momentum

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Guide to understanding the Principles & Practices of Financial Management for Momentum Metropolitan Life Limited's Smooth Bonus Products

Introduction

This summary briefly explains Momentum Metropolitan Life Limited's (Momentum's) approach to managing the smooth bonus products listed below. A more detailed description is contained in the Principles and Practices of Financial Management (PPFM) document which can be found on our website. Both documents are intended to assist policyholders to better understand how smooth bonus products operate and how they are managed.

This summary applies to the following smooth bonus products, including additional bonus series that are launched under any of these products:

Partially Vested:

- Momentum Smooth Growth Fund Global;
- Momentum Universal Smooth Growth Fund;
- Momentum Smooth-Edge Fund; and
- Momentum Universal Smooth-Edge Fund

Fully Vested:

- Alexander Forbes Investments Global FullVest;
- Alexander Forbes Investments Domestic FullVest; and
- Momentum Smart Guarantee + 3

This summary is not intended to:

- Change or substitute any of the existing terms and conditions of Momentum's smooth bonus products;
- Provide investment advice;
- Create any new obligations between the parties concerned; or
- Attempt to restrict the way we manage our smooth bonus products.

What are Principles and Practices of Financial Management?

The PPFM is a document that sets out the Principles and Practices that Momentum follows in the management of its discretionary participation products. The Principles are high-level statements that describe Momentum's long-term approach to managing its discretionary participation business. These should not change often. The Practices are more specific statements as to how we manage our discretionary participation business. The Practices are expected to change more frequently to take account of changes in the business environment and the economy. Written notice will be given to policyholders of any changes made to the PPFM.

What are discretionary participation products?

These are products that rely on the ability of the insurer to use its discretion (i.e decide what is in the best interest of the policyholder) to manage them with regard to the investment of assets, the smoothing of returns and bonus declarations.

Managing discretionary participation products requires trust between policyholders and Momentum. Decisions are taken by Momentum with the intention of being in the best interests of policyholders and the sustainability of the products. Sustainability of the products means that Momentum will use and invest the policyholders' money wisely.

What is a smooth bonus product?

A smooth bonus product is a type of discretionary participation investment product in which a policyholder's money is pooled with other policyholders' money. The returns passed on to policyholders are 'evened out', or smoothed, over a number of years. This means that the return over a short period of time may be higher or lower than the actual investment return on the underlying investments of the product. The returns passed on to policyholders are called bonuses.

The money contributed by policyholders is invested in a range of suitable assets such as equities, bonds, property, cash and offshore assets, and Momentum manages the portfolio for all the policyholders. For certain products, the management of the assets may be outsourced to external asset managers. The actual investment returns earned on the pool of assets usually vary from year to year, and may sometimes even be negative.

Returns are passed on to policyholders through a process known as a bonus declaration. Momentum declares bonuses that are more stable than the actual investment returns earned on the underlying assets of the product. The bonuses that are declared over short time periods are likely to differ from the actual investment returns earned on the underlying assets over the same time period.

How are policies administered?

The way in which a smooth bonus policy is administered depends on the product the policyholder is invested in.

A separate fund value is held for each policyholder in a product. This is the total value owed to the policyholder in the event of a benefit payment. A policyholder's fund value is increased by money invested in the product and bonuses declared, and decreased by any outflows (including charges). The fund value may also be decreased by the removal of non-vested (i.e. non-guaranteed) bonuses if the policyholder is invested in a partially vested product. However, this is only expected to occur in severe and sustained adverse market conditions. To date, Momentum have not removed any non-vested bonuses on their Momentum Corporate smooth bonus products.

The market value of a smooth bonus product refers to the value of the underlying assets that are held in respect of the fund value of that product. The market value is made up of money invested minus outflows (including charges), built up with the returns earned on the underlying assets which could be positive or negative.

A single market value is held for each of the following products: Momentum Universal Smooth Growth Fund, Momentum Universal Smooth-Edge Fund and the Momentum Smart Guarantee + 3. A separate market value is also held for each policyholder for the remaining products covered under this document.

The funding level is defined as the market value divided by the fund value. The following products only make use of a product funding level since they hold a single market value: the Momentum Universal Smooth Growth Fund, Momentum Universal Smooth-Edge Fund and the Momentum Smart Guarantee + 3. The remaining products covered under this document have a product funding level as well as a separate funding level per client.

How are the underlying assets invested?

The underlying assets are invested in accordance with investment mandates specified by Momentum. Different products may have different investment mandates. These mandates ensure that the underlying assets are well diversified and achieve an appropriate trade-off between risk and return. The management of the underlying assets may also be outsourced to external investment managers.

For the Momentum Smart Guarantee + 3 product, the assets are managed in accordance with a liability driven investment strategy. This strategy positions the asset allocation of the product to provide the targeted long term returns of the product, while at the same time providing the guarantees of the product.

What fees are payable for a smooth bonus product?

Momentum charges fees to administer and manage a smooth bonus product, provide the guarantees and where applicable, manage the underlying assets. External investment managers, which are made use of by certain products, will either be paid by Momentum or directly through a charge on the underlying assets. The charges applicable to the policyholder will depend on the smooth bonus product that they are invested in. The policy contract will explain this in more detail.

When are bonuses declared?

Bonuses are declared monthly in advance.

How does Momentum decide on the bonuses to declare?

The bonuses for a particular product will depend on the product's bonus philosophy, its long-term return objective, previously declared bonuses, returns earned on the underlying assets, as well as the overall outlook of investment markets. Due to the smoothing process, returns that were earned on the underlying assets in previous years but which have not been distributed as bonuses may be used to increase the bonuses in the current period or in future periods. Similarly, part of the returns earned in the current period may be held back if bonuses declared in previous periods exceeded investment returns in previous periods. Momentum is not entitled to any undistributed returns.

A smoothing formula is used to assist in the bonus declaration process and to add a level of objectivity. The bonus calculated by the smoothing formula is then adjusted using expert discretion in order to declare a suitable bonus which allows for a smoothed progression of returns and ensures the sustainability of the product.

What are the guarantees?

Bonuses are normally guaranteed to not be negative.

The bonuses are split between vested bonuses and non-vested bonuses for partially vested products. For fully vested products, the entire bonus is a vested bonus (i.e. there are no non-vested bonuses).

Vested bonuses are guaranteed and cannot be removed. Non-vested bonuses may however be removed if the value of the underlying assets decline significantly and it is not expected to recover within a reasonable period of time. Removal of non-vesting bonus is only expected to happen in extreme cases.

The fund value is payable on the benefit payment events specified in the policy contract. Benefit payment events typically include claims resulting from death, disability, retirement, resignation or retrenchment. The policy contract will explain the guarantees in more detail.

How does smoothing affect the payout?

Smoothing may result in the payment the policyholder receives from their policy being higher or lower than what it would have been had they opted to invest their money in a balanced fund equivalent. This will work in their favour when investment markets are down, but it may be less favourable to them when investment markets have performed well and they receive their payment before these returns have been fully distributed.

What will happen on termination of a policy?

A termination value will be paid as specified in the policy contract and the value is generally dependent on either the product funding level or the client funding level (depending on which product the policyholder is invested in).

The following rules are applied for the Momentum Universal Smooth Growth Fund, Momentum Universal Smooth-Edge Fund and Momentum Smart Guarantee + 3 portfolios.

- If the product market value is greater than the product fund value, the termination value will be equal to the policyholder’s fund value.
- If the product market value is less than the product fund value, the termination value will be equal to the policyholder’s fund value multiplied by the product funding level. The difference between the termination value and the policyholder’s fund value is referred to as a market value adjustment.

The following rules are applied to the remaining products covered in this document:

- If the policyholder’s market value is greater than the policyholder’s fund value, the termination value will be equal to the policyholder’s fund value.
- If the policyholder’s market value less than the policyholder’s fund value, the termination value will be equal to the policyholder’s market value. The difference between the termination value and the policyholder’s fund value is referred to as a market value adjustment.

What is a market value adjustment?

A market value adjustment (MVA) is a reduction of the fund value when a policyholder terminates their policy early.

An MVA is not an exit penalty, but rather a mechanism to protect the interests of the remaining policyholders of the smooth bonus product. If Momentum did not reduce the fund values by the MVA of those policyholders who terminate their policies, these policyholders would receive more than the actual value of their policies at that time. This would mean that the policyholders who remain invested would receive lower bonuses in future, which would not be fair to them.

An MVA will not apply on benefit payment events as specified in the policy contract. Benefit payment events typically include claims resulting from death, disability, retirement, resignation or retrenchment.

Can the fund value be transferred between smooth bonus products?

Transfers of fund values between smooth bonus products can be done on terms specified by Momentum.

When may a smooth bonus product be closed to new investments?

A smooth bonus product may be closed to new investments from new or existing policyholders when Momentum is of the opinion that such investments will result in an inappropriate cross-subsidy between the new investments and the existing investments in the product. This generally occurs when the product's funding level is significantly above or below 100%.

Where to get more information

The detailed PPFM, which this document aims to summarise, can be found on our website or requested from your financial advisor. Furthermore, product specific documentation can also be found on our website: https://www.momentum.co.za/momentum/business/employee-benefits/investments.

Any questions or comments relating to these documents can be addressed to:

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