

### **Our vision**

**To position and grow Sentinel to continually provide sustainable retirement solutions to all its members in a socially responsible manner**

### **The way we do things**

We exist because of our members and participating employers. We are therefore first and foremost accountable to those who place their trust in us. Our integrity gives them peace of mind and security.

We never underestimate the scope of this responsibility.

We manage the assets entrusted to us with care, diligence and responsibility. In this we anticipate and manage risks that we could reasonably be expected to identify.

We continuously engage with our stakeholders in a direct, honest and transparent manner. We listen to our stakeholders and respond to their legitimate needs. We make decisions regarding these expectations in a fair and consistent way.

Our income, expenditure and investments are managed with great care and responsibility. We take care of those resources entrusted to us as if they were our own. We know that proper use of organisational time, money and property is non-negotiable. Any real or potential conflicts of interest of our Board, management, employees and service providers are identified, declared and managed in a responsible way.

We recognise that it is through people that organisations attain trustworthiness. As Board members, management and employees of this organisation we view our responsibilities with the dedication it commands. We treat each other and those we interact with by exercising respect and compassion. It is our obligation to invest in our skills to enable us to continually instil confidence and trust in those whose lives we touch. We acknowledge that it is through teamwork that respect and trust is earned.

We care about our employees. We acknowledge their contribution and sacrifices by compensating them in a fair and equitable manner.

We have a right to hold our service providers and suppliers to the highest ethical standards. Our reputation is reliant on their reputation.

We uphold the laws that apply to us. Our policies reflect accountability. Going beyond mere compliance, we do the right thing even when no one is watching. Therein lies the trust others place in us.

In all of this, we find meaning in what we do. We recognise that we make a difference in people's lives and we embrace this privilege with purpose and humility.

## Board of Fund

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

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

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

### **Governance practices**

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

### **Responsibilities of the Board**

The Board's sole function and focus is to direct, control and oversee the operations of Sentinel in accordance with the rules of the Fund and applicable laws. The Board's authority is derived from the rules of the Fund. The Board is ultimately

accountable and responsible for the management and performance of the Fund. They uphold this responsibility by overseeing the strategic direction and leadership, ensuring good corporate governance and ethics, determining policy, agreeing on performance criteria and delegating detailed planning and implementation of policy to the Executive Committee.

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

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

The following committees support the work of the Board:

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

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

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

### **Effective oversight and controls**

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

### **Board in action**

**Meetings held: 5 (including strategic planning session)**

**Attendance: 80,9%**

- Strategic planning process refinement
- Review and approval of strategic objectives and operational plans
- Review vision and mission statement
- Consideration of various business development and growth alternatives
- Approval of annual pensioner increases and possible bonuses
- Review of the actuarial valuation of the pensioner pool
- Review and approval of annual risk benefit adjustments
- Review and approval of general and special rule amendments
- Approval of annual costs, budgets and the recovery of costs
- Review of actuary appointment.

### **Board member training**

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

- Continued professional development of Board members
- Profile and role of Batseta: Council of Retirement Funds for South Africa
- Ethics: Values-based leadership
- Board assessment and appraisal process
- Responsible and developmental investing.

### **Board evaluation and assessment**

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

## Audit and Risk Committee

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

### Mandate

- Enterprise risk management
- Combined assurance framework
- Establishment of risk appetite
- Review of risk registers
- Review of risk mitigating strategies
- Monitor effectiveness of internal controls and reporting
- Approve external audit plan and fees
- Approve internal audit plan and fees
- Review and approve annual financial statements
- Review internal and external audit reports
- Review compliance with legislation, regulations and policies
- Evaluate internal and external audit performance.

### Committee in action

**Meetings held: 3**

**Attendance: 100%**

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

To achieve its objectives, the Audit and Risk Committee has drawn together various assurances, including those of management, internal audit, external audit and actuaries. This committee schedules meetings with the internal and external auditors that aren't attended by Sentinel's management to ensure that Sentinel's standards are respected and that policies and procedures are still relevant. The appointed internal auditor reports directly to the Audit and Risk Committee.

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

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

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

### Information technology governance

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

The IT governance assessment was based on the following:

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

## Governance and risk management performance

### KPI: Risk dashboard

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

#### Outcome – 2016:

During the current financial year, the Board approved and implemented, through the Audit and Risk Committee, a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal and external assurance providers in the risk areas affecting the Fund. Developments in the overall risk profile of the Fund during the year included 10 new risks being added to reflect 20 top risks.

The top five risks by residual risk rating are:

Risk description	Residual rating
Exposure to the mining industry	
Constraints of the current business model, products and services to promote growth beyond the pension service offering	
Prolonged power outage (blackout)	
Impact of negative cash flows on long-term investments	
Negative impact of internal and external fraud, and cybercrime	

### KPI: King III assessment

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

#### Outcome – 2016:

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

### Approach

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

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

### Assessment of internal control

For the financial year ended 30 June 2016, after an assessment of the Fund's internal control environment in accordance with the scope of work and approach, the results of KPMG's reviews and subject to the limitations of coverage and sampling, the performance of suitable testing on the existence and effectiveness of internal controls at the Fund as directed and approved by the Audit and Risk Committee and management, based on the results of testing and findings noted in detailed reports, subject to any open matters which are in the process of being remediated by management, nothing further came to KPMG's attention that would lead them to believe that the existence and effectiveness of the internal controls are not sufficiently adequate.

### **Assessment of internal financial controls**

For the financial year ending 30 June 2016, based on the scope of the internal audit work performed for the Fund, the results of the internal financial controls testing, and subject to the limitations of coverage and sampling, nothing has come to the attention of the internal auditor that would suggest that the internal financial controls are not operating as good.

### **KPI: Compliance and governance report**

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

#### **Outcome – 2016:**

The Fund complies with provisions of the applicable laws, pension fund circulars and codes, except for cases where compliance requirements may not necessarily be in the control of the Fund. The Fund has reported certain funds to the Financial Services Board (FSB) that failed to pay Section 14 transfers into the Fund within the stipulated period. The Fund also reported certain employers who failed to pay contributions into the Fund within the stipulated period. During the period the Fund implemented certain rule amendments, some of which are awaiting FSB approval. Three Board member vacancies were not filled within the prescribed period during the year. These vacancies were filled at 30 June 2016. The Fund is in breach of the combined hedge fund and private equity Regulation 28 limit due to contractual commitments to private equity that continues to draw capital. The Registrar has granted the Fund extension to 31 March 2017 to rectify the breach.

# Investment Committee

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

## Mandate

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

## Committee in action

**Meetings held: 5 (including annual feedback session)**

**Attendance: 90%**

- Review and approval of Investment Policy Statement changes
- Review of shareholder engagement activity
- Review of investment structure
- Review of the appropriateness of benchmarks
- Assessment of independent review of ALM assumptions and inputs
- Approval of annual shareholder engagement programme
- Review of investment consultant appointment.

## Business Development and Review Committee

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

### Mandate

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

### Committee in action

**Meetings held: 3**

**Attendance: 94,4%**

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

### Legislative update

Sentinel must comply with the laws and regulations that govern registered pension funds in South Africa. The fast pace of legislative and regulatory changes in conjunction with an increasingly complex

legislative environment since the 2008 financial crisis, has made Sentinel's advocacy on proposed laws and regulations highly important. The Fund provides comments on proposed legislation and to advocate sensible and effective regulation.

The equalisation of the treatment of contributions for all retirement funds took effect on 1 March 2016.

The major changes are as follows:

- Employer contributions are treated as a fringe benefit in the hands of the employee
- Employees qualify for a tax deduction of 27,5% of the greater of remuneration or taxable income capped at R350 000 per annum on total contributions made to all retirement funds
- Defined benefit funds are required to issue contribution certificates annually to employers to validate the fringe benefit component.

The Fund, due to its self-insured risk benefit offering, is deemed to be a hybrid defined contribution/ defined benefit fund for fringe benefit purposes and is required to issue compliance certificates to employers annually before 31 January. The Fund duly issued the certificates to each participating employer as required.

### Rule amendments

Various amendments to the rules of the Fund were approved and registered during the year under review. In addition to implementing changes arising from new legislation, the Fund often initiates amendments to keep it current with broader policy issues and simplify the rules where possible.

# Claims Committee

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

## Mandate

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

## Committee in action

**Meetings held: 13**

**Attendance: 90%**

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

- Decided on: 210
- Review and approval of disability applications:
  - Reviewed 338
  - Approved 193
  - Deferred 42 for further medical evidence
  - Not approved 135.

## Human Resources and Remuneration Committee

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

### Mandate

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

### Committee in action

**Meetings held: 3**

**Attendance: 92,5%**

- Review of human resources policies
- Review of employment equity philosophy, strategy, plan and progress
- Trustee training plan
- Review of remuneration practices.

## Remuneration

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

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

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

	<b>Remuneration 2016 R'000</b>	<b>Bonus 2016 R'000</b>	Remuneration 2015 R'000	Bonus 2015 R'000
Board	<b>4 979</b>	<b>n/a</b>	4 836	n/a
Executive management	<b>16 883</b>	<b>4 345</b>	16 572	4 400
General employees	<b>59 110</b>	<b>4 633</b>	57 065	3 922