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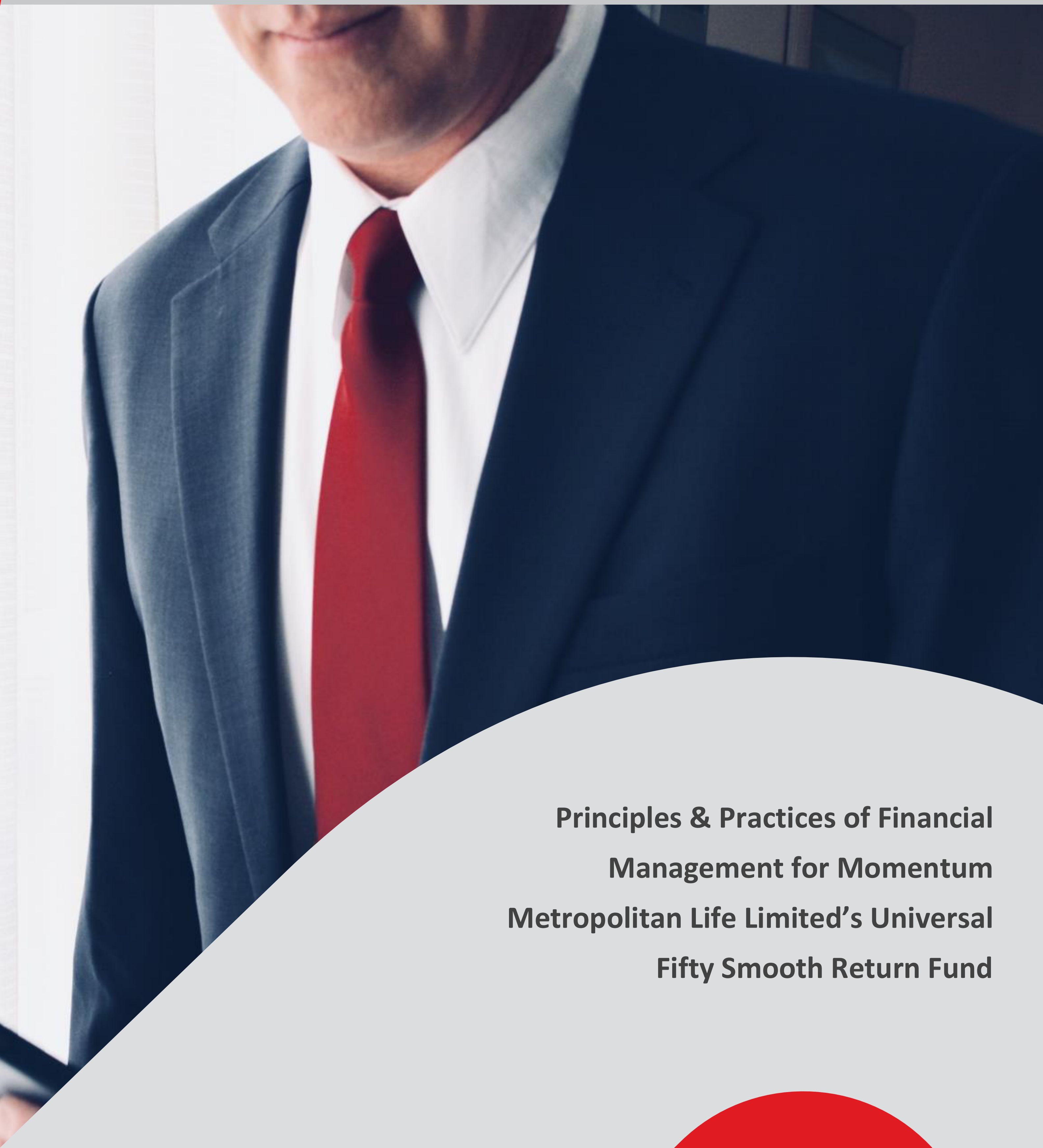

Principles & Practices of Financial Management for Momentum Metropolitan Life Limited’s Universal Fifty Smooth Return Fund

1. Introduction

This document sets out the Principles and Practices of Financial Management (PPFM) of the partially guaranteed smooth bonus portfolio listed in this section, underwritten by Momentum Metropolitan Life Limited (Momentum). This introduction and any subsequent introductory sections are provided as background information and do not constitute Principles or Practices.

1.1 Business covered by this PPFM

This PPFM applies to the Universal Fifty Smooth Return Fund, Momentum's partially guaranteed smooth bonus portfolio, including additional bonus series that are launched under it, underwritten by Momentum.

The Principles and Practices of Financial Management for the other discretionary participation portfolios underwritten by Momentum are covered in separate PPFM documents.

1.2 Purpose of the Principles and Practices of Financial Management

Insurance legislation prescribes that all long-term insurers that have discretionary participation business are required to define, and make publicly available, the PPFM they apply in the management of their discretionary participation business.

In managing discretionary participation business, insurance companies rely on their ability to use discretion, particularly in the investment strategy, as well as smoothing and bonus policies. The purpose of this document is to:

- Explain the nature and extent of the discretion used by Momentum.
- Show how Momentum manages conflicting interests or expectations of different groups of policyholders, and of policyholders and shareholders, to ensure that all parties are treated fairly.
- Give financial advisers and policyholders a better understanding of the possible risks and rewards to be expected from taking out a discretionary participation policy.

Managing discretionary participation portfolios relies on a high degree of trust between policyholders and Momentum. Decisions will be made with the intention of being in the best interest of policyholders and the sustainability of the portfolios.

The Principles define the overarching standards and describe the business model adopted by Momentum to manage discretionary participation portfolios and to respond to longer-term changes in the business and economic environment.

The Practices describe Momentum's approach to managing discretionary participation portfolios and respond to changes in the business and economic environment in the shorter term.

The Principles and Practices will be revised from time to time. Momentum will inform policyholders of any changes to the Principles at least three months in advance of the effective date of the change. Policyholders will also be informed of any changes to the Practices within a reasonable period after any changes took effect.

The PPFM should not be read as a document providing advice on whether to invest in discretionary participation portfolios. This document is intended only to provide information on the management of these portfolios and anyone considering this as an investment option should still get financial advice.

This document, together with a short summary, is available on our website:
https://www.momentum.co.za/for/business/products/employee-benefits-corporate/investments-and-annuities/principles-and-practices

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1.3 Governance

Momentum's board of directors is responsible for the governance of discretionary participation business. This includes the investment of underlying assets, the bonus distribution policy and the approval of any changes to the PPFM. The board has set up a committee, the Fair Practices Committee (FPC), who considers the interests of discretionary participation policyholders and monitor Momentum's compliance with the PPFM. The FPC acts as a discretionary participation committee and reports regularly, at least annually, to the board.

The board also ensures that designated management committees are monitored. The duties of these committees include:

- Approve new product developments, or significant changes to existing portfolios, after considering aspects such as fairness, capital requirements and bonus philosophy.
- Review portfolios' bonus performance and asset allocations on a regular basis and report to executive management.
- Approve investment mandates, review them periodically, monitor performance against benchmarks and oversee the investment management process.

The bonus rates for the partially guaranteed smooth bonus portfolios are declared monthly, but special bonuses and intra-month bonuses may also be declared. The board has delegated the responsibility for approval of these bonus rates to the Head of Actuarial Function, who has to report to the board annually.

2. Principles

Momentum applies these Principles to its partially guaranteed smooth bonus portfolios:

2.1 Contractual and legislative conditions

- Momentum will adhere to the contractual obligations as set out in policy contracts, as well as to any legal and regulatory requirements.
- If there are any inconsistencies between these and this document, contractual and legal requirements take precedence.

2.2 Bonus declarations

- A monthly bonus is declared in advance to provide a smoothed build-up of benefits over time.
- Special bonuses or intra-month ad-hoc bonuses may be declared to manage cross-subsidies between policyholders invested in the portfolio/bonus series. Special bonuses and intra-month ad-hoc bonuses will be

applied immediately.

- Bonuses consist of a guaranteed portion and a non-guaranteed portion.
- Bonuses can be positive, zero or negative.
- All policyholders will receive the bonus that applies to the portfolio/bonus series in which they are invested.
- There is no cross-subsidisation between different bonus series or portfolios.
- There is cross-subsidisation between different generations of policyholders within a particular portfolio/bonus series. This is an implicit feature of smooth bonus portfolios.
- The bonuses declared for a particular portfolio are independent of bonuses declared for any other portfolios.

2.3 Charges

- A capital charge is levied on the underlying assets of a portfolio to provide Momentum with a return on their capital used to support the guarantees inherent in the portfolio. The capital charge may be different for different portfolios and policy conditions.
- A policy fee is also levied to compensate Momentum for the services provided to manage and administer the smooth bonus portfolios.
- Asset management fees and performance fees may be payable by Momentum to the managers of the underlying assets as set out in the agreements between Momentum and the managers.
- Charges can be amended subject to the provisions of the policy contracts.

2.4 Surplus sharing

- All surplus arising in the smooth bonus portfolios is retained for the sole benefit of existing and future policyholders in the smooth bonus portfolios. Momentum is not entitled to any surplus arising in the smooth bonus portfolios.
- Portfolios are managed on a stand-alone basis and do not participate in the profits or surplus of any other area of the business.

2.5 Investment strategy

- Underlying assets of the smooth bonus portfolios are invested in a broad range of asset types which may include equities, bonds, property, cash, and alternative investments.
- The allocations to different asset types reflect the return objectives and guarantees of the smooth bonus portfolios.
- Each portfolio’s assets are held separately from other portfolios and are clearly identifiable.
- The availability of suitable assets influences the investment strategy.

2.6 New business and inflows

- A portfolio/bonus series may be closed to new policyholders or inflows from existing policyholders if it is deemed that the cross-subsidy between new policyholders or inflows from existing policyholders and existing holdings in the portfolio/bonus series will be unacceptably high.
- A portfolio/bonus series will be closed to new policyholders or inflows from existing policyholders before the declaration of a negative bonus.
- If a portfolio/bonus series has been closed to new policyholders or inflows from existing policyholders, then a new bonus series may be opened for new policyholders and/or inflows from existing policyholders.

2.7 Partial or full termination

- Market value adjustments may be applied on full or partial termination. This is done to protect the interests of the remaining policyholders.
- The terms applicable to full and partial termination are set out in the policy contracts.
- No additional charges are levied on payments to policyholders, except as set out in the policy contracts.

2.8 Transfers between portfolios

- Policyholders may transfer their fund values between different smooth bonus portfolios.
- In the event of a transfer, part of the surplus of the transferring portfolio may be transferred with the fund value. If the transferring portfolio's funding level is below 100%, the fund value to be transferred may be subject to a market value adjustment. The transfer will be done in such a way that the transferring portfolio will not be prejudiced by the transfer.
- Transfers into a portfolio will be subject to the Principles that apply to new business and inflows for that portfolio and the respective PPFMs.
- The terms that apply to transfers are as set out in the policy contracts.

2.9 Merger of portfolios/bonus series

- Momentum may merge different portfolios when the funding levels, investment objectives and the nature and level of guarantees of the respective portfolios are sufficiently similar, to allow them to be managed as a single portfolio.
- Momentum may merge different bonus series of a portfolio when the funding levels of the respective bonus series are sufficiently similar, to allow them to be managed as a single bonus series.

3. Practices

3.1 How are policies administered?

A separate fund value is held for each policyholder in a portfolio. A policyholder's fund value consists of a guaranteed fund value and non-guaranteed fund value. Capital invested into the partially guaranteed smooth bonus portfolios are allocated to the guaranteed fund value and non-guaranteed fund value in proportion to the guarantee provided by the portfolio.

A policyholder's fund value is increased by premiums and positive bonuses and decreased by benefits, partial terminations, full termination, other disinvestments like switches, charges and negative bonuses. The portfolio's fund value is the sum of the fund value of all policyholders.

A separate market value is not held for each policyholder in a portfolio. Instead, the total market value of all policyholders is held by Momentum. The portfolio market value is increased by premiums and positive returns on the underlying assets and decreased by benefit payments, partial terminations, full termination, other disinvestments like switches, charges and negative returns on the underlying assets of the portfolio.

The funding level of a portfolio is defined as the portfolio's market value divided by the portfolio's fund value. Momentum only tracks the funding level of the portfolio. Momentum does not track the funding level of individual policyholders as we not track a separate market value per policyholder.

3.2 When and how are bonuses declared?

Monthly bonuses are declared in advance by the Head of the Actuarial Function of Momentum. The monthly bonuses consist of a guaranteed bonus and a non-guaranteed bonus. A bonus smoothing formula is used to assist in the declaration of bonuses. The purpose of the formula is to provide an element of objectivity in the bonus declarations. The monthly bonuses may be positive, zero or negative.

The bonus smoothing formula for the partially guaranteed smooth bonus portfolios are available on Momentum's website.

The bonus smoothing philosophy for the partially guaranteed smooth bonus portfolios allows for the declaration of special bonuses to ensure that the cross-subsidy between different policyholders and different generations of policyholders are not unacceptably high. The special bonus may be positive or negative.

The bonus smoothing philosophy allows for an intra-month ad hoc bonus declaration following extreme market movements. The intra-month ad hoc declaration may be positive or negative.

Special bonuses and intra-month ad hoc bonuses are applied immediately to the fund value of the partially guaranteed smooth bonus portfolios.

Momentum reserves the right to review and adjust the structure of the smoothing formulae used when necessary to ensure that they continue to meet the objectives of the respective portfolios. The assumptions, parameters and methods used to determine the monthly bonuses can be changed to:

- Comply with any new legislative or regulatory requirements or guidance.
- Allow for the possible use of new financial management techniques.
- Respond to changes in financial markets and/or economic conditions.
- Respond to the experience of the portfolio.

The bonus smoothing process results in monthly bonuses being different from the monthly returns earned on the underlying assets. The smoothing process decreases returns to policyholders during times of above average investment returns, as some of the returns are held back for future distribution and may increase returns to policyholders during times of below average investment returns. The period over which the surplus is distributed, or deficit recovered, is dependent on the funding level and the smoothing philosophy of the portfolio. Surpluses or deficits can arise from several contributory factors, such as market movements and the impact of inflows and outflows.

3.3 Are bonuses guaranteed once declared?

Monthly bonuses consist of a guaranteed bonus and a non-guaranteed bonus. Positive special bonuses and positive intra-month ad hoc bonuses consist of a guaranteed bonus and a non-guaranteed bonus. The guaranteed portion of the bonus is guaranteed and cannot be reduced. The non-guaranteed portion of the bonuses are not guaranteed and may be reduced.

3.4 Can a negative bonus be declared?

Negative bonuses can be declared following severe and sustained adverse market conditions. The monthly bonuses, special bonuses and intra-month ad hoc bonuses may be negative. A negative bonus reduces the non-guaranteed fund value of policyholders and the portfolio.

3.5 Charges

All fees and charges are specified in the policy contracts. The policy fee and capital charge are set to remain stable over the long term and not expected to be changed regularly. The declared bonuses are net of the capital charge, asset management fees and performance fees that are paid directly from the underlying assets, but gross of the policy fee.

3.6 Surplus sharing

Any surplus arising in a portfolio/bonus series remains in that portfolio/bonus series.

3.7 How are the underlying assets invested?

Given the nature and term of the liabilities and the inflation-related return objective, the investment strategy is built on those asset classes that are most likely to provide a real return over the long term.

It is based on an investment philosophy which, according to the defined portfolio construction approach and within a rigorous risk management framework, systematically combines various asset classes, investment strategies and mandates, which can include external asset managers, in such a way to manage the return and risk profile of the portfolio to target the defined inflation-related objective over the investment horizon of the portfolio.

The underlying assets are managed using a combination of passive, smart beta, listed, unlisted and alternative strategies which aim to achieve the portfolio's investment objectives over the investment horizons. The underlying assets of this smooth bonus portfolio are managed according to investment mandates and guidelines specified by Momentum. The areas of importance covered by the investment mandates may include:

- Investment and risk objectives and investment horizon.
- The approved asset classes that must be invested in to ensure an appropriately diversified investment strategy.
- Portfolio percentage allocations for each of the asset classes (which may be varied from time to time).
- Asset allocation ranges - the minimum and maximum limits for each asset class that the investments must comply with.
- Benchmarks against which the performance of each asset class is measured.
- Limitations on credit and counterparty exposures.
- The use of derivatives.

Derivative instruments or liability-driven investment strategies can be used to reduce risk and improve the management of the portfolio.

Securities lending can be used to enhance the investment returns on the underlying assets subject to regulatory limits. Any losses arising from these transactions are carried by Momentum's shareholders, while any income arising (net of associated expense) will be shared between Momentum and the policyholders.

More information about the asset allocations and asset managers of the different smooth bonus portfolios are available from the fund fact sheets of the portfolios. The fund fact sheets are published monthly and are available on the Momentum website.

3.8 New business

The funding level of a portfolio will rarely be equal to 100%. Inflows into a portfolio with a funding level that is different from 100% will result in cross-subsidies between new inflows and existing holdings. Although cross-subsidy is an inherent and accepted feature of smooth bonus portfolios, the cross-subsidy must be kept within reasonable limits. This can, in part, be achieved by closing a portfolio to further inflows from new and/or existing policyholders. A portfolio is likely to be closed to new inflows when the funding level is significantly above or below 100%. The portfolio will typically be reopened again when the funding level has moved closer to 100%.

A portfolio will be closed to new inflows prior to the declaration of a negative bonus. If a portfolio has been closed to new inflows due to the declaration of a negative bonus, the portfolio may be reopened when the guaranteed ratio has been restored to its initial level.

Different closure rules may apply to different portfolios.

A new bonus series in the same portfolio may be opened for new inflows if an existing bonus series is closed to new inflows. This new bonus series will be treated as a separate portfolio in terms of this PPFM. The multiple bonus series under a portfolio will be merged once the funding levels of the bonus series have converged sufficiently and if the guaranteed ratios are equal.

3.9 What happens if policyholders want to terminate their policies?

If the portfolio's funding level equals or exceeds 100%, all payments are guaranteed at the policyholder's fund value for both partial and full terminations. If the portfolio's funding level is below 100%, then the partial or full termination value may be subject to a market value adjustment.

3.10 What happens if policyholders want to transfer their fund value to another smooth bonus portfolio?

A policyholder may transfer their fund value to some of the other smooth bonus portfolios operated by Momentum. The list of the smooth bonus portfolios where transfers are allowed to may change from time to time and is available from Momentum.

The policyholder's guaranteed and non-guaranteed fund values will be transferred to the receiving smooth bonus portfolio. A separate market value is not held per policyholder for the partially guaranteed smooth bonus portfolios. In the event of a transfer from a partially guaranteed smooth bonus portfolio, part of the surplus of the portfolio may be transferred with the fund value. This difference will be determined so that the transferring portfolio will not be negatively affected by the transfer.

Transfers into a portfolio are subject to any normal restrictions that may apply to new business and inflows.

3.11 Merger of portfolios

Portfolios/bonus series may be merged under the following circumstances:

- A portfolio has reduced to a size that is unviable for it to continue to be managed separately. It will then be in the best interest of the policyholders as a group that the portfolio is combined with a larger portfolio that is similar in terms of return objectives, guarantees and mandate.

- When a portfolio is closed to new inflows, Momentum may open a new bonus series under the same portfolio to accommodate new inflows. Multiple bonus series of the same portfolio will be merged once the funding levels of the bonus series have converged sufficiently and if the guaranteed ratios are equal.

4. Glossary

Board means the board of directors of Momentum.

Discretionary participation business includes portfolios which have features that rely on the ability of Momentum to use discretion to manage them, particularly the underlying assets, smoothing and bonus policies. These portfolios are typically ones where premiums are invested in a pooled fund made up of a range of assets. A significant portion is usually in the form of equities, where allocations to policies are smoothed to protect policyholders from short-term fluctuations in asset prices, or other possible experience variations. Guarantees may apply, which may increase over the lifetime of a policy.

Fair Practices Committee (FPC) is a sub-committee of the board responsible for considering the interests of discretionary participation policyholders and for monitoring Momentum's compliance with the PPFM. The FPC acts as the discretionary participation committee.

Guaranteed bonuses are bonuses that are guaranteed and cannot be removed.

Guaranteed ratio is the ratio of the guaranteed fund value to the total fund value of the portfolio.

Head of Actuarial Function is defined in the Prudential Standard Governance of Insurers (GOI) 3.

Investment returns are realised and unrealised gains in the market value of underlying assets, and income from underlying assets including interests, dividends, and rent.

Market value adjustment refers to a reduction in the policyholder's fund value that may occur on partial or full termination.

Non-guaranteed bonuses are bonuses that are not guaranteed.

Policyholder's fund value is made up of the policyholder's premiums and benefit payments, partial terminations, full termination, disinvestments like switches, and charges, all accumulated with the bonuses of the portfolio. Bonuses can be positive, zero or negative.

Portfolio fund value is the sum of all policyholders' fund values.

Portfolio funding level is the portfolio's market value divided by the portfolio's fund value.

Portfolio market value is made up of all premiums, benefit payments, partial termination, full termination, other disinvestments, like switches, and charges of the portfolio accumulated with actual returns on the underlying assets of the portfolio.

Surplus is the excess of a portfolio's market value over a portfolio's fund value. A surplus can also be negative, ie a deficit.

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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