Principles and Practices of Financial Management

applicable to Momentum Corporate's Partially Guaranteed Smoothed Bonus Range

Underwritten by Momentum Metropolitan Life Limited

momentum
corporate

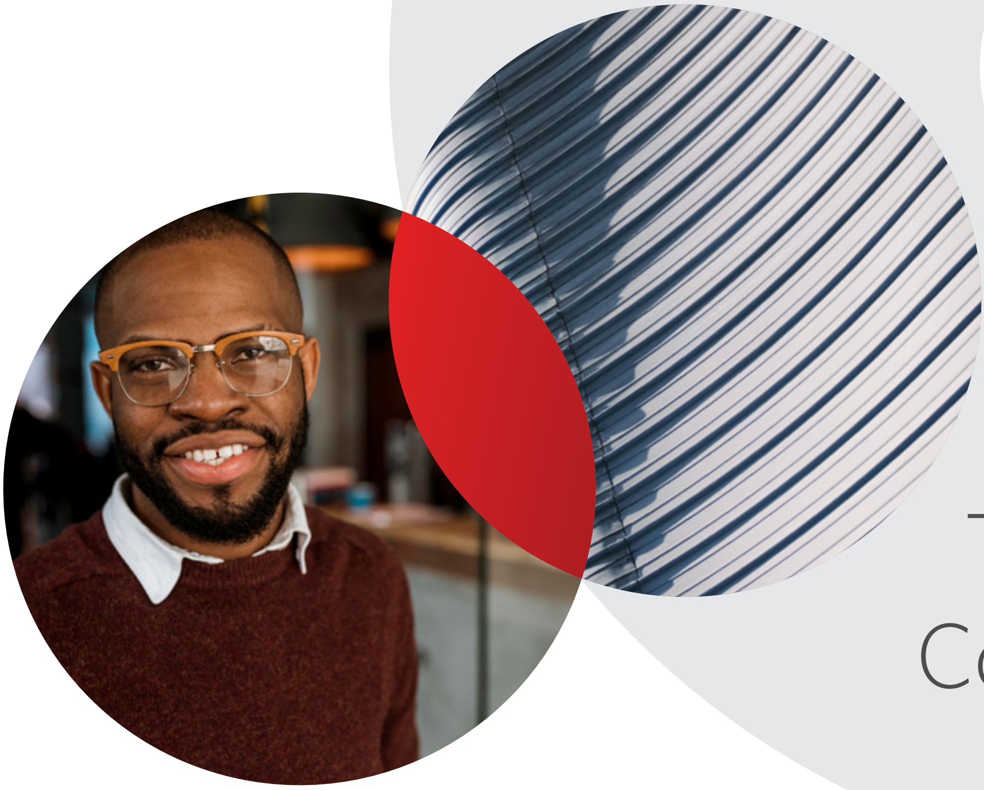

Table of Contents

1

Introduction

This document sets out the Principles and Practices of Financial Management (PPFM) used in the management of Momentum Corporate's partially guaranteed smoothed bonus range of Discretionary participation business underwritten by Momentum Metropolitan Life Limited (hereinafter referred to as 'Insurer').

This section is provided as supplementary information and does not constitute principles or practices.

1.1 Discretionary participation business covered by this PPFM

This PPFM applies to the following discretionary participation portfolios, including additional bonus series that are launched under any of these portfolios. The range of partially guaranteed smoothed bonus portfolios comprises:

- Momentum Universal Fifty Smooth Return Fund

The Insurer guarantees a fixed percentage of the net capital invested (after allowing for any disinvestments) and 100% of the declared net guaranteed bonuses (after allowing for fees) to investors. Specific to Momentum's Universal Fifty Smooth Return Fund, investors (retirement funds, participating employers of umbrella retirement funds or members of retirement funds as the case may be) have the same funding level as that of the portfolio.

1.2 Background

a) This document covers all aspects relevant to the management of Momentum Corporate's aforementioned discretionary participation portfolios. These portfolios are 'smoothed bonus' in nature.

b) The term 'smoothed bonus' refers to a particular type of investment portfolio which can be considered as a default for retirement funds provided it complies with the Financial Services Conduct Authority (FSCA) Conduct Standard 5 of 2020 (RF).

The main difference between the values of policies invested in smoothed bonus portfolios covered in this PPFM as opposed to market-related investment portfolios, relates to when, and in what form, the policies receive the returns earned on the underlying assets. In the case of market-related portfolios, policy values change in accordance with the returns when they are earned whether positive or negative, while in the case of smoothed bonus portfolios (as covered in this PPFM), the Investment returns are 'smoothed' over time and added in the form of bonuses.

c) Pension and Provident funds can invest in smoothed bonus portfolios on behalf of their members in a product wrapper known as a 'fund policy'. Individuals may also invest in smoothed bonus portfolios using different types of product wrappers including; living annuity, preservation, or retirement annuity policies.

d) Different smoothed bonus portfolios have differing terms and conditions, hence potentially different charging structures and levels of charges.

e) Momentum Metropolitan Life Limited is a life assurance company based in South Africa and is a wholly owned subsidiary of Momentum Metropolitan Holdings Limited. The Insurer's history includes a number of takeovers and mergers. Metropolitan Life Limited and Momentum Group Limited were life assurance companies based in South Africa which became wholly owned subsidiaries of MMI Holdings Limited in December 2010 following the merger of Metropolitan Holdings Limited and Momentum Group Limited.

Momentum Group Limited was subsequently renamed MMI Group Limited in January 2013 to facilitate the amalgamation of the long-term insurance licences of Metropolitan Life Limited and Momentum Group Limited. This amalgamation of the licences (in terms of Section 37 and 38 of the Long-term Insurance Act of 1998) was concluded in May 2013 to form the amalgamated MMI Group Limited. In 2019, MMI Holdings Limited and MMI Group Limited changed names to Momentum Metropolitan Holdings Limited and Momentum Metropolitan Life Limited respectively.

1.3 Purpose of the PPFM

a) 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.

b) 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 the Insurer;
- Show how the Insurer manages conflicting interests or expectations of different groups of investors, and of investors and shareholders, to ensure that all parties are treated fairly; and
- Give financial advisers and investors a better understanding of the possible risks and rewards to be expected from investing in a discretionary participation portfolio.

c) The management of Discretionary participation business relies on a high degree of trust between investors and the Insurer. Decisions will be made with the intention of being in the best interest of investors and the sustainability of the portfolios, having regard to their reasonable expectations.

d) The principles are the enduring statements of the overarching standards adopted by the Insurer in managing its Discretionary participation business. They also describe the business model adopted by the Insurer in managing the discretionary aspects of this business and in responding to longer-term changes in the business and economic environment.

e) The practices describe the Insurer's approach to managing the Discretionary participation business and responding to changes in the business and economic environment in the shorter term. Together with the principles, they aim to provide sufficient detail to enable investors to understand the possible risks and rewards of investing in a discretionary participation portfolio with the Insurer.

f) Managing Discretionary participation business is not a mechanistic process carried out strictly on the basis of compliance with a detailed set of pre-determined rules, guidelines, or criteria. Rather, it requires the Insurer to make many judgements about the actions it should take in endeavouring to meet the objectives that are described in this document. These judgements are made by the Insurer in good faith, although it cannot be guaranteed that they will result in the objectives described in this document being achieved.

g) Discretionary participation business is long term in nature. Whilst the Insurer would like its investors to have as clear an understanding as practicable of how this business will be managed, it is not in the investors' interest for the Insurer to do so by reference to rigid and inflexible criteria. The Insurer therefore seeks to respond to events in managing this business and may adjust accordingly the principles and practices by reference to which it seeks to carry on that business. The Insurer will inform investors of any changes to the principles at least three months in advance of the effective date of the change. Investors will also be informed of any changes to the practices within a reasonable period after such changes take effect. These changes will also be published on our website.

h) The Insurer is required to meet all its contractual obligations to investors, and the PPFM is not intended to alter the rights and obligations which the Insurer, or its investors, has under any policy documents that the Insurer has issued. Should there be any conflict between the PPFM and any such policy documents, the policies override all other sources of information, including this PPFM.

i) 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.

j) Given the fact that the principles and practices can be changed, as mentioned above, and that this document has been written in simple language, existing investors and prospective investors should not treat the statements in this document as binding commitments or representations by the Insurer as to how it manages Discretionary participation business or as to how it will do so in the future.

This PPFM, as well as a summarised version, is available on our website:
www.momentum.co.za

You can address any questions or comments relating to this document to:
Momentum Corporate
Email: emailus@momentum.co.za
Postal address: PO Box 2212, Bellville, 7535

1.4 Governance

a) The Insurer's Board of Directors ("the Board") is responsible for the governance of the Discretionary participation business. This includes the investment of underlying assets, the bonus distribution policy and the approval of any changes to the PPFM.

b) For this purpose, the Board has set up a committee, the Fair Practices Committee (FPC), that considers the interests of discretionary participation investors and to monitor the Insurer's compliance with the PPFM. The FPC acts as the discretionary participation committee and reports to the Board in this regard regularly, at least annually.

c) The Board also ensures that appropriate monitoring is done at designated management committees. The duties of these committees include:

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

d) The Board delegated authority to the Actuarial Committee to declare Bonus rates and approve related discretionary participation management actions. Since the Bonus rates for Momentum Corporate's smoothed bonus portfolios are generally declared monthly in advance, the Actuarial Committee delegated the responsibility for approval of monthly, Special and Intra-month ad hoc Bonus rates to the Head of Actuarial Function. The Head of Actuarial Function reports to the Actuarial Committee annually in this regard.

2

Principles

The Insurer applies the following principles in managing discretionary participating portfolios (specifically partially guaranteed smoothed bonus portfolios).

2.1 Contractual and legislative conditions

a) The Insurer 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 the principles and practices outlined in this PPFM, the contractual and legal requirements take precedence.

2.2 Investment strategy

a) The aim of the investment strategies and bonus philosophies that the Insurer applies is to balance the objectives of meeting any contractual guarantees, and maximizing returns for investors, subject to acceptable levels of risk and within legal and regulatory constraints.

b) The portfolios are managed with the aim of providing investors with positive real returns in line with the objectives of the portfolios over the long term.

c) The underlying asset portfolio is managed according to a mandate that allows asset managers to invest in a broad range of asset classes (equities, bonds, property, money market, and alternative investments; that are invested both globally and locally). Some of these assets have an uncertain return and are subject to market and other risks. Within constraints determined and reviewed by a designated management committee of the Insurer from time to time, these risks are assumed when the Insurer believes that they are appropriate to the nature of the smoothed bonus portfolio and the returns are commensurate with the level of risk. Derivative instruments may be used to manage underlying asset portfolio risks or in lieu of exposure to the underlying assets.

d) There may be differences between the risk profiles of the investment mandates for different smoothed bonus portfolios due to the nature of the guarantees provided. That is, the investment strategy for an underlying asset portfolio shall have regard to the nature of the liabilities of the relevant smoothed bonus portfolio, and in particular have regard to the reasonable expectations of the investors and the duty to treat them equitably.

e) Each smoothed bonus portfolio's assets are held separately from that of other portfolios and are clearly identifiable. Investors' funds are also managed separately from shareholders' funds in order to meet the aforementioned objectives.

f) The availability of suitable assets influences the investment strategy. The investment strategy and practices are reviewed regularly by a designated management committee of the Insurer to ensure their continued suitability in terms of risks (including market, liquidity, credit and operational risks) and the likely returns.

2.3 Bonus Declarations

a) Investment returns on assets are passed on to the respective investors in the form of Bonus rates. The overall intention of the bonus declarations is to provide investors with a return that, over time and particularly at Policy benefit events, is smoother (i.e., less volatile) than the actual investment market returns on the underlying assets, but nevertheless broadly reflective of the investment experience of those assets. This means that the declared Bonus rates may be higher or lower than the actual net investment returns earned on the underlying asset portfolio over the short term. The purpose of smoothing is to protect investors against unforeseen negative investment performance over the short term.

b) The Insurer actively seeks to smooth Investment returns if at all possible. However, at its discretion, the Insurer may choose not to do so if this is deemed to be in the interests of investors. That is, no Bonus rate will be declared that would result in the ongoing viability of a discretionary participation portfolio being knowingly threatened.

c) Within a particular smoothed bonus portfolio, the smoothing of returns is intended to be neutral to investors as a group over time, but cross-subsidies can occur between different generations of investors. These are implicit features of the portfolio types.

d) Bonus rates are declared monthly in advance by the Insurer but applied to investors' Investment accounts daily. The Insurer may also declare Special Bonus rates or Intra-month ad-hoc Bonus rates to manage cross-subsidies between investors in a portfolio (or related bonus series) and/or to protect investors against active selection against the portfolio. Special Bonus rates and Intra-month ad-hoc Bonus rates will be applied immediately.

e) A portion of the bonus declared is guaranteed by the Insurer (termed guaranteed bonus) after being added to the Investment account. The balance of the bonus declared is not guaranteed (termed non-guaranteed bonus). The guaranteed bonus is non-negative, but the non-guaranteed bonus can be negative.

A portion of the Investment Account (termed guaranteed account) is guaranteed to never reduce (after fees, and if there are no claims) and the remaining portion (termed non-guaranteed account) can be reduced by the Insurer to protect investor interest. Other than the guaranteed bonuses, a portion of the premiums is added to the guaranteed account, with the remaining portion of the premiums being added to the non-guaranteed account. Furthermore, non-guaranteed bonuses can increase or reduce the non-guaranteed account.

f) Declared Bonus rates are net of Capital charges but are gross of the policy fee.

g) All investors within a particular smoothed bonus portfolio will receive the Bonus rate applicable to that portfolio. Cross-subsidies can occur during the merger of portfolios that share the same underlying asset portfolio.

h) The aim of the bonus declaration process is to achieve a balance between achieving meaningful smoothing of returns and ensuring fairness across investors in a portfolio. The aim is to distribute over time, the Surplus (after deduction of charges) actually earned on the underlying portfolio to investors.

2.4 New business and inflows

a) A smoothed bonus portfolio may be closed to new investors or inflows from existing investors if it is considered to be no longer viable or if it is deemed that the cross-subsidy between new investors or inflows from existing investors and existing holdings in the portfolio will be unacceptably high.

b) If a portfolio has been closed to new investors or inflows from existing investors, then a new related bonus series or a new portfolio may be opened for new investors and/or inflows from existing investors.

2.5 Transfers between portfolios

a) Investors may transfer amounts from their Investment account (in part or in full) between different smoothed bonus portfolios offered by the Insurer. In the event of a transfer, part or all of the Surplus (negative or positive as the case may be) from the transferor portfolio may be transferred to the transferee portfolio with the relevant portion of the Investment account. The transfer will be done in such a way that investors in the transferor and transferee portfolio are not prejudiced by the transfer.

b) Transfers into a portfolio will be subject to the principles applicable to new business and inflows.

c) The terms and conditions applicable to transfers are set out in the policy contracts.

2.6 Surplus sharing

a) Surplus is defined as the difference between the market value of the underlying assets and the sum of the Investment accounts. The Surplus can be positive or negative. As a result of smoothing, Bonus rates are rarely the same as the actual net Investment return earned over similar periods. The cumulative effect of past returns not yet reflected in the bonus declaration as well as the Non-Investment Surplus (primarily driven by claim impacts) contributes to the Surplus.

b) The Surplus arising within a smoothed bonus portfolio will be retained for the sole benefit of existing and future investors in the smoothed bonus portfolio. The Insurer is not entitled to any Surplus arising within the smoothed bonus portfolio. That is, the shareholders do not have any claim on the cumulative effect of past returns not yet reflected in the Bonus rates or the Non-Investment Surplus, other than their specified charges.

c) Portfolios are managed on a stand-alone basis and do not ordinarily participate in the Surplus of any other portfolio, barring the instances under clauses 2.9 and 3.7, and when there is no longer a liability on a closed portfolio. In the latter scenario, any residual Surplus is shared across remaining portfolios pro-rata.

2.7 Amount payable

a) The Insurer will always pay at least the guaranteed benefits provided by a contract in the event of a Policy benefit such as on death, disability, or retirement, irrespective of the state of investment markets at the time of the disinvestment claim. Any losses arising from guarantees are borne by shareholders. Otherwise, investment profits or losses are borne by the underlying investors.

b) In the event of a disinvestment other than from a Policy benefit when the funding level (Investor or Portfolio as the case may be) is below 100%, the Insurer may adjust the Investment account to ensure that remaining investors are not prejudiced as a result of the disinvestment. This adjustment is called a Market value adjustment and depending on the smoothed bonus portfolio, may apply on disinvestments including full or partial terminations, involuntary withdrawals such retrenchments, investor switches or Section 28 liquidations.

c) Notwithstanding the above, the terms and conditions applicable to differing disinvestments will be as set out in the policy contracts. Furthermore, no additional charges will be levied on payments to investors, except as set out in the policy contracts.

2.8 Charges and Fees

a) Capital charges are levied on the underlying assets of a smoothed bonus portfolio to provide the Insurer with a return on their capital used to support the guarantees inherent in the portfolio. The Capital charge may be different for different portfolios depending on the policy conditions.

b) A policy fee is levied in respect of the services provided by the Insurer to manage and administer the smoothed bonus portfolios.

c) Fees and charges are set to remain stable over the long term and are only expected to be changed infrequently.

d) Asset management fees and performance fees may be payable by the Insurer to the managers of the underlying assets as set out in the agreements between the Insurer and the managers.

e) Charges can be amended subject to the provisions of the policy contracts.

2.9 Merging of portfolios and bonus series

a) The Insurer may merge different portfolios (including bonus series) to be managed as a single portfolio subject to the constraints contained within this PPFM.

3

Practices

The following Practices are applicable to the partially guaranteed smoothed bonus portfolios.

3.1 When does the Insurer exercise discretion?

a) The Insurer exercises discretion when making the following decisions regarding smoothed bonus business (list is not exhaustive):
   i. The level of Bonus rates it will declare, including the degree of smoothing it will apply and the guaranteed proportion. If the portfolio is considered default, this is subject to restrictions outlined in Financial Services Conduct Authority (FSCA) Conduct Standard 5 of 2020 (RF);
   ii. The investment of the underlying assets including the use of derivative structures;
   iii. When and by how much to reduce the values of investors by use of a market value adjustment when a non-Policy benefit event occurs;
   iv. When to declare negative Non-guaranteed bonus rates, and what rates to declare;
   v. When and how much will be injected by shareholders on a contingent or permanent basis; and
   vi. When to close or open a portfolio for new business.

3.2 How are policies administered?

a) Premiums paid by all investors in a particular portfolio are pooled and invested in a particular set of assets. All the investors in a portfolio share in the returns from the underlying assets through the bonuses that they receive.

b) A separate Investment account is held for each investor in a portfolio. An Investment account is increased by premiums and positive bonuses but is decreased by Policy benefits, withdrawals (involuntary or voluntary as the case may be), policy terminations (full or partial), other disinvestments such as investor switches out of a portfolio, as well as fees and negative bonuses (where applicable). The portfolio's Investment account is the sum of the Investment account of all investors. The Investment account is split between a guaranteed and a non-guaranteed component. Premiums, disinvestments, fees and bonuses will generally be split in accordance with a ratio as specified in the policy contract, unless a negative Bonus rate is declared. Once a negative Bonus rate is declared, the split will deviate from the specified ratio and future Bonus rates will be declared in such a way to restore to the specified ratio as soon as possible.

c) The market value is driven by premiums, Policy benefits, withdrawals (involuntary or voluntary as the case may be), policy terminations (full or partial), other disinvestments such as investor switches out of a portfolio, as well as fees and charges accumulated with returns on the underlying assets of the portfolio.

d) Investors may hold separate market value accounts and have distinct funding levels, termed "Investor funding level". Alternatively, depending on the smoothed bonus portfolio, investors may share the Portfolio funding level. Notwithstanding, for all smoothed bonus portfolios, the Insurer would ordinarily track the Portfolio funding level in order to declare bonus rates and assess management actions.

e) A portfolio is likely to be closed to new inflows when the Portfolio funding level is significantly above or below 100%. The portfolio will typically be reopened again when the Portfolio funding level has moved closer to 100%. 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 may be merged.

f) Policy benefits are always paid based on the prevailing value of the Investment account, regardless of the funding level (Investor or Portfolio as the case may be).

g) Involuntary withdrawals such as retrenchments may be subject to a Market value adjustment as set out in the policy contracts when underfunded, which implies that a value lower than in the Investment account may be paid out to the investor. Other disinvestments including but not limited to policy terminations, section 28 liquidations and switches out may be subject to a Market value adjustment if the funding level (Investor or Portfolio as the case may be) is below 100%.

h) An investor may transfer their Investment account (in part or in full) to some of the other smoothed bonus portfolios operated by the Insurer in accordance with the terms outlined in the policy contracts. The list of the smoothed bonus portfolios where transfers are allowed to may change from time to time and is available from the Insurer. The investor's guaranteed and non-guaranteed account values will be transferred to the receiving smoothed bonus portfolio.

i. For portfolios that track the Investor funding level, part or all of the difference between the Investment account and the investor's market value account may also be transferred; and
ii. For portfolios that track the Portfolio funding level only, since a separate market value is not held for each investor, in the event of a transfer, part of any Surplus of the portfolio may be transferred with the Investment account.

i) Any Non-Investment Surplus arising in a portfolio/bonus series as a result of a disinvestment when the funding level (Investor or Portfolio as the case may be) is above 100% remains in that portfolio/bonus series for the benefit of existing and future investors.

3.3 How are the underlying asset portfolios managed?

a) Management committees are responsible for overseeing the investment management process within a clearly defined investment framework. This includes:
   - The selection and appointment of internal and external asset managers;
   - The approval of investment mandates and ensuring that mandates are adhered to; and
   - Considering the appropriateness of the assets given the nature of the liabilities.

b) The investment objective is to invest in assets that will enable the Insurer to meet the Policy benefits when they fall due. A secondary objective is to maximize the return on investments on a long-term basis, subject to acceptable levels of risk and within any constraints imposed by the investment mandates, legislation or regulations.

c) The assets underlying these portfolios are invested in a mix of asset classes which may include but are limited to global and South African listed equities, fixed interest assets, direct and listed property, money-market instruments, private equity and hedge funds, within the constraints of the investment mandates.

The underlying asset portfolios are based on an investment philosophy which are in accordance with a clearly defined portfolio construction, and within a rigorous risk management framework. The investment philosophy 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 investment objective over the investment horizon of the portfolio. The areas of importance covered by the investment mandates include:

- The investment philosophy of the portfolios as well as their investment and risk objectives and horizon;
- The approved asset classes that must be invested in to ensure an appropriately diversified investment strategy;
- Benchmarks against which the performance of each asset class is measured;
- Limitations on credit and counterparty exposures; and
- The use of derivatives. For example, short-term derivative hedging strategies may be used to protect the funding levels.

The asset allocation limits may be defined in the investment mandates and may vary from time to time.

d) The proportion of assets which may be invested in illiquid and unlisted assets is specified in investment mandates. Investment in related parties will be limited to levels which would normally be traded, ignoring their strategic importance to the Insurer.

e) A liability driven investment strategy can be used to reduce risk and improve the management of the portfolio. The investment mandate may also be changed if the liability profile changes, for example, a change in the nature of the guarantees provided.

f) Appointed asset managers may use derivatives to allocate funds effectively across different asset classes, in order to hedge the portfolio without having to dispose of the underlying assets and may make use of options (or other derivative strategies) to hedge against specific events. They may also take advantage of anomalies or inefficiencies in the derivative market pricing in order to enhance the portfolio's Investment returns. They may not, however, speculate with investors' assets in the derivative markets, and the use of derivatives may not cause the portfolio's aggregate economic exposure to exceed its market value.

g) 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 borne by the shareholder, while any income arising (net of associated expense) will be shared between the shareholders and investors.

h) If a portfolio is declining in size, which a closed portfolio will do after a period of time, then it may be necessary to change the bonus declaration methodology (to make it less smooth) or change the investment strategy (to invest in less volatile assets) or merge the portfolio with a larger one in order to achieve appropriate scale. This will be necessary to ensure that returns in the asset portfolio are less volatile and that there are appropriate assets in the portfolio to support the benefits for the final generations of investors. The investment mandate for a portfolio can therefore be altered if the portfolio is running off and becomes too small to manage under the prevailing basis.

i) Any exposure to counterparties complies with Insurer credit risk guidelines.

j) The current asset allocations for each of the aforementioned portfolios are made available via fund fact sheets and other marketing material on the **Momentum website.**

3.4 How are Bonus rates declared?

a) Monthly Bonus rates are declared gross of the policy fee, but are net of the Capital charge and any net priced asset management fees.

b) The monthly Bonus rates are determined using a bonus smoothing formula. The purpose of the bonus smoothing formula is to provide an element of objectivity and transparency in the bonus declarations. The bonus smoothing formulae are shown in the smoothed bonus disclosure documents on the **Momentum website.**

c) Bonus rates target long-term inflation related returns which are then adjusted by taking into account the underlying experience as implied by the prevailing Portfolio funding level.

d) The Insurer reserves the right to review and adjust the structure of the bonus smoothing formulae used when necessary to ensure that they continue to meet the objectives of the respective portfolios. The bonus smoothing formulae can be changed to:
   i. Comply with any new legislative or regulatory requirements or guidance;
   ii. Allow for the possible use of new financial management techniques;
   iii. Respond to changes in financial markets and/or economic conditions; and
   iv. Respond to the experience of the portfolio.

e) The bonus smoothing process results in monthly Bonus rates generally being different from the monthly returns earned on the underlying assets. The smoothing process may decrease returns to investors during times of above average Investment returns, as some of the returns are held back for future distribution and may increase returns to investors during times of below average Investment returns. The period over which positive Surplus is distributed, or negative Surplus recovered, is dependent on the Portfolio funding level and the smoothing philosophy of the portfolio. Surpluses (negative or positive as the case may be) can arise from several contributory factors, such as market movements and the impact of inflows and outflows (non-investment driven).

f) Bonus rates are declared monthly in advance. The monthly Bonus rate consists of a Guaranteed bonus rate and a Non-guaranteed bonus rate. The Guaranteed bonus rate is always positive whereas the Non-guaranteed bonus rate may be positive or negative (which implies the non-guaranteed Investment account is reduced). Positive special bonus rates and positive Intra-month ad-hoc bonus rates can also be declared which may consist of a Guaranteed bonus rate and a Non-guaranteed bonus rate.

g) When Bonus rates are positive, the split between the guaranteed and the non-guaranteed bonus components of the monthly, special or ad hoc Bonus Rate is in line with the ratio as specified in the policy contract. Negative monthly, special and/or ad hoc Bonus rates may be declared and are all Non-guaranteed bonus rates. After the declaration of a negative Bonus rate, any future positive Bonus rates would be non-guaranteed until restoration to the specified ratio.

3.5 How are the risks and profits shared between investors and shareholders?

a) In the case of all portfolios covered in this PPFM, investors and shareholders share the investment risks. Investors receive the total investment performance (after deduction of charges) in the form of Bonus rates over time, and therefore carry the risk of low Bonus rates if returns are low over time and may get the reward of high Bonus rates if returns are high over time. Guaranteed bonus rates are guaranteed once declared. Investors carry the risk that the non-guaranteed component of their Investment account may be reduced.

b) Shareholders carry the risk associated with declaring Guaranteed bonus rates and then guaranteeing that it can never be reduced, even during extreme conditions which may include a severe and sustained downturn in the markets. Shareholders are compensated for this risk by way of Capital charges levied.

3.6 How are charges and fees managed?

a) Policy fees as well as Capital charges are payable to the Insurer and are set out in the policy contracts, the fund fact sheets and other marketing material. The fund fact sheets are made available on the **Momentum website.**

b) A Policy fee is deducted from the Investment account as set out in the policy contracts. The policy fee covers the investment administration / platform costs. All fees related to the management of the assets are deducting directly from the underlying assets.

c) For all the portfolios covered by this PPFM, shareholders carry risks relating to the investment return on guarantees provided, which includes the protection provided against adverse market conditions, for which capital needs to be held. Capital charges are being calculated based on the underlying assets as set out in the policy contracts and are deducted from underlying assets to compensate shareholders for these risks.

d) In addition to the aforementioned fees, management and performance fees (where applicable) may be payable by the Insurer to the managers of the underlying assets as set out in the investment management agreements between the Insurer and the managers. These fees are paid directly from the underlying assets to the managers of the underlying assets.

e) The declared Bonus rates are gross of the policy fee but net of any Capital charge, asset management fees and performance fees that are paid directly from the underlying assets.

3.7 How are mergers and segregation of bonus series managed?

a) A portfolio or bonus series cannot be materially disadvantaged in order to protect the interests of another. When merging portfolios or bonus series the following will be considered:
   i. The size of a portfolio or bonus series and whether it is viable and reasonable to manage separately; and

ii. The investment mandates of the portfolios or bonus series being merged must be reconcilable; and
iii. The investment surplus level (Surplus less Non-Investment Surplus) in the portfolios or bonus series being merged must be similar at the time of merging as far as it is reasonably possible; and
iv. The Insurer reserves the right to cross-subsidise Non-Investment Surplus, however the investment surplus level in the portfolios or bonus series being merged must be similar at the time of merging as mentioned above; and
v. The approach to bonus declarations must be reconcilable between the two portfolios or bonus series.

b) Subject to the considerations outlined in a) above, cross-subsidies are allowed between portfolios or bonus series within reasonable terms.

c) A merged portfolio or bonus series may be segregated if it is deemed inappropriate. This will be done to ensure that all investors are treated fairly due to the conditions or characteristics of a book of business.

3.8 What happens in adverse market conditions?

Other than declaring negative Bonus rates, the Insurer may take certain management actions in the event of adverse circumstances. These include:

a) Closing a portfolio to new inflows
i. A smoothed bonus portfolio may be closed to new investors or inflows from existing investors if it is considered to be no longer viable or if it is deemed that the cross-subsidy between new investors or inflows from existing investors and existing holdings in the portfolio will be unacceptably high. If the Insurer wishes to close a portfolio to new business, it will communicate this to all investors invested in that portfolio;
ii. The Insurer reserves the right to re-open previously closed portfolios to new business; and
iii. The Insurer may temporarily close a portfolio to new inflows when the Portfolio funding level is significantly above or below 100%.

The guidelines for closing or opening a portfolio to new inflows are outlined in the smoothed bonus disclosure documents on the **Momentum website.**

b) Providing contingent shareholder loans
i. The Insurer will provide temporary injections to smoothed bonus portfolios that do not utilize a liability driven investment strategy, when Policy benefits are being paid and the Portfolio funding level is below its pre-defined trigger.

The temporary injections are included in the funding level for bonus declaration purposes. Temporary injections can be repaid to shareholders when Policy benefits are being paid and the Portfolio funding level has recovered above 100% provided three years have not elapsed since the injection. The temporary injections are repaid with money-market returns.
ii. The Insurer guarantees the Policy benefits for all the portfolios covered by this PPFM. The Insurer will provide the requisite financial support to make sure this commitment is fulfilled over time; and
iii. The trigger for shareholder capital support is the depletion of the non-guaranteed account, such that the remaining balance is fully guaranteed. Once this trigger is met, the contingent shareholder injections and repayments will be applied.

c) Changing the investment strategy
   The underlying asset portfolio may be de-risked (or re-risked as the case may be) physically or notionally by making use of short-term derivative hedging strategies. Any de-risking is only expected to occur in the most severe of adverse market scenarios. In such a scenario, the Insurer may reduce a portfolio's exposure to South African and global equities. Any reduction in equity exposure will adhere to the portfolio's asset allocation deviation limits as outlined in the smoothed bonus disclosure documents on the **Momentum website.**

4

Glossary of Terms

Actuarial Committee is a committee of the Board responsible for declaring Bonus rates and approving management actions in respect of the Discretionary participation business. The Actuarial Committee has delegated the approval of monthly and Intra-month ad hoc Bonus rates to the Head of Actuarial Function.

Board means the Board of directors of the Insurer.

Bonus rates may refer to monthly bonus rates, Special bonus rates and Intra-month ad-hoc bonus rates as declared by the Head of Actuarial Function.

Capital charge is a deduction made from the underlying assets on the portfolios to compensate shareholders for the opportunity cost of holding capital and for the risk that an injection of shareholder capital into portfolios may have to be made in extreme conditions such as a severe and sustained downturn in the markets.

Cross-subsidisation is a situation where an investor or group of investors is better or worse off as a result of being pooled with other investors in a smoothed bonus portfolio. The cross-subsidy can be mitigated by ensuring the pooling of investors is undertaken on consistent or similar terms, which may include but is not limited to having the same levels of fees, charges or Surplus.

Discretionary participation business means portfolios with Discretionary participation features.

Discretionary participation features mean insurance obligations under a life insurance policy-

(a) that may be a significant portion of the total insurance obligations under the policy;

(b) the amount or timing of which are contractually at the discretion of the Insurer; and

(c) that are contractually based on-

(i) in full or in part, the performance of a specified pool of policies or a specified type of policy;

(ii) realised and unrealised Investment returns on a specified pool of assets held by the insurer; or

(iii) the profit or loss of the insurer that issues the policy

Fair Practices Committee (FPC) is a committee of the Board responsible for considering the interests of discretionary participation investors and for monitoring the Insurer's compliance with the PPFM. The FPC acts as the discretionary participation committee.

Guaranteed bonus rates are Bonus rates that are guaranteed and cannot be removed.

Head of Actuarial Function means the function as defined in the Prudential Standard Governance of Insurers 3.

Insurance Act means the Insurance Act No. 18 of 2017, as amended from time to time.

Insurer is Momentum Metropolitan Life Limited, a public company duly incorporated in accordance with the company laws of the Republic of South Africa, with registration number 1904/002186/06, and a licensed insurer in terms of the Insurance Act.

Intra-month ad-hoc bonus rates are declared during the month following material Portfolio funding level movements. Intra-month ad-hoc bonus rates may be positive or negative. Intra-month ad-hoc bonus rates will be applied immediately to the Investment account.

Investment account represents a particular investor's share of the pool of assets held in a smoothed bonus portfolio. The Investment account increases with premiums and positive bonuses and decreases with disinvestments, fees and negative bonuses. The Investment account may also be referred to as the employer account, fund account or member account depending on the smoothed bonus portfolio's terms and conditions and may comprise a portion that is guaranteed by the Insurer.

Investment returns means realised and unrealised gains in the market value of underlying assets, as well as income from assets in the form of interest and dividends, after the deduction of fees and charges.

Investor funding level means the amount in the market value account divided by value in the Investment account in respect of each distinct investor.

Market value adjustment refers to a reduction in the investor's Investment account value that may occur on non-Policy benefits, for example, a full or partial termination, involuntary withdrawals or investor switches out. A market value adjustment would not apply on a Policy benefit.

Non-guaranteed bonus rates are Bonus rates that are not guaranteed. Non-guaranteed bonuses can be reduced via the declaration of negative non-guaranteed bonus rates.

Non-investment surplus is the part of the Surplus that is not attributed to the difference between actual net Investment returns and declared Bonus rates, but come from other sources, primarily cashflow amount and timing.

Policy benefits are the insured events as defined in the policy contracts, which may include are but are not limited to death, disability, or retirement.

Portfolio funding level is the total market value of the smoothed bonus portfolio's underlying assets divided by aggregate value of all Investment accounts for that smoothed bonus portfolio.

Special bonus rates are bonus rates that are declared to ensure that the cross-subsidy between different investors and different generations of investors are not unacceptably high and/or to protect investors against active selection against the portfolio/bonus series. Special bonus rates may be positive or negative. Special bonus rates will be applied immediately to the Investment account.

Surplus is defined as the nominal difference between the total market value of the smoothed bonus portfolio's underlying assets and the aggregate value of the Investment accounts for that smoothed bonus portfolio. The Surplus can be positive or negative. Notwithstanding the Non-investment surplus, it is an indication of the extent to which Bonus rates have historically been declared in excess of actual net Investment returns (in which case the Surplus will be negative), or below actual net Investment returns (in which case the Surplus will be positive).

09/2023