	<b>45</b>
<b>Carrying value at 30 June 2016</b>	<b>3</b>	<b>–</b>	<b>3</b>	<b>6</b>
<b>Previous</b>				
Cost				
At beginning of period	36	2	4	42
Additions	5	–	–	5
Balance at 30 June 2015	41	2	4	47
Accumulated depreciation				
At beginning of period	29	2	4	35
Depreciation	5	–	–	5
Balance at 30 June 2015	34	2	4	40
Carrying value at 30 June 2015	7	–	–	7

# Annual Financial Statements continued

## Notes to the financial statements for the year ended 30 June 2016 continued

	2016			2015		
	Total Rm	Local Rm	Foreign Rm	Total Rm	Local Rm	Foreign Rm
<b>3. Investments at fair value</b>						
Cash	4 446	2 852	1 594	4 272	2 735	1 537
Commodities	122	122	–	178	178	–
Debt instruments	20 141	17 769	2 372	16 136	14 063	2 073
Equities	24 181	22 043	2 138	25 239	23 609	1 630
Insurance policies	4 558	4 558	–	3 103	3 103	–
Collective investment schemes	14 967	2 422	12 545	17 839	2 540	15 299
Hedge funds	6 321	5 077	1 244	6 603	5 527	1 076
Private equity funds	6 750	3 957	2 793	5 266	3 371	1 895
Investment in participating employers	1 600	1 600	–	2 048	2 048	–
Derivative market instruments	795	144	651	248	(33)	281
<b>Total investments</b>	<b>83 881</b>	<b>60 544</b>	<b>23 337</b>	<b>80 932</b>	<b>57 141</b>	<b>23 791</b>
	Exchange rate conversion at 30 June 2016					
			<b>2016 Rm</b>	<b>%</b>	<b>2015 Rm</b>	<b>%</b>
Currency profile						
Investment held in:						
South African rand			<b>60 544</b>	<b>72</b>	57 141	71
US dollar	14,63		<b>23 337</b>	<b>28</b>	23 791	29
			<b>83 881</b>	<b>100</b>	80 932	100

	<b>At 30 June 2016 Net fair value Rm</b>	At 30 June 2015 Net fair value Rm
<b>4. Derivative instruments</b>		
Total derivative instruments	<b>795</b>	248

#### Net fair value

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

#### 5. Housing loan guarantees

The Fund has granted housing loan guarantees to IEMAS Co-operative Limited for loans granted to members. Guarantees amounting to R669,9 million were in place as at June 2016 (2015: R599,6 million) and are automatically renewed as long as the loan exists and the member remains with the Fund.

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

	<b>2016 Rm</b>	2015 Rm
<b>6. Administration expenditure</b>		
Investment management cost	<b>247</b>	253
Fund administration cost	<b>143</b>	136
	<b>390</b>	389
Included under administration expenditure are Trustee costs of R4 978 557 (2015: R4 835 885).		

#### 7. Post-retirement medical aid – former employees

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

Value of obligation	<b>10</b>	9
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#### 8. Lump sums awarded

Commutated pensions	<b>361</b>	301
Death of members and pensioners	<b>291</b>	243
Withdrawal, retrenchment, disability and divorce benefits	<b>3 171</b>	2 888
	<b>3 823</b>	3 432

	2016 Rm	2015 Rm
<b>9. Reconciliation of net fair value revenue to cash generated from operations</b>		
Net fair value revenue for the year	7 381	6 960
Adjustments for non-cash flow items	(6 294)	(5 534)
Depreciation	6	5
Accounting for fair value of investments	(6 300)	(5 539)
Operating surplus before changes in working capital	1 087	1 426
Changes in working capital	53	(93)
Decrease/(increase) in sundry receivables and accruals	67	(92)
(Decrease) in sundry payables	(14)	(1)
Cash generated from operations	1 140	1 333
<b>10. Commitments and contingencies</b>		
<b>10.1 Capital contracts</b>		
No capital commitments exist at present.		
<b>10.2 Derivative financial instruments</b>		
Option contracts and futures contracts have been transacted.		
No material losses are anticipated as a result of these transactions.		
<b>10.3 Operating lease commitments</b>		
Within 1 year	38	37
Between 1 and 5 years	191	156
After 5 years	10	31
	239	224
<b>10.4 Private Equity</b>		
Total undrawn Private Equity Funds commitment	3 825	4 258

### 11. Related-party transactions

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

The following transactions between participating employers and the Fund occurred during the period:

- The participating employers made contributions to the Fund for members to the value of R1 731 million (2015: R1 709 million).
- Contributions receivable from participating employers at 30 June 2016 amounted to R163 million.
- Direct investments held in participating employers at 30 June 2016 amount to R1 600 million (2015: R2 048 million). Investments held per individual participating employer/group of companies did not exceed 5% individually as required by Regulation 28.
- An eight-year operating lease was entered into with Global ASP Limited, a participating employer, to provide the following services to the Fund:
  - Software processing and hosting – costs incurred were R25 million.
  - Professional services retainer – costs incurred were R2,6 million.
 The total amount outstanding in terms of the lease at 30 June 2016 was R185 million.
- Board members who are members of the Fund contribute in terms of the rules of the Fund, and upon exit will receive a benefit in terms of the rules of the Fund.

### 12. Subsequent events

There were no subsequent events for the period ended 30 June 2016.

### 13. Significant matters

There were no significant matters for the period ended 30 June 2016.

# Glossary and Acronyms

## Glossary

<b>Active investing</b>	A portfolio management strategy where a manager makes specific investments with the goal of outperforming an investment benchmark index.
<b>Asset management</b>	The management of a client's investments by a financial services company.
<b>Assurance</b>	A positive declaration intended to give confidence.
<b>Audit</b>	An official inspection of an organisation's accounts.
<b>Beneficiaries</b>	A person or other legal entity who receives money or other benefits from a benefactor.
<b>Board member</b>	An individual person or member of a board given control or powers of administration of assets in trust with a legal obligation to administer it solely for the purposes specified.
<b>Board of Fund</b>	Sentinel Retirement Fund Board
<b>Cybercrime</b>	Criminal activities carried out by means of computers or the internet.
<b>Fiduciary</b>	Involving trust, especially with regard to the relationship between a trustee and a beneficiary.
<b>Inflation</b>	A general increase in prices and fall in the purchasing value of money.
<b>Investment</b>	The action or process of investing money for profit.
<b>Liabilities</b>	A company's financial debt or obligations that arise during the course of its business operations.
<b>Material</b>	The quality of being relevant or significant.
<b>Mortality rate</b>	The relative frequency of deaths in a specific population.
<b>Mutual society</b>	An organisation owned by its members and managed for their benefit.
<b>Organised labour</b>	An association of workers united as a single, representative entity for the purpose of improving the workers' economic status and working conditions through collective bargaining with employers. Also known as 'trade unions'.
<b>Passive investing</b>	An investing strategy that tracks a market-weighted index or portfolio.
<b>Portfolio</b>	A range of investments held by a person or organisation.
<b>Premiums</b>	An amount to be paid for a contract of insurance.
<b>Promulgation</b>	Put a law or decree into effect by official proclamation.
<b>Proxy</b>	The authority to represent someone else, especially in voting.
<b>Reserve</b>	A supply not needed for immediate use but available if required.
<b>Service provider</b>	Business or individual which offers service to others in exchange for payment.
<b>Shareholder</b>	An owner of shares in a company.
<b>Shareholder activism</b>	A way in which shareholders can influence a corporation's behaviour by exercising their rights as owners.
<b>Solvency</b>	The ability of a company to meet its long-term financial obligations.
<b>Stakeholder</b>	A party that has an interest in a company, and can either affect or be affected by the business.
<b>Sustainable</b>	Able to be maintained at a certain rate or level.
<b>Tracker investing</b>	Replicate the performance of a market index.
<b>Umbrella fund</b>	A collective investment scheme that exists as a single legal entity but has several distinct sub-funds.
<b>Valuator</b>	One who estimates officially the worth or value or quality of things.

## Acronyms

<b>ALM</b>	Asset liability modelling
<b>BEE</b>	Black economic empowerment
<b>BRICS</b>	Brazil, Russia, India, China and South Africa
<b>CAR</b>	Capital Adequacy Reserve
<b>CPI</b>	Consumer Price Index
<b>CRISA</b>	Code for Responsible Investment in South Africa
<b>DC</b>	Defined contribution
<b>EE</b>	Employment equity
<b>ESG</b>	Economic, social and governance
<b>eWasa</b>	Electronic Waste Association of South Africa
<b>FSB</b>	Financial Services Board
<b>FTSE</b>	Financial Times Stock Exchange
<b>HR</b>	Human resources
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IBNR</b>	Incurred but not reported
<b>IFRS</b>	International Financial Reporting Standards
<b>IIRC</b>	International Integrated Reporting Council
<b>ISA</b>	International Standards on Auditing
<b>IT</b>	Information Technology
<b>JSE</b>	Johannesburg Stock Exchange
<b>KPI</b>	Key performance indicator
<b>MOPF</b>	Mine Officials Pension Fund
<b>NQF</b>	National Qualifications Framework
<b>UASA</b>	A trade union, formally known as the United Association of South Africa

# Administration

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M Selinder (Mrs)

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**SARS approval number**

18/20/4/30800

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