VERSO® Umbrella Retirement Fund

PROVIDENT FUND : FUND REPORT

Introduction

This report forms part of the Trustees communication policy. It endeavours to provide both participating employers and fund members with useful information about their fund and specific information regarding the Fund's financial position which is based on the latest financial statements approved by the Trustees.

The Fund is a defined contribution fund and therefore the optimization of fund returns and the minimization of fund expenses is of critical importance. Both these issues are addressed within this report.

Members are encouraged to contact the Fund's Trustees or their human resources department with any questions and concerns.

Fund Officials

For your convenience, the current Board of Trustees and Principal Officer is confirmed below:

- Ms Wahida Parker : Chairperson of the Board and Independent Trustee;
- Mr Willie Rossouw : Independent Trustee;
- Mr Shaun Kennard : Appointed Trustee;
- Mr Raymond Wentworth : Appointed Trustee.

Mr Edward Thomson (edward@verso.co.za) is the Fund's Principal Officer.

There are currently two vacancies on the Board. The Board together with Verso Financial Services are busy with a process of identifying the specific needs within the Board in order to fill these positions with the appropriate expertise.

Fund Governance

The Fund is a separate legal entity, totally independent of the Fund's sponsor, Verso Financial Services (Pty) Ltd, and is managed by the Board of Trustees. As part of the Trustees' commitment to good governance as prescribed in the Financial Services Board Circular PF130, the Trustees have formulated the following Fund policies:

- Board Charter for the Board of Trustees;
- Communication Policy and Strategy;
- Investment Strategy;
- Risk Management Policy;
- Self Assessment Framework for Board Members.

These policies were formulated to ensure that the Fund is optimally managed to the benefit of the members of the Fund. The Trustees have undertaken their first review of these policies to ensure their relevance.

Audited Financial Statements at 30/06/2011

The Fund's seventh external audit by Rademeyer Wesson has just been completed (once again an unqualified audit i.e. no irregularities were reported) and approved by the Board of Trustees. Herewith a summary of the comparative results for the last two audit periods:

	30-06-2011 (R'000)	30-06-2010 (R'000)
Balance Sheet		
Total Assets	**118 987**	**33 220**
- Investments	93 716	27 546
- Transfers Receivable	22 257	3 700
- Cash in Bank	3 014	1 974
Total Liabilities	**118 987**	**33 220**
- Member Credits	114 463	31 824
- Reserves	125	61
- Current Liabilities	4 399	1 335
Income Statement Extract		
- Gross Contributions	27 261	13 761
- Investment Return	6 139	2 493
- Transfers Received	68 886	3 720
- Benefits Paid	(14 204)	(9 852)

Fund Expenses

The Fund's expenses, e.g. audit fees, actuarial fees, independent trustee's remuneration etc., are paid from the Fund's cost reserve account which is funded by a monthly contribution from the employer's contributions. The Trustees actively manage the Fund's expenses to ensure that it remains reasonable. There have been no increases in the "fund cost fee" for the last four years.

In the 2011 audit period R19 500 was paid as remuneration to the two independent trustees.

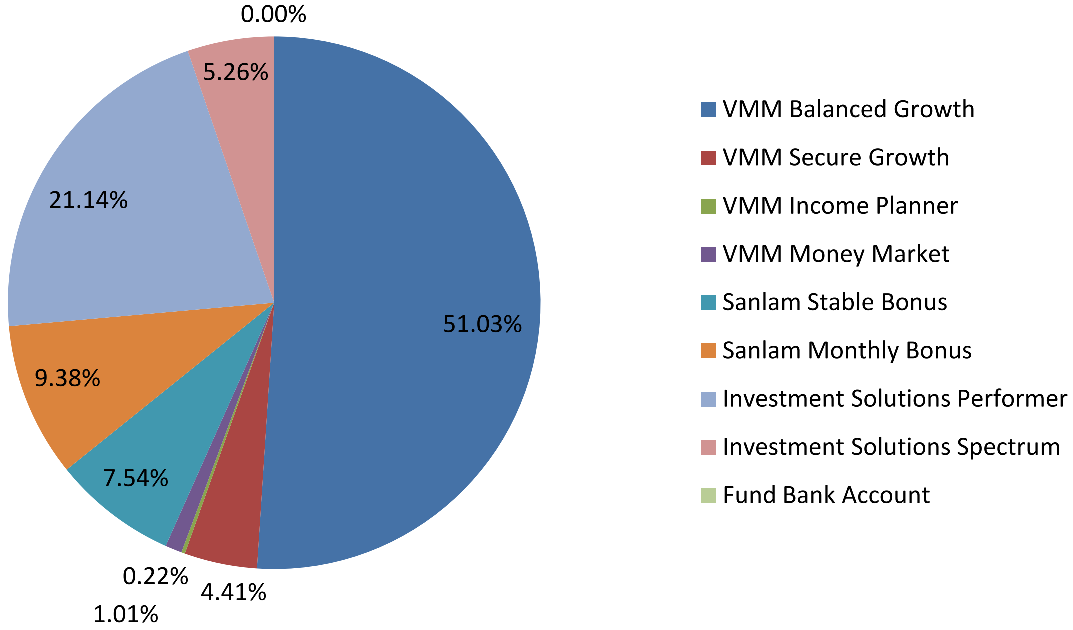
Member Communication – Web Access

The Fund's website (www.vurf.co.za) was re-launched during the year to provide employers and members with a platform to obtain all relevant fund information.

Members can now register online for both web access and SMS services to have direct access to their fund information. A new feature with effect from 2011 is that members will have access to historic benefit statements together with their up to date member and Fund information.

Fund Investments

The total value of the Fund's assets as at 30 November 2011 amounted to R142.3m and are currently invested in the portfolio(s) elected by either the participating employer or individual members (where member investment choice applies).



The Trustees regularly review the portfolio returns to ensure it is in line with the Fund's return expectations and formulated objectives.

Economic Overview : 3rd Quarter 2011

Most investors will probably be grateful that the third quarter has come and gone. It has been the most volatile quarter in equity markets since the fourth quarter of 2008. On the one hand, it was driven by overly positive expectations about the so-called "Quantitative Easing 3 (QE3)". Market participants were, however, extremely disappointed. On the other hand, on a daily basis Greece moved closer to the abyss and by now has probably already tumbled over the edge. The only remaining question is how long Europe will be willing, or for that matter be able, to hold on to the lifeline that it has been thrown to Greece.

Given the South African government's budget and the current state of its finances, it is evident that South Africa's fiscal situation is in a satisfactory state. There is virtually no risk of South Africa defaulting on its debts over the next three months or even over the next year. We may also state, with reasonable certainty, that the outlook for the next two to three years is also very positive. However, the uncertainty increases when one considers a period of five years or longer. It is for this reason that investors expect higher interest rates to be paid to compensate for the increased risk associated with government debt issued over a period of thirty years. From the graph one may conclude that if the government expects to borrow money for a period of 30 years, investors would expect a rate of return of just slightly less than 9.5%

For the US, the purpose of "QE2" was to lower the yield curve in its entirety in an attempt to boost its economy by forcing lower interest rates. The $600 billion was "new money", created with the intention of purchasing US government bonds in the market. In other words, the US Reserve Bank printed Dollars and thus increased liquidity in the market.

The disadvantages of using this method to stimulate a country's economy are usually a weaker currency and inflation. In the case of "QE2", both effects occurred. Higher inflation was not limited to the US; it also affected most emerging markets quite severely. Instead of the $ 600 billion resulting in job creation and stimulating economic growth, much of it was used to speculate in commodities, which in turn caused commodity prices to increase dramatically. This consequently stimulated inflation even further.

Whether "QE2" was successful or not is debatable, but it was without any doubt extremely unpopular, especially with the governments of emerging economies.

Bernanke announced "QE3" in September 2011 and the specific programme was named "Operation Twist". Such a programme was used once before, in 1961, and was named after the then popular dance called the "Twist". As the risk associated with printing of additional cash were simply too great, Bernanke decided to approach the problem from a different angle, by attempting to "bend" the yield curve, which makes the name very appropriate. The US Reserve Bank did this by selling short-term government bonds and using the proceeds to purchase long-term government bonds. Consequently, no extra cash was injected into the system and long-term rates were, in effect, forced down even further. Unlike the situation in South Africa, where mortgage rates are linked to the prime interest rate, US mortgage rates are linked to long-term government bonds, mainly in the ten-year space. By forcing rates lower, the Reserve Bank hopes to get the housing market which was the original cause of the worldwide economic woes, going again.

Given the excessive politicking, the rescue package, the extra incentives and the generally poor economic situation of most countries, the market was very uncertain about how to interpret the overwhelming amount of information in the third quarter. It proved to be a bad quarter for most of the world's major equity markets. The table below illustrates the returns in the equity market in the currencies of the respective countries. The third quarter clearly proved to be a difficult time for investors.

Fortunately for South African investors, the Rand responded as had been expected. Similar to its reaction to earlier financial crises, it weakened dramatically. This resulted in foreign equity performing much better in Rand terms than local equity as seen from a South African investor's perspective.

Table A: Market Returns up until 30 September 2011

Asset Class	Third Quarter: 2011	12 Months
SA Equity	-5.84%	3.60%
SA Bonds	2.81%	5.92%
SA Property	2.19%	8.30%
SA Cash	1.35%	5.61%
CPI	1.46%	5.30%
International Equity USA$	-16.61%	-4.35%
International Bonds USA$	0.97%	4.00%
International Cash USA$	0.01%	0.09%
Rand/Dollar	15.67%	13.25%

Note: Source Verso Multi Manager