



Smooth bonus disclosure document  
Universal Fifty Smooth Return Fund

March 2022

## Introduction

This document provides these disclosures which apply to the Universal Fifty Smooth Return Fund (UFSRF) and any additional bonus series that may be launched.

- Smoothing formula;
- Management actions;
- Strategic asset allocations and limits; and
- Fees and charges

The UFSRF is compliant with the Financial Services Conduct Authority (FSCA) Conduct Standard 5 of 2020 (RF), which contains the conditions that smooth bonus portfolios need to adhere to be considered as a default investment portfolio under Regulation 37 of the Pension Funds Act, No. 24 of 1956 (Pension Funds Act).

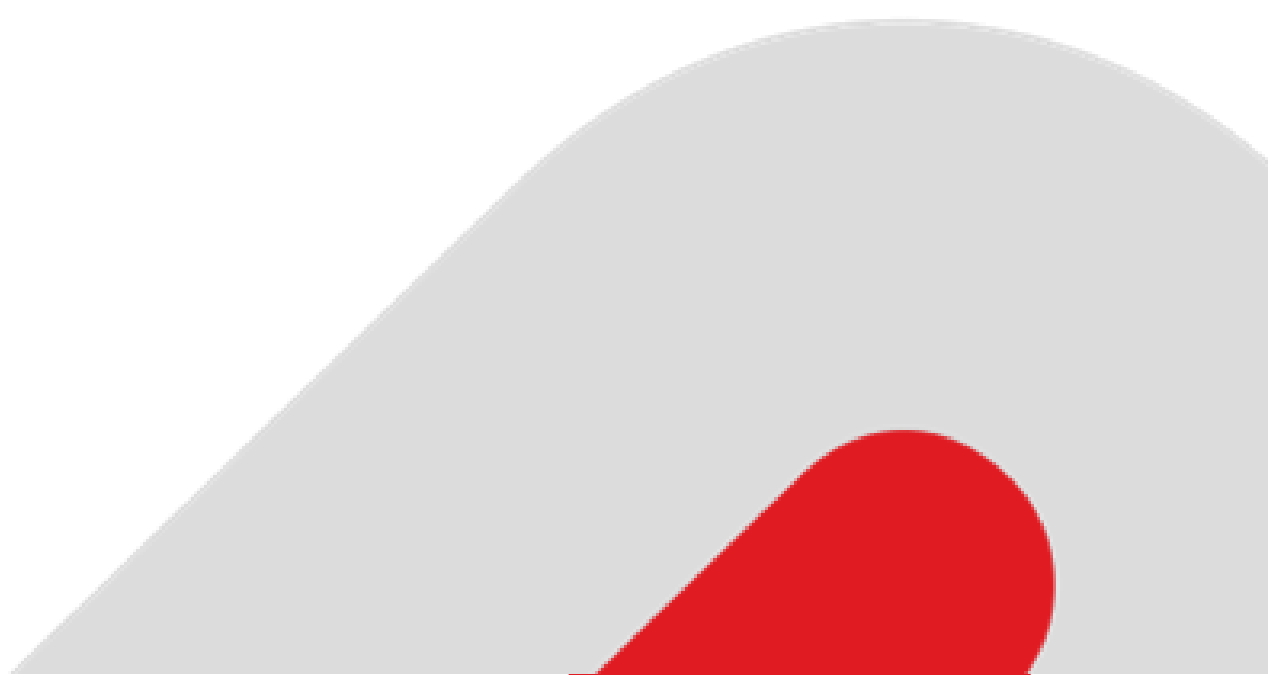
Additional information on the UFSRF is available from the fund fact sheets, brochures, quarterly report and Principles and Practices of Financial Management (PPFM). All these documents are available on the Momentum Corporate website at <https://www.momentum.co.za/momentum/business/resource-centre/corporate-investments>.

## Smoothing formula

The smoothing formula for the UFSRF follows Momentum Corporate's bonus smoothing philosophy, while trying to manage the funding level within a specific range to manage cross subsidies. The aim of the smoothing formula is to reduce the short-term market volatility of the portfolio's underlying asset portfolio and to provide members with a smoother return profile, while ensuring the equitable treatment of members and across different generations of members.

As a rule, and if the funding level is within the desired range, the calculated bonus rate is equal to the monthly equivalent of the portfolio's investment objective, with an adjustment for the excess/deficit funding level, above/below the target funding level, which is spread over a specified period. If the funding level is outside the desired range, the necessary bonus rate, which may be negative, will be declared to bring the funding level within the desired range.

As per the Financial Services Conduct Authority (FSCA) Conduct Standard 5 of 2020 (RF), the declared bonus rate may deviate from the calculated smoothing formula bonus rate to allow for expected future market movements. The deviation from the calculated smoothing formula bonus may not exceed 2% per annum.



The bonus smoothing philosophy for the UFSRF allows for the declaration of monthly bonus rates, special bonus rates and intra-month ad hoc bonus rates. The different bonus rates are:

- **Monthly bonus rates:** monthly bonus rates may be positive or negative and are calculated using the bonus smoothing formula.
  - Positive monthly bonus rates are declared in advance and applied to the fund value during the month.
  - Negative monthly bonus rates are also declared in advance but are applied immediately to the fund value.
  - The monthly bonus rate may also be zero.
  
- **Special bonus rates:** positive or negative special bonus rates may be declared to make sure that the cross-subsidy between different policyholders and different generations of policyholders are not unacceptably high. Special bonus rates, positive and negative, are applied immediately to the fund value.
  
- **Intra-month ad hoc bonus rates:** positive or negative intra-month ad hoc bonus rates may be declared following extreme market movements. Intra-month ad-hoc bonus rates, positive and negative, are applied immediately to the fund value.

Positive bonus rates, monthly, special, or intra-month ad hoc, consist of a guaranteed bonus rate and a non-guaranteed bonus rate. The percentage of the positive bonus rate that is guaranteed will be equal to the guarantee level of the portfolio. The guarantee level for the UFSRF is 50%. This percentage may change as detailed below.

A negative bonus rate will reduce the non-guaranteed fund value of the portfolio, which will result in an increase in the guaranteed ratio of the portfolio. The guaranteed ratio of a portfolio refers to the ratio of the guaranteed fund value to the total fund value. To restore the guaranteed ratio to its original level, any future positive bonus rate declared, monthly, special, or intra-month ad hoc, may be fully non-guaranteed until the guaranteed ratio has been restored to its original level. Once the guaranteed ratio has been restored to its original level, the guaranteed percentage of the positive bonus rates will revert to the guarantee level offered by the portfolio.

Bonus rates for the UFSRF are declared gross of the investment management fee but net of the capital charge and any net priced asset management fees.

The **monthly bonus rates** for the UFSRF are determined using this smoothing formula:

Funding level	Monthly bonus rate
Funding level < 90%	$\frac{\text{Funding level}}{90\%} - 1$
$90\% \leq \text{Funding level} < 100\%$	$\frac{\text{Monthly objective}}{12} + \frac{\text{Funding level} - 100\%}{6}$
$100\% \leq \text{Funding level} < 110\%$	$\frac{\text{Monthly objective}}{12} + \frac{\text{Funding level} - 100\%}{18}$
Funding level $\geq 110\%$	$\max \left( \frac{\text{Monthly objective}}{12} + \frac{\text{Funding level} - 100\%}{18} ; \frac{\text{Funding level}}{110\%} - 1 \right)$

Where:

'Monthly objective' is the monthly equivalent of the portfolio investment objective, gross of the investment management fee. The portfolio investment objective for the UFSRF is CPI + 4,5% net of all fees and charges. For calculating the monthly bonus rate, CPI is the annualised 3-year inflation figure, lagged by two months, and is capped at 6%.

When the funding level is between 90% and 100%, the monthly bonus rate is subject to a minimum, which is the monthly equivalent of the highest investment management fee according to the standard fee applicable to the UFSRF.

If the funding level is below 100% for six consecutive months or longer, the formula above may be overridden and a negative monthly bonus rate of up to **-2%** may be declared per month until the funding level has recovered to 100%.

The negative bonus rate that may be declared is limited to the non-guaranteed ratio of the portfolio, ie the ratio of the non-guaranteed fund value to the total fund value. If the non-guaranteed fund value has been reduced to zero and the funding level is below 90%, a further negative bonus rate will not be possible. In this case, the monthly bonus rate will be the minimum bonus.

## Examples of the bonus rate calculation

This table provides examples of the bonus rate calculation using the bonus smoothing formula for various scenarios. Positive bonus rates for the UFSRF will comprise a 50% guaranteed bonus and a 50% non-guaranteed bonus. If a negative bonus rate has been declared, all future positive bonus rates may be fully non-guaranteed until the guaranteed ratio of the UFSRF has been restored to its original level.

Funding level	Inflation*	Capped inflation	Calculated bonus rate**
80,0%	5,0%	5,0%	-11,11%
85,0%	6,0%	6,0%	-5,56%
95,0%	3,0%	3,0%	0,03%
100,0%	4,0%	4,0%	0,74%
105,0%	9,0%	6,0%	1,18%
115,0%	5,0%	5,0%	4,55%

\*Annualised 3-year inflation figure, lagged by two months.

\*\*Bonus rates are rounded to two decimal places. Negative bonus rates will be applied immediately to the fund account values.

The declared bonus rates for the UFSRF can deviate from the calculated bonus rate by 2% per annum over rolling 12-month periods.



## Management actions

This section outlines the management actions for the UFSRF. Information about the general management of the UFSRF is available in the Principles and Practices of Financial Management (PPFM) on the Momentum Corporate website.

### Closing a portfolio to new inflows

#### Closing a portfolio due to the funding level

We may temporarily close a portfolio to new inflows when the funding level is significantly above or below 100%. We will communicate the closure of a portfolio to new business, and subsequent re-opening to clients.

These guidelines are applied to the UFSRF:

- The portfolio may be temporarily closed to lump sum investments if the funding level remains above 105% for a specified period, or if the funding level exceeds 107,5%. The portfolio will be re-opened once the funding level is deemed to have stabilised below 105%.
- The portfolio may be temporarily closed to lump sum investments if the funding level is below 95% for a specified period. This includes switches in and Section 14 transfers. The portfolio will be re-opened once the funding level is deemed to have stabilised above 95%.
- If a portfolio has been temporarily closed to lump sum investments, a new bonus series may be opened for new investments. The new bonus series will be merged with the main portfolio once funding levels allow, and once the guaranteed ratios of both portfolios are aligned. The merger will be done according to the PPFM.

#### Closing a portfolio due to a negative bonus

The UFSRF will be closed to all new inflows, including recurring contributions, before the declaration of a negative bonus rate. A new bonus series will be opened for new inflows. We will advise our clients on the closure of a portfolio to new business, and the opening of a new bonus series. A portfolio that has been closed due to the declaration of a negative bonus rate will only be reopened once the guaranteed ratio has been restored to its original level and once funding levels allow.

## Provision of shareholder capital

The ability to declare a negative bonus rate is a key mechanism to manage cross-subsidy for the UFSRF. Shareholder support will only be provided for the UFSRF once the ability to declare a negative bonus rate has been fully utilised.

Shareholders will provide temporary injections to the UFSRF upon a benefit payment (an insured policy benefit in accordance with the policy contract) when the non-guaranteed fund value has been reduced in its entirety and the funding level is below its pre-defined trigger. Benefit payment events are defined in the policy contracts and generally include, but are not limited to, death, disability, resignation, or retirement. The temporary injections are included in the funding level for bonus declaration purposes.

Temporary injections will be repaid to the shareholders upon benefit payments once the funding level has recovered above 100%. The temporary injections are repaid with money-market returns. The temporary injections will become permanent after three years if they have not been repaid to the shareholders.

Shareholders guarantee the benefit payments of policyholders and will provide the required financial support to make sure this commitment is fulfilled over time.

## De-risking the asset portfolio

De-risking the asset portfolio is only expected to occur in the most severe of adverse market scenarios. In such a scenario we may reduce a portfolio's total exposure to equities, global and local. The reduction in equity exposure will adhere to the asset allocation deviation limits.

## Strategic asset allocations and limits

This section provides the strategic asset allocation and limits for the UFSRF. The UFSRF complies with Regulation 28 of the Pension Funds Act.

Asset category	Strategic asset allocation	Limits
RSA Equities	40,0%	16,0% to 50,0%
RSA Bonds	10,0%	0,0% to 24,0%
RSA Cash	8,0%	0,0% to 32,0%
RSA Listed Property	2,0%	0,0% to 10,0%
RSA Direct Property	10,0%	0,0% to 15,0%
Global Equity	25,0%	10,0% to 30,0%
Global Bonds	3,0%	0,0% to 11,0%
Global Property	2,0%	0,0% to 5,0%
Global Money Market	0,0%	0,0% to 15,0%

## Fees and charges

The fees and charges applicable to the UFSRF are available on the fund fact sheet and the Momentum Corporate smooth bonus quarterly report on our website at <https://www.momentum.co.za/momentum/business/resource-centre/corporate-investments>.

Please send any questions or comments relating to this document or any portfolio in the Momentum Corporate smooth bonus range to:

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