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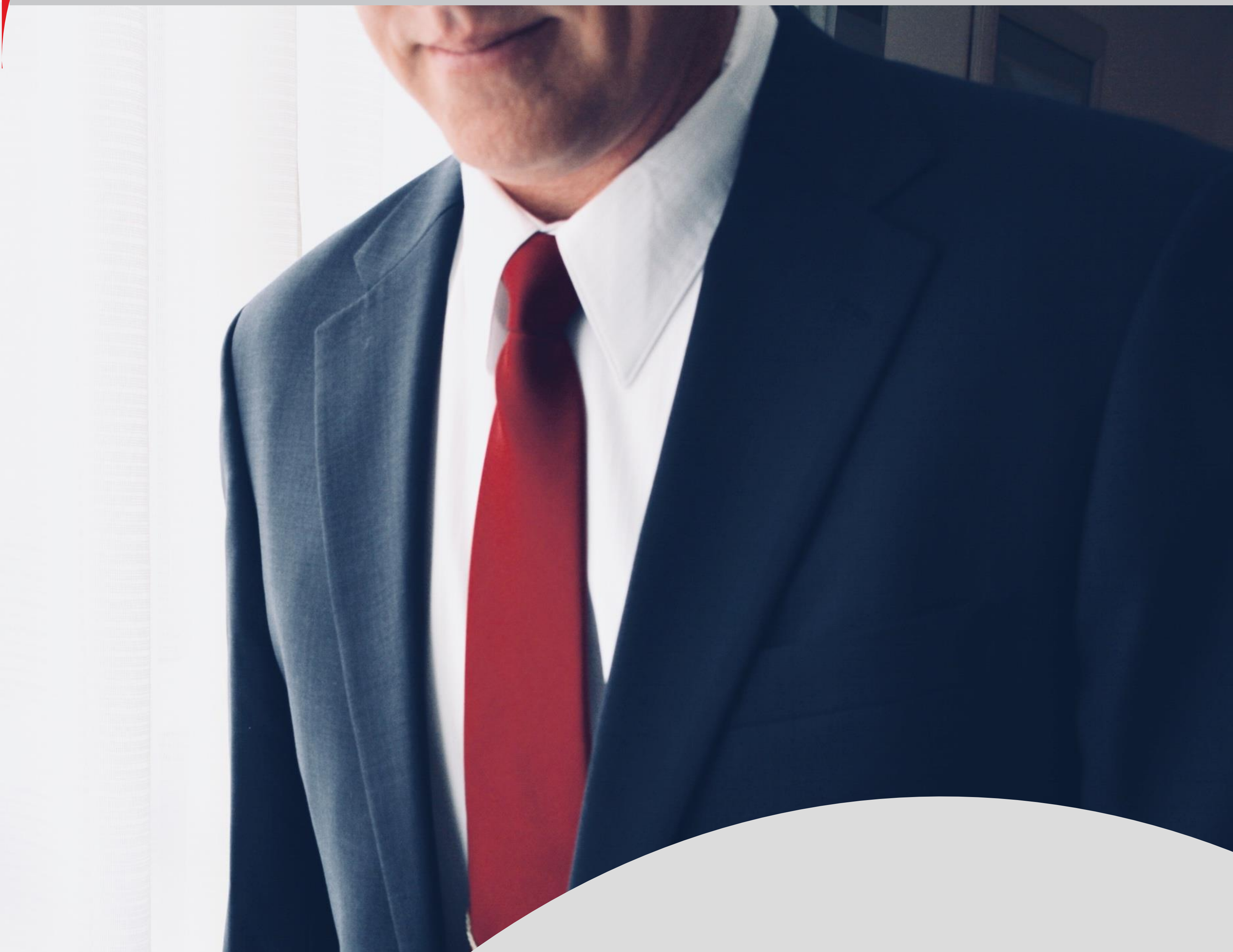

Guide to understanding the Principles & Practices of Financial Management for Momentum Metropolitan Life Limited's Universal Fifty Smooth Return Fund

Introduction

This summary briefly explains Momentum Metropolitan Life Limited's (Momentum's) approach to managing the Universal Fifty Smoot Return Fund (UFSRF). A more detailed description is contained in the Principles and Practices of Financial Management (PPFM) document which is available on our website. Both documents are intended to assist policyholders to better understand how the UFSRF works and is managed.

This summary applies to the UFSRF, including additional bonus series that are launched under it.

This summary is not intended to:

- Change or substitute any of the existing policy terms and conditions of the UFSRF.
- Provide investment advice.
- Create any new obligations between the parties concerned.
- Attempt to restrict the way we manage the UFSRF.

What are Principles and Practices of Financial Management?

The PPFM is a document that sets out the Principles and Practices that we follow in the management of our discretionary participation business. The Principles are high-level statements that describe our long-term approach to managing our discretionary participation business. These should not change often. The Practices are more specific statements on how we manage our discretionary participation business. The Practices are expected to change more frequently because of changes in the business environment and the economy. Written notices are given to policyholders of any changes made to the PPFM.

What are discretionary participation portfolios?

These are portfolios that rely on the ability of insurers to use their discretion, ie decide what's in the best interest of the policyholder, to manage the investment of assets, the smoothing of returns and bonus declarations.

Managing discretionary participation portfolios requires trust between policyholders and us. We make decisions with the intention of them being in the best interest of policyholders and to sustain the portfolios. Sustainability of the portfolios means that we use and invest the policyholders' money wisely.

What is a smooth bonus portfolio?

A smooth bonus portfolio is a type of discretionary participation portfolio 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 portfolio. 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 we manage the portfolio for all the policyholders. For certain portfolios, 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. We declare bonus rates that are more stable than the actual investment returns earned on the underlying assets of the portfolio. The bonus rates 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. The bonus rates declared for UFSRF may be negative.

How does UFSRF differ from our traditional smooth bonus portfolios?

UFSRF is a partially guaranteed smooth bonus portfolio that consists of a ‘guaranteed account’ and a ‘non-guaranteed’ account. All capital invested is split equally between these two accounts. In contrast, a partially vesting smooth bonus portfolio has a ‘vesting account’ and a ‘non-vesting account’. All capital invested is allocated to the vesting account and is guaranteed.

Monthly bonus rates may be positive or negative. Positive bonus rates consist of a guaranteed bonus rate and a non-guaranteed bonus rate. The percentage of the positive bonus rate that is guaranteed is equal to the guaranteed ratio, ie the ratio of the guaranteed fund value to the total fund value of the portfolio. The guaranteed ratio is generally 50%, except after the declaration of a negative bonus rate, when the guaranteed ratio increases. To restore the guaranteed ratio to its 50% level, all future positive bonus rates may be fully non-guaranteed. Allowing for negative bonuses is a key difference to our traditional partially vested portfolios where non-vested bonuses may be reduced but monthly bonus rates cannot be negative.

How are policies administered?

A separate fund value is held for each policyholder in a portfolio. This is the total value owed to the policyholder if an insured benefit payment event happens. A policyholder’s fund value has a guaranteed fund value and non-guaranteed fund value. Capital invested into the UFSRF is allocated to the guaranteed fund value and non-guaranteed fund value in proportion to the guarantee provided by the UFSRF.

A policyholder’s fund value is increased by money invested in the portfolio and positive bonus rates declared, and decreased by any outflows, including charges. The non-guaranteed fund value, and therefore the fund value, may also be decreased by the declaration of negative bonus rates. The portfolio’s fund value is the sum of the fund value of all policyholders.

The market value of a smooth bonus portfolio refers to the value of the underlying assets that are held for the fund value of that portfolio. 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 separate market value is not held for each policyholder in a portfolio. Instead, the total market value of all policyholders is held by us.

The funding level of a portfolio is defined as the portfolio's market value divided by the portfolio's fund value. We only track the funding level of the portfolio.

How are the underlying assets invested?

The underlying assets are invested according to the investment mandates specified by us. Different portfolios 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.

What fees are payable for a smooth bonus portfolio?

We charge fees to administer and manage a smooth bonus portfolio, provide the guarantees and where applicable, manage the underlying assets. External investment managers, which are used for certain portfolios, is either paid by us or directly through a charge on the underlying assets. The charges that apply to the policyholder depend on the smooth bonus portfolio they are invested in. The policy contract, fund fact sheet and brochure explain this in more detail.

How does Momentum decide on the bonus rates to declare?

Because of 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 or in future periods. Similarly, part of the returns earned in the current period may be held back if bonus rates declared in previous periods exceeded investment returns in previous periods. We are not entitled to any undistributed returns.

A smoothing formula is used to calculate the bonus rates to be declared for the UFSRF. The declared bonus rates may deviate from the calculated bonus by 2% over rolling 12-month periods. The smoothing formula for UFSRF is available in the disclosure document on our website.

What types of bonus rates can be declared for the UFSRF?

The bonus smoothing philosophy for 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:** 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 is equal to the guarantee level of the portfolio. The guarantee level for UFSRF is 50%, but this percentage may change.

A negative bonus rate reduces the non-guaranteed fund value of the portfolio, which results 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 50% 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 50% level. Once the guaranteed ratio has been restored to its original 50% level, the guaranteed percentage of the positive bonus rates reverts to the guarantee level offered by the portfolio.

When are bonus rates declared?

Monthly bonus rates are declared monthly in advance. Intra-month ad hoc bonus rates and special bonus rates may be declared during the month.

What are the guarantees?

The guaranteed fund value represents the amount that is guaranteed, while the non-guaranteed fund value may be decreased by the declaration of a negative bonus rate. The total fund value is payable on the insured benefit payment events specified in the policy contract. Insured benefit payment events typically include claims resulting from death, disability, resignation, or retirement. The policy contract explains the guarantees and insured benefit payment events in more detail.

How does smoothing affect the pay-out?

Smoothing may result in the policyholder receiving payment that is higher or lower than what it would have been had they decided to invest their money in an equivalent balanced investment portfolio. This will be to their advantage when investment markets are down, but it may be less favourable when investment markets have performed well, and they receive their payment before these returns have been fully distributed.

What happens on termination of a policy?

A termination value is paid as specified in the policy contract and the value is dependent on the portfolio funding level.

These rules apply for the UFSRF:

- If the portfolio market value is greater than the portfolio fund value, the termination value is equal to the policyholder's fund value.
- If the portfolio market value is less than the portfolio fund value, the termination value is equal to the policyholder's fund value multiplied by the portfolio funding level. 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 way to protect the interests of the remaining policyholders in the smooth bonus portfolio. 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 does not apply on insured benefit payment events as specified in the policy contract.

Can the fund value be transferred between smooth bonus portfolios?

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

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

A smooth bonus portfolio may be closed to new investments from new or existing policyholders when we believe that such investments will result in an inappropriate cross-subsidy between the new investments and the existing investments in the portfolio. This generally occurs when the portfolio's funding level is significantly above or below 100%. In addition, the UFSRF will be closed to all inflows before the declaration of a negative bonus rate.

Where to get more information

The detailed PPFM is available on our website, or you can request it from your financial adviser. Portfolio-specific information is available on our website: https://www.momentum.co.za/momentum/business/employee-benefits/investments.

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

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03/2022