

Summary of the Principles and Practices of Financial Management of the Momentum Corporate discretionary participation products



Smoothing only smoothed bonus portfolios

This summary provides information on how we manage the smoothing only smoothed bonus portfolios underwritten by Momentum Metropolitan Life Limited (“Momentum”) and those that are underwritten and distributed by Alexforbes Investments Limited (“Alexforbes”) and that is reinsured by Momentum Metropolitan Life Limited (“Momentum”), including additional bonus series that are launched under any of these portfolios.

The principles are high-level statements that describe Momentum’s long-term approach to managing these discretionary participation portfolios and should not change often. The practices are more specific statements that describe how we intend to follow the principles in managing these discretionary participation portfolios on a day-to-day basis. 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 and will also be published on our website.

This summary applies to the smoothing only smoothed bonus portfolios.

- Alexander Forbes Retirement Navigator: Beneficiary Fund (“Beneficiary Fund”)

- Momentum Bespoke Smoothing Only
- Motswedi Balanced Defensive Fund

The PPFM is a very detailed technical document, so this document sets out a summary of the key points in simpler terms, and explains where and how we invest, how investment returns are smoothed and what type of bonus rates we declare.

Momentum follows the obligations as stated in the policy contract and complies with any legal and regulatory requirements. If there are any differences between this summary document, the PPFM, the policy contract and/or legal requirements, the contract and/or legal requirements will be considered final and correct. This document is not intended to provide investment advice.



What are discretionary participation portfolios?

These are portfolios that rely on the ability of the insurer to use its discretion (i.e., decide what is in the best interest of the investor invested in these portfolios) to manage them regarding the investment of assets, the smoothing of returns and bonus declarations.

Managing discretionary participation business requires trust between investors, Alexforbes and Momentum. Momentum takes decisions with the intention of being in the best interests of investors and the sustainability of the portfolios. Sustainability of these portfolios means that Momentum will use and invest the investors' money wisely, and that returns are smoothed appropriately.

What is a smoothing only smoothed bonus portfolio?

A smoothing only smoothed bonus portfolio is a type of discretionary participation portfolio where both the capital invested (after allowing for any disinvestments) as well as bonuses (after allowing for fees) are not guaranteed to investors by Momentum. These terms are explained further in the document.

Much like any other smoothed bonus portfolio, in a smoothing only smoothed bonus portfolio, the investor's money is pooled with other investors' money in an investment portfolio that is exposed to market fluctuations and the returns that are passed on to investors are 'evened out' or smoothed over a period of time. This means that the return over a short period of time may be higher or lower than the actual investment return on the underlying assets of the portfolio. These smoothed returns that are passed on to investors are called bonus rates.

How does a smoothing only smoothed bonus portfolio work?

The smoothing only smoothed bonus portfolio has a diversified multi-asset underlying investment portfolio, managed by Alexforbes, that aims to grow the investors investment over longer periods. The actual investment returns earned on the underlying assets vary from month to month and may sometimes even be negative.

Returns are passed on to investors through a process known as a bonus declaration. Momentum declares bonus rates that are more stable than the actual net investment returns (after deducting charges and fees) earned on the underlying assets. This means that the declared bonus rate may be higher or lower than the actual net investment returns earned on the underlying asset portfolio over the same month. This is called smoothing and is covered in more detail further in the document.

A separate investment account is held for each investor in a smoothing only smoothed bonus portfolio. The investment account is increased by premiums and positive bonuses and is decreased by disinvestments, fees and negative bonuses.

The investment accounts are not guaranteed and may be decreased in the event of negative bonuses being declared by Momentum.

A market value is built up by premiums, disinvestments, charges as well as returns from the underlying assets of the portfolio. A portfolio market value of all investors is held by Momentum and no separate market value is held for each investor account.

What fees does Momentum charge?

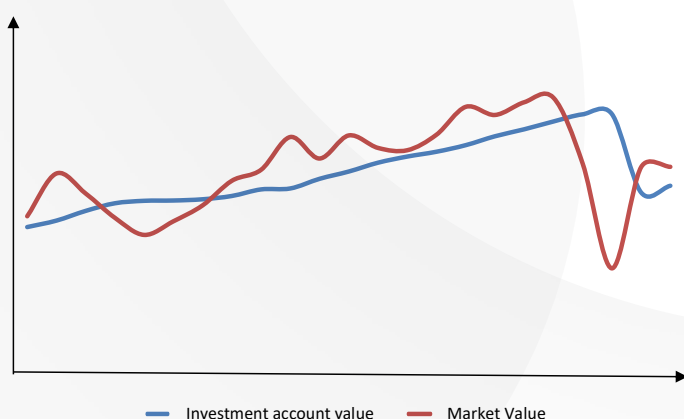
Fees are charged to administer and manage the portfolio and the underlying assets as well as to provide the smoothing. The policy contract describes the fees in more detail.

What are the guarantees?

The portfolio offers no investment guarantees on the underlying market value returns or the investor account value of your investment.

How does smoothing affect my pay-out?

Smoothing may result in the payment the investor receives from their policy being higher or lower than what would have been received had they opted to invest their money in an investment portfolio with the same underlying assets but no smoothing. 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 via bonuses.



What will happen when disinvesting?

The value in the investment account is payable on disinvesting in the event of a policy benefit.

Should an investor disinvest other than on a policy benefit event, the pay-out may in some circumstances be subject

to a market value adjustment ("MVA") which is explained below and means that the value in the investor's investment account will be reduced upon payment.

The disinvestment on a non-policy benefit event will be paid as specified in the policy contract.

- If the portfolio's market value (market value of the underlying assets attributable to all investors) is less than the total value of all investors' investment accounts, the amount payable on a full disinvestment by an investor will be equal to the portfolio's market value multiplied by the ratio of the investor's investment account to the total value of all investors' investment accounts. The difference between the amount payable on the full disinvestment and the investor's investment account is a market value adjustment.

In the event of a disinvestment that does not deplete the investment account (for instance, an investor's partial switch out), the market value adjustment will be proportional to the amount being disinvested from the investment account; and

- If the portfolio's market value is greater than the total value of all investors' investment accounts, no market value adjustment will apply.

What is the purpose of a market value adjustment?

An MVA is not an exit penalty, but rather a mechanism to protect the interests of the remaining investors of a smoothing only smoothed bonus portfolio.

If Momentum did not reduce the investment accounts by the MVA of those investors disinvesting on non-policy benefit events, they would receive more than the actual value of their investment accounts at that time. This would mean that the investors whose policies stay invested would receive lower bonus rates in future, which is not fair to them.



Can the investment account value be transferred between smoothed bonus portfolios?

Transfers of investment account values between smoothing only smoothed bonus portfolios can be done on terms specified by Momentum in the policy contracts.

When may a smoothing only smoothed bonus portfolio be closed to new investments?

A smoothing only smoothed bonus portfolio may be closed to new investments from new or existing investors 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 portfolio. This generally occurs when the portfolio's market value is materially lower or higher than the total value of all investors' investment accounts.

How does Momentum decide on the bonus rates to declare?

The bonus rates for a particular smoothing only smoothed bonus portfolio will depend on the portfolio's bonus philosophy, its long-term return objective, previously declared bonus rates, 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 bonus rates may be used to increase the bonus rates in the current period 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. Momentum is not entitled to any undistributed returns. Momentum may not keep any of these undistributed returns. Momentum's entitlement is limited to the fees and charges that the policy contract sets out.

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

When are bonus rates declared and applied?

Bonus rates are declared monthly in advance and are added to the investment accounts on a daily basis. Special or intra month ad hoc bonuses may also be declared during the month to make sure that cross-subsidy between different investors, or the difference between the portfolio's market value and the total value of all investors' investment accounts are not unacceptably high. These bonus rates can be negative.

Can bonuses be taken away?

Yes, positive bonuses declared can be reduced by subsequent negative bonuses declared.

How are the underlying assets invested?

The pool of money is invested in a diversified portfolio of different assets (such as local and offshore listed equities, fixed interest assets, direct and listed property, cash and money-market instruments, as well as hedge funds) to maximise the expected returns and may aim to outperform the peer group of balanced fund managers.

The asset allocation may differ depending on the smoothed bonus portfolio. The management of the underlying assets may be outsourced to external investment managers. In particular, for Retirement Navigator and Beneficiary Fund, the underlying assets are managed by Alexforbes Investments.



How Momentum manages investors' interests?

If the value of the underlying assets in a smoothing only smoothed bonus portfolio drops significantly below the total value of all the investors' investment accounts, and the outlook for positive investment returns is bleak, the recovery in the value of the underlying assets may be unlikely. In order to protect the portfolio and make sure all investors are treated fairly, other than applying a market value adjustment, Momentum may:

- declare monthly, special or interim ad hoc bonus rates, that may be negative;
- close the portfolio to new investments; or
- convert the portfolio to a market linked policy.

How can I get more information?

The more detailed document can be viewed **here** or requested from your financial adviser or at our head office. The document is called the Principles and Practices of Financial Management applicable to the Momentum Corporate discretionary participation business (PPFM).

Email address emailus@momentum.co.za

Postal address PO Box 2212, Bellville, 7535

momentum.co.za

 Momentum Corporate

 twitter.com/momentum_za

 facebook.com/momentumZA

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