



Smooth bonus disclosure document

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momentum
corporate

Introduction

This document provides these disclosures for the Momentum Corporate smooth bonus range:

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

The Momentum Corporate smooth bonus range can be grouped into two distinct categories, a **partially vested smooth bonus range** and a **fully vested smooth bonus range**. The partially vested smooth bonus range declare monthly final bonuses in advance, consisting of a vested and a non-vested component. The fully vested smooth bonus range declare monthly final bonuses in advance, consisting of a vested component only.

The **partially vested smooth bonus range** includes these portfolios:

- Momentum Universal Multi-Manager Smooth Growth Fund (Universal MMSGF)
- Momentum Universal Smooth Growth Fund (Universal SGF)
- Momentum Universal Smooth-Edge Fund (Universal Smooth-Edge)
- Momentum Multi-Manager Smooth Growth Fund Global (MMSGF Global)
- Momentum Smooth Growth Fund Global (SGF Global)

The **fully vested smooth bonus range** includes these portfolios:

- Momentum Multi-Manager Secure Growth Fund (MM Secure)
- Momentum Universal Smart Guarantee + 3 (MSG +3)
- Alexander Forbes Investments Global FullVest (AFI Global FullVest)
- Alexander Forbes Investments Local FullVest (AFI Local FullVest)

This disclosure document applies to the smooth bonus portfolios listed above, including additional bonus series that have been or may be launched under any of these portfolios. The content of this document will be updated when required.

All Momentum Corporate smooth bonus portfolios, including the additional bonus series that have been launched, are 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 in order 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 Momentum Corporate smooth bonus range is available on each portfolio's fund fact sheet, portfolio brochures, smooth bonus 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

Momentum Corporate applies a different smoothing formula to determine the bonus for the partially vested and fully vested smooth bonus ranges. The fully vested smooth bonus range includes MSG +3, which utilises a liability-driven investment strategy. Because of its unique characteristics, MSG +3 has its own smoothing formula. The smoothing formula for each range, including that of MSG +3, is available in this document.

The smoothing formula for both ranges follows Momentum Corporate's bonus smoothing philosophy. The aim of each smoothing formula is to reduce the short-term market volatility of the portfolio's underlying asset portfolio and provide members with a smoother return profile, while ensuring the equitable treatment of members and different generations of members.

As a general rule, calculated bonuses are 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.

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.

Partially vested smooth bonus range

Bonus rates for the partially vested smooth bonus range are declared monthly in advance. The monthly bonus rate consists of a vested and non-vested component. The split between the vested and non-vested components of the monthly bonus rate is managed so that the vested ratio of the respective portfolio moves to and remains within its long-term target vested ratio range. The vested ratio of a portfolio refers to the ratio of the vested fund value to the total fund value. Apart from Universal Smooth-Edge, the long-term target vested ratio for the partially vested portfolios is between 80% to 85%. These portfolios have an average vested bonus of 60% of the total monthly bonus. The long-term target vested ratio for Universal Smooth-Edge is between 70% to 75%. Universal Smooth-Edge has an average vested bonus of 50% of the total monthly bonus.

Monthly bonus rates are declared gross of the investment management fee, sometimes referred to as the policy fee depending on the portfolio, but net of the capital charge and any net priced asset management fees.



The monthly bonus rates for the partially vested smooth bonus range are determined using this smoothing formula:

Funding level	Monthly bonus rate
Funding level < 102,5%	Monthly objective + $\frac{\text{Funding Level} - 102,5\%}{12}$
Funding level \geq 102,5%	Monthly objective + $\frac{\text{Funding Level} - 102,5\%}{18}$

Where:

‘Monthly objective’ is the monthly equivalent of the portfolio investment objective, gross of the investment management fee. All partially vested smooth bonus portfolios have a portfolio investment objective of CPI + 4% net of all fees and charges. For the purpose of calculating the monthly bonus, CPI is the annualised 3-year inflation figure, lagged by two months, and is capped at 6%.

The monthly bonus rate is subject to a minimum, which is the monthly equivalent of the highest investment management fee payable for the respective portfolio. This ensures that a client will never receive a net of fee bonus rate lower than 0%.

The monthly bonus rate is subject to a maximum of 2,5%.

Fully vested smooth bonus range

Bonus rates for the fully vested smooth bonus range are declared monthly in advance. The monthly bonus rate consists of a vested component only. Monthly bonus rates are declared gross of the investment management fee, sometimes referred to as the policy fee depending on the portfolio, but net of the capital charge and any net priced asset management fees.

MSG +3 has a liability-driven investment strategy and uses its own smoothing formula. The smoothing formula for the traditional fully vested smooth bonus portfolios and MSG +3 are shown separately.

Traditional fully vested smooth bonus range

The monthly bonus rates for the traditional fully vested smooth bonus range, i.e. those that do not utilise a liability-driven investment strategy, are calculated using this smoothing formula:

Funding level	Monthly bonus rate
Funding level < 105%	Monthly objective + $\frac{\text{Funding level} - 105\%}{18}$
Funding level \geq 105%	Monthly objective + $\frac{\text{Funding level} - 105\%}{15}$

Where:

'Monthly objective' is the monthly equivalent of the portfolio investment objective gross of the investment management fee. All traditional fully vested smooth bonus portfolios, i.e. those that do not utilise a liability-driven investment strategy, have a portfolio investment objective of CPI + 2% net of all fees and charges. For the purpose of calculating the monthly bonus, CPI is the annualised 3-year inflation figure, lagged by two months, and is capped at 6%.

MM Secure and MSG +3

The monthly bonus rate is subject to a minimum, which is the monthly equivalent of the highest investment management fee payable for the respective portfolio. This ensures that a client will never receive a net of fee bonus rate lower than 0%.

AFI Global FullVest and AFI Local FullVest

The monthly bonus rate is subject to a minimum of zero. The client can receive a net of fee bonus rate lower than 0%.

The monthly bonus rate is subject to a maximum of 2,5%.

Momentum Universal Smart Guarantee +3

The monthly bonus rates for MSG +3 are calculated using this formula:

The monthly bonus rate for MSG +3 consists of the weighted average of historical returns, an adjustment for the funding level and an adjustment for the liability-driven investment strategy. The monthly bonus rate is subject to a minimum, which is the monthly equivalent of the MSG +3 investment management fee.

Monthly bonus rate = weighted average of historical monthly returns + adjustment for the funding level + adjustment for the liability-driven investment strategy

Weighted average of historical monthly returns

Under prevailing market conditions, the liability-driven investment strategy allows MSG +3 to participate in 85% of the returns of the bonus generating portfolio. This participation rate may change because of various factors, such as, a change in market conditions. A new bonus series may also have a different participation rate to the original MSG +3 portfolio. Policyholders will be informed when the participation rate changes.

Using the current participation rate and the July 2021 bonus as an example, the weighted average is taken to be 85% of the historical monthly returns of the bonus generating portfolio, as per this simplified smoothing formula:

- The 12-month returns in the year ending 31 May 2021 are weighted by 50,0%
- The 12-month returns in the year ending 31 May 2020 are weighted by 33,3%
- The 12-month returns in the year ending 31 May 2019 are weighted by 16,7%

Adjustment for the funding level

The monthly bonus is adjusted if the funding level is less than 97,5% or greater than 102,5%. The adjustment spreads the excess/deficit funding level, above/below 100%, using these spreading periods:

Funding level	Excess/deficit funding level spreading period (months)
Funding level < 95%	6
95% ≤ Funding level < 97,5%	12
97.5% ≤ Funding level < 102,5%	No adjustment
102.5% ≤ Funding level < 105%	12
Funding level ≥ 105%	6

Adjustment for the liability-driven investment strategy

This additional adjustment is to allow for the distribution of surplus, or recovery of deficits, arising from the liability-driven investment strategy. The distribution/recovery is spread over three years.

Management actions

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

Closing a portfolio to new inflows

These portfolios are permanently closed to new business, but existing recurring contributions at the time of closure are still permitted into them:

- MMSGF Global
- SGF Global
- MM Secure

For the portfolios which are open for new business, 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 our clients.

These guidelines are applied to the Universal smooth bonus range, i.e. Universal MMSGF, Universal SGF, Universal Smooth-Edge and Momentum Universal Smart Guarantee +3:

- 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 the merger will be done in accordance with the PPFM.

We will advise our clients if there are restrictions on recurring contributions.

Provision of shareholder capital

Shareholders will provide temporary injections to a traditional smooth bonus portfolio, i.e. one that does not utilise a liability-driven investment strategy, upon a benefit payment (an insured policy benefit in accordance with the policy contract) when 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 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 shareholders. In addition, any temporary injections that have not been repaid will become permanent with the reduction of non-vested bonuses.

MSG +3 is managed on a highly matched basis, utilising a liability-driven investment strategy to protect policyholder benefits, minimising the need for shareholder support to the portfolio. This is reflected in the capital charge for MSG +3 relative to the capital charge of the traditional smooth bonus portfolios.

For the entire Momentum Corporate smooth bonus range (including MSG +3), shareholders guarantee the benefit payments of policyholders and will provide the required financial support to make sure this commitment is fulfilled over time.

Reduction of non-vested bonuses

The reduction of non-vested bonuses only applies to the partially vested smooth bonus range. Based on prevailing market conditions, non-vested bonuses may be reduced if the funding level remains below 80% for four consecutive quarters. In addition, the reduction of non-vested bonuses may be triggered if the cumulative impact of benefit payments, while below the funding level trigger of 80%, results in a deterioration of the funding level exceeding 7,5%. This additional criterion may trigger the reduction of non-vested bonuses before four consecutive quarters of the funding level being below the 80% trigger.

The amount of non-vested bonuses reduced will be the amount required to recover the funding level to 90%. All temporary injections provided by shareholders but not yet repaid, will become permanent upon the reduction of non-vested bonuses.

De-risking the asset portfolio

We may reduce a portfolio's total exposure to equities, global and local, in a severe adverse market scenario. 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 our different smooth bonus portfolios. All our smooth bonus portfolios comply with Regulation 28 of the Pension Funds Act.

Partially vested smooth bonus range

The tables show the strategic asset allocation and limits for the various portfolios in the partially vested smooth bonus range.

Universal MMSGF and MMSGF Global

Asset category	Strategic asset allocation	Limits
RSA Equities	37,5%	15,0% to 45,0%
RSA Bonds	27,0%	17,0% to 47,0%
RSA Money Market	5,0%	2,5% to 28,0%
RSA Direct Property	5,0%	2,0% to 8,0%
Global Equity	20,0%	8,0% to 25,0%
Global Bonds	2,5%	0,0% to 9,0%
Global Property	3,0%	0,0% to 6,0%
Global Money Market	0,0%	0,0% to 12,0%

Universal SGF & SGF Global

Asset category	Strategic asset allocation	Limits
RSA Equities	40,0%	16,0% to 50,0%
RSA Bonds	13,0%	5,0% to 27,0%
RSA Money Market	10,0%	0,0% to 34,0%
RSA Listed Property	2,0%	0,0% to 10,0%
RSA Direct Property	5,0%	0,0% to 10,0%
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%

Universal Smooth-Edge

Asset category	Strategic asset allocation	Limits
RSA Equities	35,0%	14,0% to 45,0%
RSA Bonds	14,0%	4,0% to 26,0%
RSA Money Market	11,0%	2,0% to 32,0%
RSA Listed Property	2,0%	0,0% to 10,0%
RSA Direct Property	10,0%	5,0% to 15,0%
Global Equity	23,5%	9,0% to 30,0%
Global Bonds	3,0%	0,0% to 11,0%
Global Property	1,5%	0,0% to 5,0%
Global Money Market	0,0%	0,0% to 15,0%

Fully vested smooth bonus range

The tables show the strategic asset allocation and limits for the various portfolios in the fully vested smooth bonus range.

Multi-Manager Secure Growth Fund

Asset category	Strategic asset allocation	Limits
RSA Equities	34,0%	13,5% to 40,0%
RSA Bonds	28,0%	18,0% to 44,0%
RSA Money Market	9,0%	2,5% to 30,0%
RSA Direct Property	4,0%	2,0% to 6,0%
Global Equity	20,0%	8,0% to 24,0%
Global Bonds	3,0%	0,0% to 9,0%
Global Property	2,0%	0,0% to 5,0%
Global Money Market	0,0%	0,0% to 12,0%

Universal Smart Guarantee +3

MSG +3 utilises a liability-driven investment strategy, which requires continuous rebalancing between the bonus generating portfolio and a matching fixed income portfolio depending on prevailing market conditions. As a result, MSG +3 does not have a fixed strategic asset allocation.

The matching fixed income portfolio is a lower risk portfolio compared to the bonus generating portfolio and consists of assets such as fixed and floating rate bonds, money market instruments, structured deposits, structured notes and swaps. The tables show the strategic asset allocation and limits of the bonus generating portfolio of MSG +3, and the strategic asset allocation limits for MSG +3 given the liability-driven investment strategy.

	MSG +3 Bonus Generating Portfolio	
Asset category	Strategic asset allocation	Limits
RSA Equities	50,0%	40,0% to 60,0%
RSA Bonds	7,5%	0,0% to 18,0%
RSA Money Market	5,0%	0,0% to 15,0%
RSA Listed Property	2,5%	0,0% to 10,0%
RSA Direct Property	5,0%	0,0% to 10,0%
Global Equity	25,0%	15,0% to 30,0%
Global Bonds	2,5%	0,0% to 10,0%
Global Property	2,5%	0,0% to 5,0%
Global Money Market	0,0%	0,0% to 10,0%

Asset category	MSG +3 strategic asset allocation limits
RSA Equities	0,0% to 60,0%
RSA Bonds	0,0% to 100,0%
RSA Money Market	0,0% to 100,0%
RSA Listed Property	0,0% to 10,0%
RSA Direct Property	0,0% to 10,0%
Global Equity	0,0% to 30,0%
Global Bonds	0,0% to 10,0%
Global Property	0,0% to 5,0%
Global Money Market	0,0% to 10,0%

AFI Global FullVest

Asset category	Strategic asset allocation	limits
RSA Equities	30,0%	12,0% to 40,0%
RSA Bonds	20,0%	10,0% to 30,0%
RSA Money Market	16,0%	5,0% to 34,0%
RSA Listed Property	2,0%	0,0% to 10,0%
RSA Direct Property	5,0%	0,0% to 10,0%
Global Equity	22,0%	8,0% to 30,0%
Global Bonds	3,0%	0,0% to 10,0%
Global Property	2,0%	0,0% to 5,0%
Global Money Market	0,0%	0,0% to 14,0%

AFI Local FullVest

Asset category	Strategic asset allocation	Limits
RSA Equities	56,0%	22,0% - 70,0%
RSA Bonds	27,5%	20,0% to 56,0%
RSA Money Market	5,5%	0,0% to 40,0%
RSA Listed Property	0,0%	0,0% to 2,0%
RSA Direct Property	11,0%	7,0% to 15,0%
RSA Commodities	0,0%	0,0% to 2,0%

Fees and charges

The fees and charges applicable to the Momentum Corporate smooth bonus range can be found on each portfolio's 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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