

HAIRDRESSING BEAUTY AND SKINCARE INDUSTRY PENSION FUND

2018 TRUSTEE REPORT

The purpose of this "Trustee Report" is to provide an overview of the **Hairdressing Beauty and Skincare Industry Pension Fund** for the period ending 28 February 2018.

CHAIRMAN'S REPORT by Danie van Wyngaard, Chairman of the Board of Trustees

During the year under review The Fund's assets grew to over R244 million and the Fund's membership reduced slightly to 15 195. I am delighted to report that, despite the fact that the volatile and uncertain investment landscape continues, the Fund managed to provide sound investment returns once again. Your Fund has, at the end of the February 2018, achieved a net return of 7,127%. I would like to extend my sincere appreciation to the Board of Trustees and the Principal Officer, whose support I can always rely on. To our dedicated team of service providers; our front office, consulting and administration teams, investment managers and underwriters – thank you for the excellent service over the past year. With all the changes in legislation and governance we have implemented tighter governance and risk policies. Thank you for trusting us with possibly the largest investment of your life and we will continue to have your best interest at heart.

MEMBERSHIP REVIEW

The Fund's Administration team were kept busy during the year, with a Fund membership of 15 195 as at 28 February 2018. The table below illustrates the membership as at 28 February 2018:


| | |
|-----------------------------|-------|
| Active Contributing Members | 4 512 |
| Non-Contributing Members | 5 230 |
| Unclaimed Members | 5 488 |

INVESTMENT STRATEGY

The Trustees decided to invest in a combination of pooled and segregated investment portfolios. The assets of the Fund are invested as follows from 1 September 2017:

| | |
|--|---|
| Active Contributing and Non-Contributing Members | Investec Segregated Portfolio: 50% Investment Solutions Performer: 50% |
| All Members from age 62 to age 70 | Sanlam Monthly Bonus Fund |
| Unclaimed Benefits | Sanlam Monthly Bonus Fund |

ECONOMIC OVERVIEW FEBRUARY 2018

| | |
|---|--|
|  | <p>The Investment Strategy is reassessed on an annual basis to ensure that members' benefit expectations over the longer term are met.</p> <p>This includes:</p> <ul style="list-style-type: none"> • protection of assets • saving for retirement • providing for life's expenses and unexpected challenges <p>A noble cause to have and a tough one to deliver.</p> |
|---|--|

Jacob Zuma resigned as President of South Africa with business-friendly ANC President Cyril Ramaphosa appointed as his successor. The new president made significant changes to his cabinet with notable appointments of Nhlanhla Nene as Finance Minister and Pravin Gordhan as Minister of Public Enterprises. The latter has been tasked with fixing the state-owned enterprises, most of which

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are bankrupt. Another notable appointment was that of Gwede Mantashe as Minister of Mineral Resources who has promised to revise the controversial mining charter before June 2018. It was also noted that an ongoing review into the number of departments and ministers would be finalized at a later date. Malusi Gigaba tabled his Budget Speech in parliament on 21 February, which prioritized free higher education for the poor. To fund the revenue shortfall, there were some notable tax increases. VAT was raised from 14% to 15%, the first time since 1993 while the fuel levy and Road Accident Fund levy were also increased. CPI dropped to its lowest level since March 2015, down to 4.4% in January, from 4.7% in December 2017. This drop, together with a strong local currency could encourage the SA Reserve Bank to reduce interest rates.

The main economic projections are GDP growth rate of 1.3% in 2017/18, up from 0.5% in 2016/17, inflation of 6.4% – down from 7.2% in this financial year – with debt as a percentage of GDP creeping up from 45.5% to 47% in 2017/18.

INVESTMENT RETURNS UP TO 28 FEBRUARY 2018

Our Fund is a balanced fund, which spreads the risk and affords the members some protection during adverse markets. Therefore, the Fund was able to give a higher positive return at much lower risk levels for the period ended 28 February 2018.

The **net time weighted returns** for the period ending 28 February 2018 were as follows:

| Active Contributing Members | 1 year | 3 years * |
|---|---------------|------------------|
| Fund Return | 7,127% | 5,030% |
| <i>Benchmark (Median of AFLMW) **</i> | 9,900% | 5,980% |
| <i>Benchmark (Prudential Medium Equity Mean) **</i> | 6,810% | 4,380% |
| <i>Benchmark (CPI+5%)</i> | 9,370% | 10,370% |
| Members aged 62 to 70, plus Unclaimed Benefits | | |
| Sanlam Monthly Bonus Fund | 7,410% | 8,590% |

(*Returns for longer than 12 months are annualized)

(**The benchmarks are gross of fees, compared to the returns which are net of investment fees)

AUDITOR`S REPORT by Danie van Wyngaard, Chairman of the Audit Committee

The Audit Committee confirms that, during the financial year under review, it has complied with its responsibilities as contained in the Terms of Reference, approved by the Board of Trustees. The Audit Committee also reports that it has regulated its affairs in compliance with this Charter. In the conduct of its duties, the Audit Committee has reviewed the following:

- During the year, the Audit Committee confirmed the independence of the auditor.
- The Audit Committee evaluated the financial statements of the Fund for the period under review and recommended the adoption of the annual financial statements to the Board of Trustees.
- The Committee is of the opinion that, based on the information and explanations given by the management of the administration company and the Internal Auditors, as well as discussions with the independent external auditors on the result of their audits, that the internal accounting controls were adequate to ensure that the financial records could be relied upon when preparing the financial statements, and accountability for assets and liabilities has been maintained.
- Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.
- The Board of Trustees implemented a risk management policy and matrix. The Audit Committee have a monitoring and oversight role with regards to the implementation and impact of the Risk Management Policy.

FINANCIAL OVERVIEW

During the period year under review, the total funds and reserves (which reflect the total of the active contributing and non-contributing, as well as unclaimed benefit members) amounted to

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R244 816 049,49. Included in the amount, the cash in the bank account amounted to R11 826 365,55 and the value of the Contingency Reserve Account was R986 677,00 as at 28 February 2018.

RULE AMENDMENTS

The following significant Rule Amendments were approved for the period ending 28 February 2018:

- 1) To make provision for the Fund to be used as a conduit for the payment of premiums for unapproved risk benefits, such as the newly introduced Funeral Benefits.

BOARD OF TRUSTEES

The Board of Trustees at 28 February 2018 was as follows:

| Name | Designation |
|-----------------------------|---|
| Mr Danie van Wyngaard | Independent trustee and chairperson |
| Mr Sharad Chagan | Bargaining Council appointed and vice-chairperson |
| Ms Petunia Matjebe | Bargaining Council appointed |
| Mr Chris Hauptfliesch | Bargaining Council appointed |
| Mr Choert Maartens | Bargaining Council appointed |
| Mr Mark Trisos | Bargaining Council appointed |
| Mr Willie van Eeden | Bargaining Council appointed |
| Officers of the Fund | |
| Mr Stephen Delport | Principal Officer |
| Mrs Annmarie Shem | Monitoring Person |

SECTION 13A (Non-payment of contributions by Employers)

The Pension Funds Act (the Act) requires that the employer pays the employer and the member contributions, as stipulated in the fund rules, to the fund by not later than 7 days after the end of the month, for which the contributions is payable. The total amount more than 90 days in arrears that have been reported to the Financial Services Board (FSB) at the end of February 2018 amounted to R14 122 360,09 and made up as follows:

| | | |
|-----------------|-----------------------|------------|
| Non Party Salon | R7 332 476,57 | 340 |
| Party Salon | R6 789 883,52 | 358 |
| Grand Total | R14 122 360,09 | 698 |

The Fund has started a process whereby complaints are lodged with the Pension Funds Adjudicator monthly against participating employers who are constantly in arrears and in contravention of the Act. In terms of section 13A(8), employers are now **personally liable** for compliance with this section and for the payment of contributions. A couple of warrants of execution has already been issued against some of these employers and property attached.

THE BENEFITS OF PRESERVING YOUR RETIREMENT SAVINGS

Many South Africans are simply not ready for the financial consequences of retirement. While saving for retirement on a regular basis and throughout your career is very important, preserving your funds when changing employers should also be right at the top your list of retirement savings do's.

The simple principle: You work so that you can provide for your family and your lifestyle, and you save so that you will have an alternative source of income to continue providing for them when you are no longer working.

One of the biggest problems in South Africa is people cashing out their accumulated retirement savings when resigning from a job.

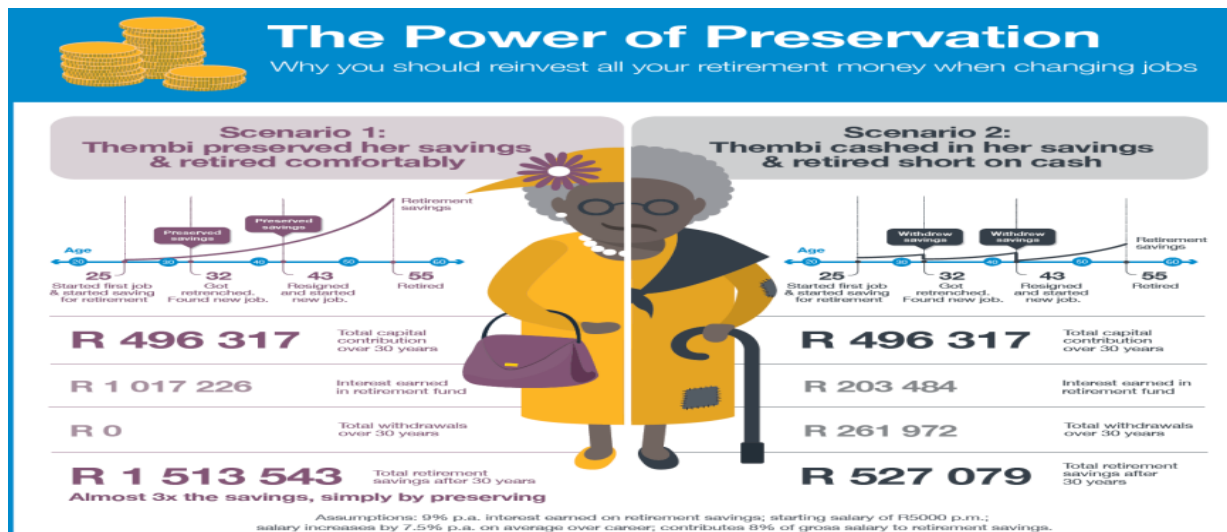
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Impact of withdrawing your retirement savings

The scenario below shows the impact of withdrawing your benefits. By withdrawing R261 972, Thembi has R1m less at retirement, which translates into approximately R4 500 less income per month.



FUNERAL BENEFITS

The following Funeral Benefits were introduced from 1 December 2017:

| | | |
|--|------------------------|---------|
| | Main member/Spouse | R10 000 |
| | Child 14 to 21 years | R10 000 |
| | Child 6 to 13 years | R 5 000 |
| | Child 1 to 5 years | R 2 500 |
| | Stillborn to 11 months | R 2 500 |

CONTACT DETAILS OF THE FUND

| | |
|--|---|
| | <p>Physical Address: Unit B3 The Willows Office Park (Behind Toyota Lynnwood) Farm Road (Cnr Simon Vermooten and Lynnwood Road) Die Wilgers.</p> |
| | <p>Postal Address: P O Box 72117, Lynnwood Ridge, Pretoria, 0040 Tel: 0861 114 662 Fax: 0865 512 587 Email: hbsipension@prevue.co.za</p> |