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 are 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 : Appointed Trustee;
- Mr Wynand Breytenbach : Appointed Trustee.

Ms Brenda Krummeck (brenda@verso.co.za) is the Fund's Principal Officer.

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 review these policies annually to ensure their relevance.

Audited Financial Statements at 30/06/2012

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)	30-06-2012 (R'000)
Balance Sheet		
Total Assets	**<u>118 987</u>**	**<u>170 867</u>**
- Investments	93 716	159 530
- Transfers Receivable	22 257	7 663
- Cash in Bank	3 014	3 674
Total Liabilities	**<u>118 987</u>**	**<u>170 867</u>**
- Member Credits	114 463	165 176
- Reserves	125	204
- Current Liabilities	4 399	5 487
- Gross Contributions	27 261	34 746
- Investment Return	6 139	11 920
- Transfers Received	68 886	37 508
- Benefits Paid	(14 204)	(26 068)

Fund Expenses

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

In the 2012 audit period R33 000 was paid as remuneration to the two independent trustees.

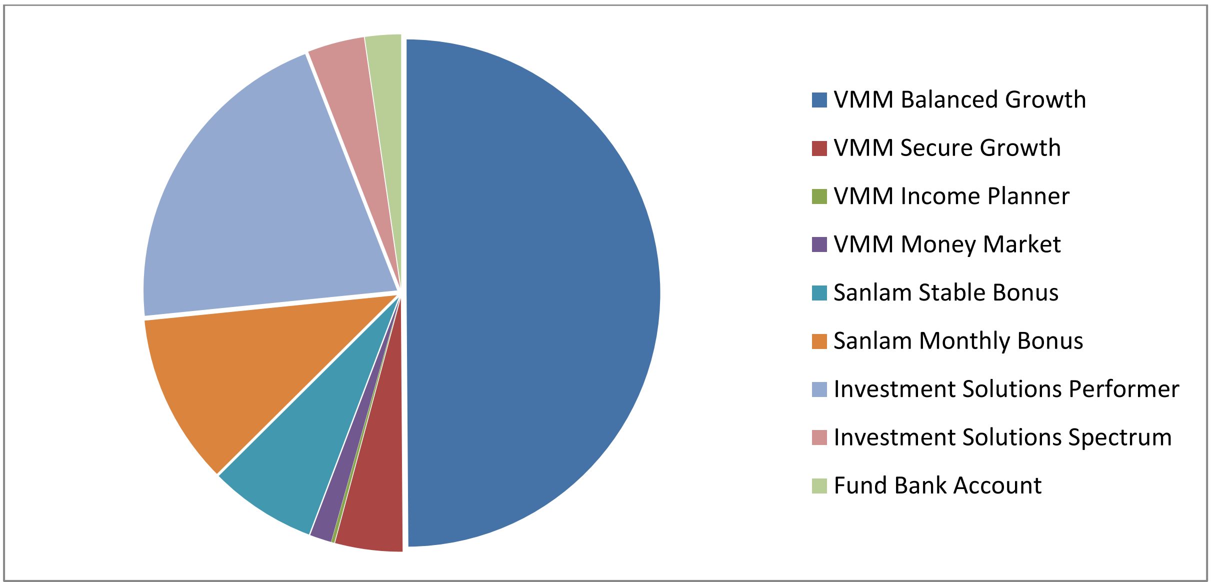
Member Communication – Web Access

The Fund's website (www.vurf.co.za) is regularly updated to provide employers and members with a platform to obtain all relevant fund information.

Members can register online for both web access and SMS services to have direct access to their fund information.

Fund Investments

The total value of the Fund's assets as at 30 June 2012 amounted to R156 752 539 (excluding bank account balance) 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 : 1st quarter of 2013

The expression, "As it goes in January, so it will go for the rest of the year" had many devoted investors excited by the end of January 2013, with the JSE All Share Index up by 3,24% during the course of the month.

This good start to the share markets in January was mainly propelled by the agreement reached in the USA between the Democrats and Republicans on 2 January 2013. A few hours before the official opening of the US equity market for 2013, the parties agreed on certain fiscal changes which aimed to address the dire budget deficit. The fact that this agreement was reached at the eleventh hour is again proof of the extent to which markets are being held ransom by politics ever since the European debt crisis first raised its head in 2010.

Be that as it may, since that early upswing in January the markets have been rather volatile, with the JSE losing 1.89% in February, only to gain 1.19% again in March. These market movements bear testimony to the insecurities that currently plague investors. While this instability is caused by a number of concerns, Europe still takes the lead as the major contributing factor.

Negative sentiment in Europe has slightly reduced since Mr Mario Draghi announced, during July 2012, that the European Central Bank (ECB) will do everything in its power to protect the Euro. The bank made it clear that it will buy all debt from troubled Eurozone members in need of help. Of course, this proved to be a lot easier said than done, as was evident from the vast list of conditions attached to this offer to assist.

However, Mr Draghi's announcement created much needed reassurance for investors who were relieved to hear that the Euro has finally been moved from the Intensive Care Unit to the recovery room.

Great was the shock therefore in March 2013 when the troubled Cyprus stepped to the fore, with a rather bizarre plan on how to save this troubled island's ailing economy. At one stage the Cypriot government considered the taxation of all bank deposits – regardless of the size of the deposit. The idea was to take 6.75% on every deposit under €100 000, which automatically raised the concern for the safety of every bank account within the Euro zone. Banks in Cyprus were closed for almost two weeks while potential solutions were scrutinised. Fortunately, following expansive negotiations, it was agreed to steer clear on taxing of deposits under €100 000. However, the final agreement saw investors with more than €100 000 in any Cypriot bank paying their part of the overall €10 billion bailout bill.

Mr Draghi made it very clear that the Cypriot bailout should under no circumstances be seen as the blueprint for future bailouts for troubled economies. I remain somewhat sceptical though and believe that, if this was allowed to happen once, chances are it might happen again. One important lesson learned from the Cyprus incident is that we should not throw caution to the wind and that our warnings of new challenges surfacing in Europe over the next couple of years are now more likely to be true than ever before.

Moving further west, the so-called sequestration of the United States of America commenced on 1 March 2013. This entails the automatic cut backs in the federal budget following the US government's inability to reach an agreement on the budget deficit before 1 March 2013. The precursor to this was the negotiations during August 2011 regarding the increase in the debt-ceiling of the US government.

The reduction in the budget amounts to some USD1.2t over ten years, of which USD600b should be cut from defence expenditure, and USD600b from other expenses. The potential impact thereof on job creation remains undetermined as yet, and the overall effect this will have on state institutions and the public at large is still unclear.

These global events provide enough reason for prevailing investment insecurity. Economic growth forecasts remain difficult – if not impossible and, as such creates further uncertainty as to company growth and potential earnings.

PERFORMANCE TABLES

TABLE A: MARKET RETURNS TO 31 MARCH 2013

Asset Class	**First Quarter: 2013**	**12 Months**
SA Equity	2.48%	22.47%
Resources	-5.96%	0.19%
Financial	5.90%	29.67%
Industrial	6.31%	35.43%
SA Bonds	0.93%	14.35%
SA Property	9.14%	37.28%
SA Cash	1.17%	5.16%
CPI	1.50%	5.85%
International Equity USA$	7.73%	11.85%
International Bonds USA$	-2.10%	1.25%
International Cash USA$	0.02%	0.09%
Rand/Dollar	8.13%	19.54%