momentum

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

APPLICABLE TO MOMENTUM RETAIL'S DISCRETIONARY PARTICIPATION PRODUCTS

UNDERWRITTEN BY MOMENTUM METROPOLITAN LIFE LIMITED

30 June 2023

Table of contents

1. INTRODUCTION

This document sets out the Principles and Practices of Financial Management (PPFM) used in the management of the Momentum Retail (comprising Momentum Investments and Momentum Life) discretionary participation products underwritten by Momentum Metropolitan Life Limited (hereinafter referred to as 'the Insurer'). This introduction section is provided as supplementary information and does not constitute Principles or Practices.

1.1. Products covered by this PPFM

1.1.1. The main types of discretionary participation business the Insurer has on its books include conventional with-profits business, secured funds business and smoothed bonus business.

1.1.2. The conventional with-profits products covered by this document are discretionary participation in nature and are listed below:

- Lifegro Reversionary Bonus business;
- 'Momentum Conventional with-profit business' including Reversionary bonuses, Simple bonuses, Floating bonuses, Rand Life, Allianz, UAL, and Cumulus policies;
- Sage Conventional Reversionary Bonus policies from Ned-Equity, Equity Life and Executive series;
- Sage Conventional Reversionary Bonus business, originally underwritten by National Mutual;
- Southern Life Old Segregated policies;
- Southern Life New Segregated policies;
- Other Southern Life Reversionary Bonus business including contracts that were part of African Eagle Life Assurance Society Limited and of Guarantee Life Assurance Company Limited on 31 March 1981;
- Commercial Union (CU) Life Reversionary Bonus business, originally underwritten by Commercial Union of South Africa Limited ('CU Life'); and
- Odyssey Reversionary Bonus business, originally underwritten by Protea Life.

1.1.3. Note that policyholders could invest in conventional with-profits business via different types of vehicles such as retirement annuities, whole-life assurances and endowments, and variations to these. Retirement annuities and endowments may furthermore be with or without cover. Conventional with-profit business was only offered to individuals and is closed to new business.

1.1.4. Secured funds are portfolios where there are no market value adjusters and the Insurer can make use of structured notes with embedded guarantees and derivative instruments to provide capital protection.

1.1.5. The Insurer has the following secured funds:

- Commercial Union CubeVest (also known as Vested Cubics);
- Momentum Capital Plus Retail Fund;
- Momentum Defender Fund; and
- Momentum Secure Bonus Fund (called Momentum Defender Fund [Untaxed] on Investo).

1.1.6. The Commercial Union CubeVest portfolio is an internally established portfolio that applies to Commercial Union Cubic policies which have reached their vesting date.

1.1.7. Momentum Capital Plus Retail Fund, Momentum Defender Fund and Momentum Secure Bonus Fund are included in the range of portfolios a policyholder can choose when taking out a policy with the Insurer. The Commercial Union CubeVest portfolio is closed to new business. Momentum Defender Fund and Momentum Secure Bonus Fund are available on both the Momentum Investo platform (only in respect of the Lifecycle Philosophy) as well as the Momentum Wealth platform, whereas the Momentum Capital Plus Retail Fund is only available on Momentum Wealth, and Commercial Union CubeVest is housed in the Odyssey range on the traditional platform.

1.1.8. The smoothed bonus portfolios that are covered by this document are listed below. All of the portfolios are closed to new business. These may still, however, receive premium income from policies written before the relevant portfolio was closed to new business:

- Combined Investo Smoothed Bonus portfolio, including FNB Life;
- Investo Performance Guaranteed Fund;
- Lifegro Smoothed Bonus portfolio;
- Momentum and Southern which is the combined Momentum and FNB Life Smoothed Bonus, Southern Sure Profits (excluding series 45, including Master Protector Plan), Southern Sure Gain portfolio (excluding series 40), Southern Deferred Maturities portfolio;
- Southern Stringent Guarantee portfolio (includes Southern Sure Profit series 45 and Southern Sure Gains series 40);
- Sage Fidelis and National Mutual Fidelis portfolio;
- Sage Smoothed Bonus portfolio (Includes Universal Series Smoothed Bonus and Sage NedProfits portfolio);
- CU Life Smoothed Bonus, originally underwritten by CU Life; and
- Odyssey Smoothed Bonus, originally underwritten by Protea Life.

1.1.9. The Momentum and FNB Life Smoothed Bonus portfolio was closed to new business during 2003 and a new smoothed bonus portfolio, the Investo Smoothed Bonus (including FNB Life) portfolio was opened to new business in 2003. The Momentum and FNB Life Smoothed Bonus portfolio was merged with the Southern Sure Profits and Southern Sure Gain portfolios with effect from 1 July 2005 and these classes of business were managed in a single portfolio. The Performance Guaranteed Fund was closed in October 2010. The Southern Deferred Maturities had been included in the combined Momentum and Southern portfolio by 30 June 2012. The Investo Smoothed Bonus Portfolio (Including FNB Life) was closed to new business in April 2020. In 2022, the Southern Sure Profits series 45 and Southern Sure Gains series 40 portfolios which were previously part of the combined Momentum and Southern portfolio were segregated and are now managed as a separate portfolio, the Southern Stringent guarantee portfolio.

1.2. Background

1.2.1. This document covers all aspects relevant to the management of Momentum's conventional with-profits business, secured funds business and smoothed bonus business.

1.2.2. The term 'smoothed bonus' refers to a particular type of investment portfolio. The main difference between the values of policies invested in smoothed bonus portfolios 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, the investment returns are 'smoothed' over time and added in the form of bonuses.

1.2.3. Different types of products may be invested in smoothed bonus portfolios, including retirement annuities, whole-life products and endowments. Retirement annuities and endowments may, in addition to being savings vehicles, also provide cover on life contingencies such as death or disability. These are all products available to individuals. Pension funds may also invest in smoothed bonus portfolios on behalf of their members. These policies are known as 'fund policies'.

1.2.4. Different products have different charging structures and levels of charges, which typically depend on the premium size, frequency of premium payment, contractual policy term and commission pattern. Products with savings components could typically invest in various investment portfolios, of which a smoothed bonus portfolio is one type of portfolio.

1.2.5. The purpose of this document is not to describe how the products invested in conventional with-profit, secured fund or smoothed bonus portfolios operate or are managed, but rather, how the portfolios themselves are managed.

1.2.6. The Insurer's history includes a number of takeovers and mergers. These include Lifegro Assurance Limited, which was merged with Momentum in 1990, Southern Life, which was merged with Momentum in 1999 to form Momentum Group Limited, and then Sage Life Limited, which was bought by Momentum Group Limited in 2005 and transferred with effect from 1 July 2006. Momentum Group Limited then became a wholly owned subsidiary of MMI Holdings Limited in December 2010 following the merger of Metropolitan Life 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 Sections 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.

1.2.6.1. With effect from 31 December 1998, CU Life was acquired by and became a wholly owned subsidiary of Metropolitan. With effect from 1 January 2002, the business, assets and liabilities of CU Life were transferred into a ring-fenced portfolio within Metropolitan. With effect from 1 January 2004, the business within the ring-fenced portfolio ('the CU Life business') was amalgamated with the balance of the Metropolitan business outside the ring-fenced portfolio. With effect from March 2013, the administration of Commercial Union (CU) Smoothed Bonus and reversionary bonus business was transferred from Metropolitan Life to Momentum Retail.

1.2.6.2. With effect from 31 December 1998, Protea Life was acquired by and became a wholly owned subsidiary of Metropolitan. On 1 July 1999 Protea Life was renamed Metropolitan Odyssey. With effect from 1 January 2006, the business, assets and liabilities of Metropolitan Odyssey were transferred into Metropolitan. With effect from March 2013, the administration of the Odyssey smoothed bonus and reversionary bonus business was transferred from Metropolitan Life to Momentum Retail.

1.2.7. As a result, the Insurer has on its books a number of conventional with-profit products, secured funds and smoothed bonus portfolios previously written or taken over by Commercial Union, Protea Life, Lifegro, Momentum, Sage and Southern. There are variations between these in terms of the profits policyholders share in, how bonus rates are determined, how benefits are calculated, guarantees that may be offered, the charges that apply, and other policy conditions.

1.3. Purpose of the PPFM

1.3.1. In terms of the insurance legislation, all long-term insurers that carry on discretionary participation business are required to define, and make publicly available, the Principles and Practices of Financial Management (PPFM) that they apply in the management of their discretionary participation business.

1.3.2. In managing discretionary participation business, insurance companies rely on their ability to use discretion in the investment strategy, 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 policyholders, and of policyholders and shareholders, to ensure that all parties are treated fairly; and
- give advisers and policyholders a better understanding of the possible risks and rewards to be expected from taking out a discretionary participation policy.

1.3.3. Managing discretionary participation products relies on a high degree of trust between policyholders and the Insurer. Decisions will be taken in the best interests of policyholders and the sustainability of the products.

1.3.4. The Principles are enduring statements of the overarching standards applying to the management of discretionary participation business. The Principles furthermore describe the business model the Insurer uses for managing the discretionary aspects of discretionary participation policies, and in responding to longer-term changes in the business and economic environment.

1.3.5. The Practices describe the Insurer's approach to managing discretionary participation products and responding to changes in the business and economic environment in the shorter term.

1.3.6. The Principles and Practices will be revised from time to time. The Insurer 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 in their annual benefit statements.

1.3.7. The documents, together with short summaries, are available on our website here.

1.3.8. Any questions or comments relating to these documents can be addressed to one of the contact centres below:

Traditional (or PDS) Contact Centre:

The Traditional Contact Centre deals with service-related enquiries of the old Momentum traditional policy range including Commercial Union CubeVest, Lifegro, Sage and Southern Life.

Policy numbers start with an 8 or 9 or have prefixes AF, DE, GE, SG, SL, SX and UL. There are a few policies starting with a 2. Some Traditional contracts that have been converted to Investo contracts will result in contracts starting with GE, 09 and 20.

Business hours	Monday to Friday from 08:00 to 17:00. Closed on weekends and public holidays.
ShareCall	0860 669 876
International number	+27 12 675 3056
Fax	0800 223 696
Email	client@momentum.co.za
Postal address	PO Box 7400, Centurion, 0046

Momentum Investo Contact Centre:

The Investo Contact Centre deals with service-related enquiries of the existing business on the different Investo platforms. The contract numbers on Investo all start with 01. Some Traditional contracts that have been converted to Investo contracts will result in contracts starting with GE, 09 and 20.

Business hours	Monday to Friday from 08:00 to 17:00. Closed on weekends and public holidays.
ShareCall	0860 664 321
International number	+27 12 675 3034 or +27 12 675 3024
Email	investo@momentum.co.za
Postal address	PO Box 7400, Centurion, 0046

Momentum Wealth Retail Contact Centre:

Wealth Retail deals with service-related enquiries on the Wealth Retail platform. Contract numbers start with PP020, PP021, PP022, PP023, PP024.

Business hours	Monday to Friday from 08:00 to 17:00. Closed on weekends and public holidays.
ShareCall	0860 546 533
International number	+27 12 675 3000
Email	wealthservice@momentum.co.za
Postal address	PO Box 7400, Centurion, 0046

1.4. Governance

1.4.1. The Insurer's Board of Directors ('the Board') 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.

1.4.2. For this purpose, the Board has set up a committee, the Fair Practices Committee (FPC) that considers the interests of discretionary participation policyholders 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, and at least annually.

1.4.3. The Board also ensures that monitoring is done at designated management committees. The relevant duties of these committees are described below:

- Approving new product developments, or significant changes to existing products, after considering aspects such as fairness, capital requirements and bonus philosophy;
- Reviewing products' performance and asset allocations on a regular basis and reporting to executive management in this regard; and
- Approving investment mandates, reviewing them periodically, monitoring performance against benchmarks and overseeing the investment management process.

1.4.4. The Board delegated authority to the Actuarial Committee to declare bonus rates and approve related discretionary participation management actions. Bonus rates to be declared for conventional with-profit and smoothed bonus business are recommended to the Actuarial Committee by the Insurer's Head of Actuarial Function. The bonus rates for the secured funds are declared monthly and the Board delegated the responsibility for approval of these bonus rates to the Head of Actuarial Function. The Head of Actuarial Function reports to the Actuarial Committee annually in this regard.

2. PRINCIPLES

2.1. Contractual and legislative conditions

2.1.1. The Insurer will adhere to the contractual obligations as set out in policy contracts, as well as to any legal and regulatory requirements, and to take-over, merger and amalgamation agreements where relevant. If there are any inconsistencies between these and this document, contractual and legal requirements take precedence.

2.2. The amount payable

2.2.1. The Insurer will always pay the guaranteed benefits provided by a contract in the event of a contractual claim such as on death, disability, maturity or retirement, irrespective of the state of investment markets at the time of the claim.

2.2.2. Any losses arising from guarantees are borne by shareholders. Otherwise, investment profits or losses are borne by the underlying policyholders.

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

2.2.4. 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 policyholders. For example, no bonus rate will be declared that would result in the ongoing viability of a class of business being knowingly threatened.

2.2.5. Declared bonus rates cannot be negative.

2.2.6. In a particular Bonus Series (new Bonus Series will be applicable for secured funds only since all smoothed bonus and conventional with-profit products are closed to new business and will no longer have differing Bonus Series), the smoothing of returns is intended to be neutral to policyholders as a group over time, but cross-subsidies can occur between different generations of policyholders. These are implicit features of the product types.

2.2.7. All policyholders within a particular Bonus Series will receive the bonus rate applicable to that Bonus Series although bonus rates may be differentiated to allow for differences in product fees. Cross-subsidies can occur during the merger of products or between conventional with-profit Bonus Series within the same business line that share the same asset portfolio.

2.2.8. Surplus is defined as the difference between the market value of the assets (less any deferred tax liabilities) and the sum of the investment accounts (or the value of the liabilities) in respect of the secured funds and smoothed bonus portfolios. 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 in a year. 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'.

2.2.9. 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. It is retained in the product for the benefit of current and/or future policyholders.

2.2.10. For the conventional with-profit business, the Insurer adds reversionary bonuses annually (where applicable) to the value of policies. Reversionary bonuses are vested bonuses, which means that they become a guaranteed addition to the value of the policy. Terminal bonuses (where applicable) and claim bonuses (where applicable) are non-vested bonuses and are added to the policy value in the event of a contractual claim such as on death, maturity or retirement.

2.2.11. For the smoothed bonus business, declared bonuses are also added to the policies' investment accounts annually. A portion of the bonus will vest (which means that it will be added to the guaranteed benefits). The balance of the annual bonus rate declared is known as a non-vested bonus rate.

2.2.12. The Actuarial Committee (on behalf of the Board) decides on bonus rates to be declared, based on the recommendation of the Head of Actuarial Function.

2.2.13. For the secured funds, the capital invested will be fully guaranteed at all times. The Insurer declares bonus rates monthly, and these are fully guaranteed. Bonus rates can never be less than zero and cannot be reduced or removed once declared.

2.2.14. The aim of the bonus declaration process is to achieve a balance between achieving meaningful smoothing of returns and ensuring fairness:

- between different groups of business, by declaring different bonus rates for different groups, allowing for differences in charging structures, guarantees, tax status, investment policies and other relevant policy conditions;
- between different groups of policyholders within a particular class; and
- between policyholders who terminate their contracts before the contractual maturity date and those whose contracts remain in force.

2.2.15. The aim is to distribute over time, all the surpluses (after deduction of tax and charges) actually earned on the underlying portfolio. Certain products (excluding the secured funds) also share in other surpluses (such as mortality profits). These are detailed later in this document under subsections 4.3.9. and 6.3.3.

2.2.16. In the event of the early termination of a conventional with-profits contract, the Insurer may adjust the policy value to ensure that remaining policyholders are not prejudiced as a result of the early termination.

2.2.17. In the event of the early termination of a smoothed bonus contract in adverse conditions, the Insurer may adjust the investment account to ensure that remaining policyholders are not prejudiced as a result of the early termination. This adjustment is called a 'market value adjuster'.

2.2.18. If the solvency of conventional with-profits, secured funds and smoothed bonus products is under threat, shareholders may protect the solvency of these products by making contingent or permanent capital injections into these products in the event of severe and sustained market conditions. The Insurer deducts a Capital charge from the return earned on the products to compensate shareholders for the opportunity cost of holding capital and for the risk that an injection of shareholder capital into products may have to be made in extreme conditions such as a severe and sustained downturn in the markets.

2.2.19. Declared bonus rates are net of any tax, policy/portfolio fees and charges.

2.3. Investment strategy

2.3.1. The aim of the investment strategies and bonus philosophies the Insurer applies will be to balance the objectives of protecting the ongoing solvency of the portfolios, and maximising returns for policyholders, subject to acceptable levels of risk and within legal and regulatory constraints.

2.3.2. For conventional with-profit business, the assets are invested in such a way that the Insurer will be able to pay the guaranteed benefits when due and provide conventional with-profits policies with exposure to growth assets such as equities and property subject to asset-liability matching objectives and requirements.

2.3.3. For secured funds, assets are invested with the primary objective of meeting the capital guarantee at all times. In order to meet the objectives, the assets of the funds are invested in a diversified range of asset classes, including money market instruments, inflation-linked and nominal bonds, equities, alternative investments and offshore assets. The asset managers furthermore achieve the investment objectives by tactical asset allocation and the extensive use of derivative instruments to protect capital. Monthly fact sheets providing details of the asset composition and returns compared to benchmarks are published on Momentum's website.

2.3.4. The smoothed bonus portfolios are managed with the aim of providing smoothed bonus policyholders with positive real returns on their investments over the long term. Assets are managed according to a mandate that allows asset managers to invest in a range of assets classes, with the objective of maximising returns while not taking undue risk of not being able to meet the guarantees. 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.

2.3.5. Policyholders' funds are managed separately from shareholders' funds in order to meet the aforementioned objectives whereas shareholder funds are invested according to a money market mandate.

2.4. Charges and fees

2.4.1. Policy fees, percentage of premium charges, as well as capital and asset portfolio charges are set explicitly. Additional charges may be levied on non-contractual events, such as effecting a surrender or partial surrender, making a policy paid-up or taking a policy loan. These charges are in certain instances subject to regulatory limits, for example, on surrender or making a policy paid-up.

2.4.2. Where contractually allowable, charges and fees are revised from time to time to reflect changes in experience, and any changes to the fund management fee and/or shareholder fee will be reflected in the Minimum Disclosure Documents (MDDs) except for conventional with-profit products.

2.5. Merging of products and Bonus Series

2.5.1. The Insurer may merge different portfolios (including Bonus Series) when the investment surplus levels, investment mandates and the nature and level of guarantees of the respective portfolios are sufficiently similar, to allow them to be managed as a single portfolio. Merging of portfolios will be subject to the provisions of transfer and take-over agreements. Differing Bonus Series would only apply to the secured funds which are still open to new business.

3. GENERAL PRACTICES

3.1. Investment strategy

3.1.1. A management committee is 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;
- Approving investment mandates and ensuring that mandates are adhered to; and
- Considering the appropriateness of the assets given the nature of the liabilities.

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

3.1.3. The assets underlying conventional with-profits, secured funds and smoothed bonus products are invested in a mix of asset classes including local and offshore listed equities, fixed interest assets, direct and listed property, cash and money-market instruments, private equity and hedge funds, within the constraints of the investment mandates.

3.1.4. The underlying portfolios are based on an investment philosophy which in accordance with a clearly defined portfolio construction approach systematically, and within a rigorous risk management framework, combines various asset classes, investment strategies and mandates (including external asset managers) in such a way to manage the return and risk profile of the portfolio to target the defined objective over the investment horizon of the portfolio.

3.1.5. The assets can be managed using a combination of active, passive, smart beta, listed, unlisted and alternative strategies with the aim of achieving the portfolios' investment objectives over their investment horizons. The assets underlying the conventional with-profits products, smoothed bonus products and secured funds are managed in accordance with investment mandates and guidelines specified by the Insurer. 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;
- Portfolio percentage allocations for each of the asset classes (which may be varied from time to time);
- 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.

3.1.6. The asset allocation limits are defined in the investment mandates and may be varied from time to time. The current asset allocations for each smoothed bonus portfolio are made available via fund fact sheets on the Insurer's website at momentum.co.za.

3.1.7. 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), 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 portfolios to support the benefits for the final generations of policyholders. 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. The investment mandate may also be changed if the liability profile changes, for example, a change in the nature of the guarantees provided.

3.1.8. 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 policyholders' assets in the derivative markets, and the use of derivatives may not cause the portfolio's aggregate economic exposure to exceed its market value.

3.1.9. Any exposure to counterparties complies with Insurer credit risk guidelines.

3.1.10. 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.

3.1.11. 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 policyholders.

3.2. Charges and fees

3.2.1. For secured funds and smoothed bonus portfolios the charges and fees payable to the Insurer are set out in the policy contract and/or relevant Minimum Disclosure Documents (MDDs) that are made available on the company website and/or distributed to clients. In addition to the charges and fees payable to the Insurer, some fees may also be payable directly from the underlying assets to the managers of the underlying assets.

3.2.2. The Insurer incurs expenses in the administration, development and marketing of the business, as well as in the management of the assets. Policyholders pay for these in the form of charges taken off the premiums, the assets and the investment returns.

3.2.3. Charges take various forms, and the structure and level of charges differ between products, portfolios and bonus series (where applicable). Charges for the administration of a policy can take the form of a fixed fee (administration fee or policy fee) and a percentage of the premium (premium levy, allocation charge or premium charge) taken off the premium before it is invested. For some products, there may also be advice fees.

3.2.4. Portfolio or asset management fees are charged as a percentage of the market value of the assets and may be deducted from the investment returns or as an explicit charge against the investment account. These asset management fees relate to the investment management and administration involved in managing the underlying assets. In addition to the asset management fee described above, management fees and performance fees may be payable by the Insurer to the asset managers of the underlying assets as set out in the agreements between the Insurer and the asset managers. These management fees and performance fees may also be paid directly from the underlying assets of the products.

3.2.5. Shareholders carry risks relating to the investment return guarantees provided, the guaranteed bonuses and the protection provided against adverse market conditions, for which capital needs to be held. Policyholders pay a charge known as a Capital charge to compensate shareholders for the risks.

3.3. The solvency of discretionary participation business

3.3.1. The Insurer holds assets that equal at least the value of its policyholder liabilities to enable it to meet its obligations to policyholders as and when these fall due. The Insurer calculates the value of its liabilities based on best estimates of future experience, plus prescribed and discretionary margins to allow for the possibility of adverse experience. However, in the event of severe and sustained adverse conditions, this may not be sufficient to enable the Insurer to meet all its obligations.

3.3.2. An insurer is required by Section 36 (1) of the Insurance Act, to, at all times, maintain its business in a financially sound condition, by holding eligible own funds that are at least equal to the minimum capital requirement or solvency capital requirement, as prescribed, whichever is the greater. The section referred to above must be read in conjunction with the Financial Soundness Standards for Insurers. The said standards provide for the various ways to calculate the minimum solvency capital requirements.

3.3.3. The capital requirements reflect the fact that the insurer may take certain 'management actions' in the event of adverse circumstances.

3.3.4. Because of the 'opportunity cost' that shareholders suffer for having to set aside additional capital in respect of its conventional with-profits, secured funds and smoothed bonus business, a Capital charge is levied against these portfolios. This charge is based on average long-term expected experience and therefore remains fixed, despite changes in market conditions in the short term. In turn, shareholders provide a guarantee to policyholders to protect the solvency of conventional with-profits, secured funds and smoothed bonus products, by having capital available to inject into the conventional with-profits, secured funds and smoothed bonus products in extreme conditions.

3.4. Mergers and segregation of bonus series

3.4.1. One product or bonus series cannot be materially disadvantaged in order to protect the interests of another. When merging products or bonus series the following will be considered:

- The size of a product or bonus series and whether it is viable and reasonable to manage separately;
- The investment mandates of the products or bonus series being merged must be reconcilable;
- The investment surplus level (Surplus less Non-Investment Surplus) in the products or bonus series being merged must be similar at the time of merging as far as it is reasonably possible;
- The insurer reserves the right to cross-subsidise Non-Investment Surplus, however the investment surplus level in the products or bonus series being merged must be similar at the time of merging as mentioned above; and
- The approach to bonus declarations must be reconcilable between the two products or bonus series.

3.4.2. Subject to the considerations outlined in 3.4.1 above, cross-subsidies are allowed between products or bonus series within reasonable terms.

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

3.5. Management actions in adverse conditions

3.5.1. If the Insurer wishes to close a portfolio to new business, it will communicate this to all clients invested in that portfolio. The Insurer reserves the right to open previously closed portfolios again to new business.

3.5.2. Extreme conditions resulting in a drop in the market value of assets may result in a negative Bonus Stabilisation Account (BSA) or negative Surplus. A significantly negative BSA or negative Surplus may threaten the solvency of, and materially increase, the policyholder cross-subsidy arising in a conventional with-profits, smoothed bonus product or secured fund. With the interests of policyholders in mind, management actions can be taken by the Insurer.

3.5.3. If a conventional with-profits product's BSA is negative, the Insurer has the following options in terms of management actions:

- Make use of short-term derivative hedging strategies to protect the funding level of the conventional with-profit book;
- Reduce or remove terminal and/or claim bonuses (where applicable);
- Declare low or zero reversionary bonus rates (where applicable); and
- Transfer funds from the shareholders' portfolio into the BSA on a contingent or permanent basis.

3.5.4. In the case of the secured funds, no market value adjuster applies on disinvestments. Therefore, the Insurer has the following options in terms of management actions:

- Make use of short-term derivative hedging strategies to protect the funding level of the secured funds;
- Declare low or zero bonus rates; and
- Transfer funds from the shareholders' portfolio into the Surplus on a contingent or permanent basis.

3.5.5. If a smoothed bonus portfolio's Surplus is negative, the Insurer has the following options in terms of management actions:

- Make use of short-term derivative hedging strategies to protect the funding level of smoothed bonus portfolios;
- Apply Market Value Adjusters to the investment accounts of policies being terminated early;
- Reduce interim bonus rates;
- Declare low or zero bonus rates;
- Reduce or remove some or all of the non-guaranteed (non-vested) portion of previously declared bonus rates; and
- Transfer funds from the shareholders' portfolio into the Surplus on a contingent or permanent basis.

4. CONVENTIONAL WITH-PROFIT PRACTICES

The following Practices are applicable to the conventional with-profit business specifically.

4.1. When does the Insurer exercise discretion?

The Insurer exercises discretion when making the following decisions regarding its conventional with-profits business:

- The level of bonus rates it will declare, including the degree of smoothing it will apply and the split between bonus rates that are guaranteed (reversionary bonuses) and bonus rates that are not guaranteed (terminal and claim bonuses);
- The investment of the underlying assets including the use of derivative structures; and
- The appropriate calculation of early termination values to ensure equity between different groups of policyholders.

In this section, we explain how the Insurer manages conventional with-profits business in practice. Where Practices differ for different classes, or for different products within a class, these are set out separately.

4.2. How are policies invested in the conventional with-profit products administered?

What is the value of a conventional with-profits policy made up of?

4.2.1. Conventional with-profits policy values consist of a basic sum assured, plus annually declared reversionary bonuses added (where applicable) since inception of the policy plus terminal bonuses (where applicable) plus claim bonuses (where applicable) that the Insurer adds when a claim becomes payable. Certain policies also qualify for other bonuses as detailed later. There may be variations to this, for example, where 'reinforced' benefits apply, in which case an additional sum assured is payable on death which reduces yearly over the term of the contract. These are detailed in the policy contract.

4.2.2. Due to different conventional policy wording, the terminal bonus can also be referred to as the final or capital bonus and these can be used interchangeably.

4.2.3. The amount payable when a policy reaches its contractual maturity date is the basic sum assured plus vested bonuses (if reversionary bonus applies) plus a terminal bonus (where applicable) plus a claim bonus (where applicable) .

4.2.4. In the event of death prior to maturity, the sum assured plus bonuses are payable if the policyholder had life cover. However, in some cases, the Insurer may reduce the basic sum assured based on the period the policy was in force. In the case of joint life policies, the benefits are payable on the first death of one of the lives assured. In the case of 'pure' policies, which are policies without cover on death, the amount payable on death is the higher of the surrender value and the total premiums paid.

4.2.5. In the event of surrender (early termination) of a conventional with-profits policy, the amount payable is calculated using a formula. This allows for a reduction in the basic sum assured because no future premiums will be paid, and furthermore applies a discounting factor to the basic sum assured and bonuses to allow for the earlier payment. Only a portion of the terminal bonus is payable – the longer a policy has been in force, the higher the portion.

4.3. Bonus declaration

What kinds of bonus rates are there?

4.3.1. The Insurer declares vested bonuses also known as reversionary bonuses (where applicable) annually, and they represent a guaranteed addition to the sum assured of the policy. These bonuses vest on the policy anniversary following each bonus declaration. The reversionary bonus rates are determined either as a percentage of the basic sum assured only (simple reversionary bonus), or as a percentage of the basic sum assured plus a (different) percentage of previously declared reversionary bonuses (compound reversionary bonus). The levels of reversionary bonus rates do not change often, and the Insurer sets them at a level considered to be sustainable in future. If reversionary bonus rates change from one year to the next, they would typically not change by more than 1%.

4.3.2. Terminal and claim bonuses applicable are not guaranteed (non-vested) and are added (where applicable) only at claim stage such as on death, disability or maturity. Terminal bonus rates are determined as a percentage of the basic sum assured plus previously declared reversionary bonuses and increase with the increasing duration a policy has been in force. Different terminal bonus rates may apply to each of the basic sum assured and reversionary bonuses. Under certain circumstances, including severe and sustained changes in financial conditions, terminal bonus rates may be reduced and even removed.

4.3.3. The terminal and claim bonus rates are set annually and may increase policy values for policies that become claims before the next bonus declaration. The terminal and claim bonus rates are reviewed half-yearly and whenever there have been significant changes in market conditions.

4.3.4. Declared bonus rates are net of tax, management charges and administration fees (including Capital charges).

4.3.5. The following table summarises which kinds of bonus rates typically apply to which products, as well as how bonuses are calculated. A policy's contract will set out which other bonus rates may apply to the policy. 'SA' refers to the basic sum assured and 'B' to the total of previously declared reversionary/ vested bonuses. Duration refers to the period a policy has been in force, calculated as the period from the date of entry to the date of claim. Where different percentages apply for different periods, these are depicted by 'duration1', 'duration2' etc. $\%_i$ (i=1, ...,5) represents the respective bonus rates applied as expressed in the tables below.

Momentum policies

Product	Annual reversionary bonus rate	Terminal bonus rate
Floating Bonuses		$\%_3$ of SA × duration
Simple Bonuses	$\%_1$ of SA	$\%_3$ of (SA + B) × duration
Reversionary Bonuses	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration
Rand Life	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration
Allianz	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration
UAL[1]	$\%_1$ of SA plus $\%_2$ of B	

Momentum Cumulus policies

Product	Cumulus bonus rate	Terminal bonus rate
Cumulus[2]	$SA \times \left(\frac{\ddot{S}_{\overline{t}\|,\%_1} - \ddot{S}_{\overline{t}\|,r}}{\ddot{S}_{\overline{n}\|,r}}\right) = C$ Where: $\ddot{S}_{\overline{t}\|,r} = \frac{(1+r)^t - 1}{r} \times (1+r)$ t=duration in years r=annual rate	$\%_2$ of (SA + C) × duration (t), subject to a maximum of 60% of (SA + C)

Lifegro policies

Product	Annual reversionary bonus rate	Terminal bonus rate
Lifegro[2]	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration

Southern Life policies

Product	Annual reversionary bonus rate	Terminal bonus rate	Claim bonus rate
Southern Old Segregated Business[3]	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration_1 + $\%_4$ of (SA + B) × duration_2	$\%_5$ of policy reserve
Southern New Segregated Business	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration_1 + $\%_4$ of (SA + B) × duration_2	$\%_5$ of policy reserve
African Eagle Life	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration_1 + $\%_4$ of (SA + B) × duration_2	$\%_5$ of (SA + B) × duration_3
Guarantee Life	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration_1 + $\%_4$ of (SA + B) × duration_2	$\%_5$ of (SA + B) × duration_3

Sage Life Policies

Product	Annual reversionary bonus rate	Terminal bonus rate
Executive Series[2]	$\%_1$ of SA plus $\%_2$ of B	($\%_3$ of SA + $\%_4$ of B) × (duration – 1)
Ned-Equity[2]	$\%_1$ of SA plus $\%_2$ of B	($\%_3$ of SA + $\%_4$ of B) × (duration – 1), with a maximum.
Equity Life, First Series[2]	$\%_1$ of SA	
Equity Life, Second Series[2]	$\%_1$ of SA plus $\%_2$ of B	($\%_3$ of SA + $\%_4$ of B) × (duration – 1), with a maximum of 60% in some cases.
National Mutual[2]	$\%_1$ of SA plus $\%_2$ of B	($\%_3$ of paid-up SA + $\%_4$ of B) × (duration – m)[4]

CU Life policies

Product	Annual reversionary bonus rate	Terminal bonus rate
CU Life	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration

Odyssey Policies

Product	Annual reversionary bonus rate	Terminal bonus rate
Odyssey	$\%_1$ of SA plus $\%_2$ of B	$\%_3$ of (SA + B) × duration

Notes:

[1]

In the case of Momentum UAL business, no terminal bonus is payable as policyholders receive the benefits of capital appreciation on their unit trust units.

[2]

Bonus rates differ for premium-paying and paid-up policies. Bonus rates differ for non-retirement annuities and retirement annuities. For Cumulus, r is 4.5% for Old Cumulus non-retirement annuities and 4% for new Cumulus non-retirement annuities, whereas r is 5% for Cumulus retirement annuities, and n is the Cumulus policy term.

[3]

Bonus rates differ for non-retirement annuities and retirement annuities, British currency policies and policies attached to approved pension and provident fund schemes.

[4]

Paid-up SA is the basic sum assured, apportioned for the period premiums have been paid, to the total period premiums would have been payable had the policy remained in force until its contractual maturity date. m is a quarter of the original policy term and is subject to a maximum of five.

When are bonus rates set?

4.3.6. The Insurer reviews all bonus rates annually after the company's financial year-end (30 June). Reversionary bonus rates apply for the year starting at the previous policy anniversary. This means that for a policy with an anniversary on, for example, 1 March, the bonus rates declared after the 30 June year-end, will apply for that policy from 1 April in that year to 30 March in the following year.

4.3.7. Terminal and claim bonus rates are also reviewed annually and apply to policies that become claims by death or maturity on a date following the declaration date.

4.3.8. The Insurer can review terminal and claim bonus rates at any time but mostly does so twice each year, as well as in special circumstances, such as upon a significant change in the market.

How do we decide what surplus should be distributed?

4.3.9. Conventional with-profits products differ in terms of the respective risks policyholders and shareholders carry, and also in how we determine surplus available for distribution. The main categories of conventional with-profits business are:

- Category 1: Products where policyholders receive all surpluses resulting from investment, mortality, expense and persistency risks. Such surpluses arise when actual investment performance, mortality, morbidity and expense experience is more or less favourable than that allowed for in pricing the contracts.
- Category 2: Products where policyholders receive surpluses resulting from investment risk only. Such surpluses arise when actual investment performance is more or less favourable than that allowed for in pricing the contracts.
- Category 3: Products where policyholders and shareholders share all surpluses in the ratio 90:10. All surpluses arising in the product from investment performance, claims, expense and persistency experience are shared between policyholders and shareholders in the proportion 90:10. This means that 90% goes to policyholders and 10% to shareholders.

Below is a list of the products within each of these categories.

Category	Conventional With-Profits Business
Category 1: Policyholders receive all surpluses resulting from investment risk, mortality, expense and persistency risks.	• Sage Reversionary Bonus business from National Mutual; • Southern Life Old Segregated policies; and • CU Life Reversionary Bonus business.
Category 2: Policyholders receive surpluses resulting from investment risk only.	• Sage Reversionary Bonus policies from Ned-Equity, Equity Life and Executive series; • Southern Life Reversionary Bonus business which includes contracts that were part of African Eagle Life Assurance Society Limited and of Guarantee Life Assurance Company Limited at 31 March 1981; Momentum Conventional with-profit business including Reversionary bonuses, Simple bonuses, Floating bonuses, Rand Life, Allianz, UAL and Cumulus policies; and • Odyssey Reversionary Bonus.
Category 3: Segregated conventional with-profit business where policyholders and shareholders share all surpluses in the ratio 90:10.	• Lifegro Reversionary Bonus business; and • Southern Life New Segregated policies.

4.3.10. Each year, when the bonus declaration is done, the Insurer calculates the value of the conventional with-profits liabilities, including an allowance for the bonus rates to be declared, separately per product. The value of liabilities for a particular product is compared with the corresponding value of assets. The difference between the value of assets and the value of liabilities is known as the BSA and is the total surplus (negative or positive as the case may be) available for distribution. The Insurer calculates the value of liabilities according to actuarial formulae based on assumptions for future experience of investment performance, mortality, expenses and termination rates. The value of assets increases with premiums received and investment returns and decreases with the payment of benefits and expenses.

4.3.11. The BSA is also sometimes referred to as 'the estate' and is a measure of the extent to which the Insurer has declared less bonuses than what was actually earned (in which case the BSA will be positive), or the extent to which the Insurer has declared more bonuses than what was actually earned (in which case the BSA will be negative).

4.3.12. Different BSAs are determined for different products and there are no cross-subsidies between products. The full BSA attributable to policies in a particular product is available for distribution to these policies. In the case of products in category 2 above, any surplus (negative or positive as the case may be) that is for the account of shareholders, will be transferred out of (or into) the BSA. In the case of category 3 products (Lifegro and Southern New Segregated policies), one-ninth of the value of bonuses declared to policyholders in any given accounting period is transferred out of the product as profit to shareholders (resulting in a 90:10 distribution of surplus between policyholders and shareholders).

What factors are considered when deciding on bonus rates?

4.3.13. The Actuarial Committee (on behalf of the Board) is responsible for declaring bonus rates based on the recommendations of the Head of Actuarial Function. When deciding on the levels of bonus rates to declare, the following factors are taken into account:

- Reversionary bonus rates declared should be sustainable in the long term. It is therefore important to consider the outlook for future investment performance in consultation with the asset managers;
- The level of BSA is an indication of the surplus (negative or positive as the case may be) available for distribution. Bonus rates would not be set at such levels that it would cause the BSA to become too negative;
- The Insurer will also, in declaring bonus rates, consider what policyholders can reasonably expect. This may include, for example, that bonus rates should not be too volatile from year to year, and that there should be equity between different groups of policyholders; and
- Terminal and claim bonus rates are set at conservative levels, allowing for the future investment outlook.

4.3.14. All conventional with-profit business products are closed to new business. The levels of terminal bonus rates are carefully managed to prevent a large undistributed surplus remaining when the last policy becomes a claim.

4.3.15. Apart from Southern Old Segregated business, no products have any minimum guarantees applicable to the level of bonus rates to be declared. In the case of Southern Old Segregated business, vested and non-vested bonus rates declared each year should at least be equal to minimum rates as specified in the Agreement and Scheme of Transfer between Anglo American Life and Southern Life Association in 1984.

How do we ensure equity?

4.3.16. Where applicable, the total cost of bonuses is carefully split between reversionary bonus rates as a percentage of the basic sum assured, reversionary bonus rates as a percentage of previously declared reversionary bonuses, terminal bonus rates as a percentage of the basic sum assured, terminal bonus rates as a percentage of previously declared reversionary bonuses, and claim bonuses, to ensure equity between different groups of policyholders.

4.3.17. Approximate asset shares are calculated for groups of policies by type (endowments, whole life policies and retirement annuities) and duration of period in force, and compared with the Insurer's liability in respect of that group, to ensure an equitable distribution of surplus between these groups and different groups of policyholders. Bonus rates for retirement annuities differ from those for whole life and endowment policies, due to differences in tax status.

4.3.18. The asset share of a particular group of policies represents its retrospective value, which is the accumulation of actual premiums paid, plus actual investment returns, less the cost of administration, tax, the cost of death and other risk benefits, shareholders' share of distributable surplus and a contribution for the use of capital and the provision of guarantees. Asset shares are used as a guide to achieve equity between different policies.

4.3.19. The aim is that, on average and over time, total maturity pay-outs on all policies should be 100% of their total asset share. A particular policy maturing in a particular year may receive more or less than its asset share, due to the effects of smoothing or cross-subsidisation of policies within a product.

5. SECURED FUNDS PRACTICES

The following Practices are applicable to the secured funds business specifically.

5.1. When does the Insurer exercise discretion?

The Insurer exercises discretion when making the following decisions regarding secured fund business:

- The level of bonus rates to be declared.
- The investment of underlying assets including the use of derivative structures.
- When to close a fund for new business, or open an existing closed fund for new business.

In the following sections, we explain how the Insurer exercises this discretion.

5.2. How are the secured funds administered?

Momentum Capital Plus Retail Fund, Momentum Defender Fund and Momentum Secure Bonus Fund form part of the range of investment portfolios available to policyholders under the Investo and Wealth product ranges. Apart from the guarantee and bonus features described below, they are administered on the same basis as other investment portfolio options. Commercial Union CubeVest is managed on the Traditional platform but is currently closed for new business.

5.3. New business

5.3.1. The Insurer can limit the amount of new business it accepts into a product if it is in its own interests, or the interests of new or existing policyholders, to do so. This includes either temporary or permanent closure to new business. In particular, a product may be temporarily closed to new business if the levels of Surplus are excessively high or low.

5.3.2. The Surplus of each product is reviewed on an ongoing basis and the opening of new Bonus Series will be considered should pre-defined thresholds be breached. Different thresholds exist for single and recurring premium business as well as for endowments and retirement annuities.

5.3.3. The ability to smooth returns over successive generations of policyholders is improved if the product is open to new business, thereby maintaining a sufficiently large and diversified group of policies over which to smooth returns.

5.3.4. A closed product can be opened again to new business if the existing policyholders in the product are not excessively advantaged or disadvantaged by doing so. In particular, the level of Surplus in the product needs to be reasonable given the overall framework set out for managing products.

5.4. Bonus declaration

What is guaranteed?

5.4.1. All the secured funds provide a capital guarantee. This means that bonus rates, after the deduction of portfolio management fees (including Capital charges) and life insurance company tax (where applicable), will always be positive and are fully vested. The Insurer adds the bonuses to the policyholders' investment accounts.

When and how are bonus rates declared?

5.4.2. The way that assets are invested, means that returns are fairly stable and predictable. This means that bonus rates are normally fairly close to the returns earned and are stable from month to month. The Insurer aims to declare bonus rates in such a way that the funding level remains within the target range of 95% to 105%. This means that, as a proportion of the total value of investment accounts, the target range for the surplus is from –5% to +5%. However, it is possible for the surplus (negative or positive as the case may be) to move outside of this range after significant market movements.

5.4.3. To summarise, the level of bonus rates declared depend on the following factors:

- The current level of surplus in the portfolio.
- The return expected to be achieved in the near future.
- The short to long-term investment outlook.

6. SMOOTHED BONUS PRACTICES

The following Practices are applicable to the smoothed bonus business specifically.

6.1. When does the Insurer exercise discretion?

6.1.1. The Insurer exercises discretion when making the following decisions regarding smoothed bonus business:

- The level of bonus rates it will declare, including the degree of smoothing it will apply and the proportions that will vest;
- The investment of the underlying assets including the use of derivative structures;
- When and by how much to reduce the values of policies that are terminated early (market value adjusters);
- When to reduce or remove non-guaranteed (non-vested) bonuses and how much to reduce or remove;
- When and how much funds will be transferred from the shareholders' portfolio into the Surplus on a contingent or permanent basis; and
- When to close or open a portfolio for new business.

6.1.2. What follows are explanations of how the Insurer manages smoothed bonus business in practice, including how it makes bonus decisions, invests the underlying assets, what it guarantees, and how it ensures the ongoing solvency of the portfolios. Where Practices differ for specific portfolios, these are set out separately.

6.2. How are policies invested in smoothed bonus products administered?

6.2.1. After deduction of policy charges, the premiums paid by all policyholders in a particular smoothed bonus portfolio are pooled and invested in a particular set of assets. All the policyholders in a particular portfolio share in the returns from the underlying assets through the bonuses that they receive. Its investment account represents a particular policy's share of the portfolio. The investment account increases with premiums and bonuses, and decreases with charges for expenses and risk cover against life contingencies (such as death and disability). The investment account may also be referred to as the policy's fund value or book value.

6.2.2. Expense charges have an impact on the size of the investment account and take various forms. Certain charges will be taken off the premium before it is invested, certain charges will be taken off the investment account, and others will be taken off the investment return and thus impact on the bonus rates that are declared.

6.2.3. The benefits payable on a particular policy depend on the type of policy and the type of event that triggers a claim. An individual policy may be a 'traditional' or 'universal life' policy that combines cover on life contingencies (such as death and disability) and savings into a single policy, or a 'pure investment' policy that provides no life contingency cover. In the case of 'traditional' or 'universal life' policies invested in a smoothed bonus portfolio, which also provides cover on death, the benefits payable in the event of death will be the higher of the insured sum and the policy's investment account. In the case of 'universal life' policies without life or disability cover, and new generation pure investment contracts invested in a smoothed bonus portfolio, the investment account is payable in the event of a death claim. At maturity, the higher of the investment account and the minimum guaranteed maturity benefits (if applicable) is payable.

6.2.4. In the event of the early termination of a policy, the investment account at the date of termination is payable, less an allowance for expenses not recouped due to early termination. The reduction for expenses not recouped will not be more than that which Part 5 of the Regulations under the Long-term Insurance Act allows. This recoupment of expenses is not specific to smoothed bonus portfolios – it applies to all policies irrespective of the investment portfolio.

6.2.5. In the case of early terminations of policies invested in a smoothed bonus portfolio, the investment account may also be subject to an adjustment if the total market value of the assets underlying the smoothed bonus portfolio is less than the aggregate of all policies' investment accounts. This adjustment is known as a market value adjuster (MVA). The purpose of the MVA is to protect the remaining policyholders. If policyholders were allowed to take out more than their market value at any time during the term of the contract, they will have the opportunity to select against the portfolio, at the expense of remaining policyholders. Applying an MVA prevents this.

6.2.6. MVAs will apply only at early termination and not in the event of contractual claims such as at death, disability or maturity. The MVAs apply only in adverse market conditions such as a drop in the markets that results in the market value of the assets underlying the smoothed bonus portfolio being less than 95% of the aggregate of all policies' investment accounts. When MVAs apply, they are revised at least twice a year and also in the event of significant changes in market conditions.

6.2.7. The Insurer declares bonus rates once a year, retrospectively for the 12 months to the last 30 June (the declaration date) and adds these to investment accounts. In the event of a claim, the Insurer will also add interim bonuses to the investment account from the last declaration date (30 June) to the date of the claim. For Odyssey Smoothed Bonus, bonus rates are declared annually on a prospective basis and are then added to policyholder funds on a monthly basis.

What is 'smoothing'?

6.2.8. The nature of the assets in which the smoothed bonus portfolio is invested is such that their market values fluctuate and therefore returns may be volatile from year to year. The aim of smoothing is to reduce the impact of negatively fluctuating returns from year to year, while still achieving positive real returns in the longer term. Returns are, therefore, not distributed to policyholders in step with the market value appreciation of, and returns from, the underlying assets, but are 'smoothed' over time.

6.2.9. As a result of smoothing, bonus rates may be lower than actual investment returns (realised and unrealised gains and investment income) in periods of good investment performance, and higher than actual returns in periods of poor or negative performance. Declared bonus rates will never be negative. Over time, the bonus rates declared should equal returns earned on the underlying assets, after tax and charges, so that policyholders as a group should neither lose, nor gain as a result of smoothing. Smoothing does, however, imply a degree of cross-subsidisation between individual policyholders, particularly between different groups of policyholders.

6.2.10. The Insurer retains any returns not yet distributed in the Surplus, and these belong to the collective body of policyholders.

6.2.11. The following is an example of how smoothing may affect a particular investor. If a single premium investment was made when the Surplus was positive, and matured when the Surplus was less positive or negative, the policy will have received more in bonuses than what it earned on the underlying assets while it was in force, and will thus have benefited from smoothing. The opposite is also true, if this investment was made when the Surplus was negative and matured when the Surplus was positive, the investor would have received less in bonuses than what was earned on the underlying assets. Depending on the timing of entry into and exit from a particular portfolio, cross-subsidisation, therefore, does take place between different groups of policyholders as a result of smoothing of investment returns.

6.2.12. Separate funds are managed for different portfolios or groups of portfolios. Therefore, different Surpluses are determined for different portfolios and there are no cross-subsidies between these.

6.3. How are the risks and profits shared between policyholders and shareholders?

6.3.1. In the case of all the smoothed bonus portfolios, policyholders and shareholders share the investment risks. Policyholders receive the total investment performance (after deduction of tax and charges) in the form of bonuses over time, and therefore carry the risk of low bonus rates if returns are low over time, and will get the reward of high bonuses if returns are high over time. Policyholders will receive at least the guaranteed minimum return at maturity, and vested bonus rates become guaranteed once declared. Policyholders carry the risk that non-vested bonuses may be reduced/removed in certain circumstances, including but not limited to being under extreme market conditions.

6.3.2. Shareholders carry the risk that investment returns on smoothed bonus portfolios are less than the guaranteed minimum investment returns, and will have to make good any shortfalls that cannot be financed by the Surplus. Shareholders also carry the risk associated with declaring vested bonus rates and then guaranteeing that it can never be reduced/removed, even under extreme market conditions. Shareholders are compensated for this risk by way of Capital charges. Guarantees applicable to smoothed bonus portfolios are detailed below.

6.3.3. In the case of the Lifegro smoothed bonus product, policyholders also share in surpluses (negative or positive as the case may be) arising from mortality, disability and expense experience. Lifegro smoothed bonus business also share in surpluses from persistency experience. Policyholders' share of such surpluses become part of the smoothed bonus portfolio and is reflected in the bonuses over time. Lifegro policyholders receive 90% of such surpluses, while shareholders receive the other 10%.

6.3.4. In other cases, policyholders may carry some of the risks relating to disability, expenses and mortality, to the extent that expense and risk charges may be increased. Charges for expenses may be increased as a result of inflation for example. On some policies, risk charges may be reviewed, but only after expiry of the risk guarantee period. Risk cover guarantee periods are typically between ten and thirty years and are set out in the policy contracts. Note, however, that this risk sharing is not specific to policies invested in smoothed bonus portfolios. The contract will specify whether risk and expense charges are variable.

6.3.5. The Surplus represents the amount available for distribution to policyholders. The value of assets backing each smoothed bonus portfolio will increase with premiums, and increase or decrease with the actual investment returns earned, while it will decrease with expense, capital, tax and risk charges (if applicable). Investment accounts will reflect bonuses declared to date. Where policyholders are only entitled to investment profits and losses, the Surplus will represent the difference between the actual investment performance on the underlying assets, and the bonuses declared to date. Where policyholders are also entitled to share in non-investment profits and losses (for example, in the case of the Lifegro product), the surplus will also reflect these.

6.4. Charges and fees

6.4.1. All the charges applicable to a particular policy are set out in the policy contract. The contract will also specify whether the charges are fixed or variable. The Minimum Disclosure Documents also specify the relevant smoothed bonus portfolio fees.

6.4.2. For some products, a shareholder fee of 10% of the gross growth of the investment fund value applies. The Actuarial Committee ratified the merger of the consolidated 'Momentum and Southern' (refer to clause 1.1.8) portfolio in the year ending 30 June 2005 under the premise that the Sure Gain policyholders (a subset of the book) would receive an additional bonus of at least 0.50% but no greater than 0.75% per annum due to these policyholders being the only ones in the consolidated 'Momentum and Southern' portfolio not paying the 10% shareholder fee. Similarly, with the segregation of the Southern Stringent guarantee portfolio as described in clause 1.1.9, Sure Gain series 40 policyholders (a subset of the book) would receive an additional bonus of at least 0.50% but no greater than 0.75% per annum due to these policyholders being the only ones in the Southern Stringent guarantee portfolio not paying the 10% shareholder fee. The additional bonus referred to above would be subject to there being positive growth in the portfolio.

6.4.3. In the case of the Lifegro smoothed bonus portfolio, there is a profit fee of 10% of the net growth.

6.4.4. The Investo Performance Guaranteed Fund includes a contractual condition of providing a bonus return at least in line with inflation over the contract term (also referred to as the guarantee term or initial savings term depending on policy wording). If this condition is not met, management fees paid over the lifetime of the contract will be refunded to the policyholder.

6.4.5. Within some Bonus Series, the taxed and untaxed policyholder fees may differ. To ensure policyholder equity within a Bonus Series, adjustments to the bonus rates may be required to allow for differences in policyholder fees in addition to those required for taxation differentials.

6.5. Mergers and segregation of portfolios

6.5.1. The Insurer closed the Momentum and FNB Life Smoothed Bonus portfolio to new business, and opened a new portfolio, the Investo and FNB Life Smoothed Bonus portfolio, for new business from June 2003. The reasons for this were that the Insurer considered it inappropriate to receive new business into a portfolio as under-funded as the Momentum Smoothed Bonus portfolio was at the time, and the guarantees applicable to new business were also reduced from 4,5% per year (for policies that are not retirement annuities) and 5% per year (for retirement annuities) to 0% per year. The guaranteed rate of 4,5% per year and 5% per year became unsustainable for new policies in the now prevailing low inflation environment.

6.5.2. The Insurer combined the closed Momentum Smoothed Bonus, Southern Sure Profits and Southern Sure Gain portfolios with effect from 1 July 2005 because of similarities in mandates and funding levels. Some differentiation in bonus rates remains to reflect differences in tax status, charging structures and guarantees. As per clause 1.1.9, the Southern Sure Profits series 45 and Southern Sure Gain series 40 portfolios have been combined into the Southern Stringent guarantee portfolio.

6.5.3. The combined portfolio may be split in future under certain circumstances, such as lower sustainable returns or higher volatility, as differences between the standard and stringent guarantees referred to earlier might render the continued aggregation inequitable. Such a split would constitute a change in practice and policyholders will be informed in the event of such a change.

6.5.4. Portfolios that offer significantly different levels of guarantees may require different investment mandates and will, in such cases, be managed as separate portfolios.

6.6. Bonus declaration

What kinds of bonus rates apply to smoothed bonus policies?

6.6.1. An annual bonus rate is declared each year, consisting of a portion that is vested (guaranteed) and a portion that is non-vested. The vested bonus rate is also sometimes referred to as an income bonus rate and the non-vested bonus rate as a growth or capital bonus rate. With the exception of the Odyssey Smoothed Bonus portfolio, the annual bonus is added retrospectively to policies' investment accounts each year once declared. For Odyssey Smoothed Bonus, the bonus is declared annually on a prospective basis and is then added to policyholder funds on a monthly basis.

6.6.2. In addition, an interim bonus rate is set which will apply to policies ending prior to the next declaration owing to death, disability, maturity, retirement or termination. Interim bonus rates apply from the last declaration date (30 June) to the date of the claim event. For Odyssey Smoothed Bonus, interim bonus rates are not applicable.

6.6.3. Declared bonus rates are net of tax, management charges and Capital charges.

When are bonus rates declared?

6.6.4. With the exception of Odyssey Smoothed Bonus, bonus rates are declared annually in arrears for the Insurer's previous financial year (1 July to 30 June). The declaration takes place after the end of the financial year, around the end of August. Annual bonus rates apply retrospectively for all policies in force at the declaration date. Interim bonus rates apply to policies becoming claims following the declaration until such time that it is next reviewed. For Odyssey Smoothed Bonus, bonus rates are declared annually in advance and interim bonus rates are not applicable.

6.6.5. The Insurer can review interim bonus rates at any time but mostly does so twice each year, as well as in special circumstances, such as upon a significant change in the market.

What factors are taken into account when deciding on bonus rates?

6.6.6. The Actuarial Committee (on behalf of the Board) is responsible for declaring bonus rates based on the recommendations of the Head of Actuarial Function. When deciding on the levels of bonus rates to declare, the following factors are taken into account:

6.6.6.1. The Actuarial Committee needs to apply its discretion when declaring bonus rates. One cannot derive bonus rates by applying a single formula that will work in all circumstances. A range of factors needs to be considered by the Head of Actuarial Function and the Actuarial Committee (on behalf of the Board), and all bonus declarations will require judgement. A balance must be achieved between meeting policyholders' reasonable expectations and ensuring the ongoing solvency of the portfolio. A balance must also be struck between achieving meaningful smoothing and avoiding excessive cross-subsidisation between groups of policyholders.

6.6.6.2. An important reference point for a bonus declaration is the bonus rate that is expected to be sustainable in the long term. The sustainable bonus rate is determined as the returns available from long-term risk-free bonds, plus the excess returns that can typically be generated over time by the riskier asset classes in the portfolio, such as local and offshore equities and properties. Appropriate adjustments are made for tax and charges.

6.6.6.3. The level of Surplus: if the Surplus is positive, bonus rates can be declared that exceed the long-term sustainable bonus rate, while, if the Surplus is negative, bonus rates are likely to be very small or zero.

6.6.6.4. An important consideration is the asset managers' short-term and medium-term outlook for future investment returns, as it might affect the likely development of the Surplus over the next few years.

6.6.6.5. Actual investment returns earned on the underlying assets over the recent past are also considered. An objective consistent with policyholders' expectations would be to declare above-average bonus rates after a year of above-average performance, unless the Surplus was negative at the start of the year.

6.6.6.6. In general, smoothed bonus portfolios are expected to outperform over periods of weak market performance, while underperformance of smoothed bonus portfolios should be expected over periods of exceptional market strength. The bonus declaration should support this smoothing objective.

6.6.6.7. The Insurer will also, in declaring bonus rates, consider what policyholders can reasonably expect. This may include, for example, that bonus rates should not be too volatile from year to year, and that there should be equity between different groups of policyholders.

6.6.6.8. Interim bonus rates are set at conservative levels, allowing for the future investment outlook.

Are bonus rates guaranteed once declared?

6.6.7. The annual bonus rates declared on smoothed bonus portfolios consist of a guaranteed (vested) portion and a non-guaranteed (non-vested) portion. It is necessary to declare a portion of the bonus rate in non-guaranteed form because some of the returns are uncertain and volatile, such as unrealised capital gains or losses.

The vested bonus rates are guaranteed and can never be reduced/removed once declared for contractual claims. The guaranteed benefits therefore increase each year as vested bonuses are added. The non-vested portion of the declared bonus rates is not guaranteed and may be reduced/removed even in the event of extreme market conditions such as a severe and sustained downturn in the markets. In such an event, the significant drop in the value of the underlying assets may result in a negative Surplus. If it is believed that material policyholder cross-subsidy has arisen whilst there is negative Surplus, to mitigate future policyholder cross-subsidy, the Actuarial Committee (on behalf of the Board) may decide to remove all or part of the non-vested bonuses, on the recommendation of the Head of Actuarial Function. Any non-vested bonuses reduced/removed from investment accounts will improve the level of the Surplus.

The Actuarial Committee (on behalf of the Board) may provide support from the shareholders in the form of a contingent or permanent injection of shareholder capital into the smoothed bonus portfolio. This will also result in an improvement in the level of the Surplus.

6.6.8. In order to ensure the equitable treatment of different groups of policyholders, the proportion of previously declared non-vested bonus rates that could be reduced or removed under such circumstances may vary depending on the period that a policy has been in force.

6.6.9. The Insurer may review the interim bonus rate at any time. The interim bonus rate will be reviewed if there has been a significant change in market conditions and may be either increased or decreased.

Are there any investment return guarantees?

6.6.10. Some smoothed bonus portfolios provide investment return guarantees. Investment return guarantees determine the minimum amount that is payable in the event of a contractual claim (such as on death, disability, maturity or retirement, where applicable). If the value of the investment account at the time of a contractual claim is lower than the guaranteed amount, then the Insurer will increase the investment account to the level of the guaranteed amount.

6.6.11. The investment guarantees associated with the various smoothed bonus portfolios are summarised below. The guarantees are described in general terms only, and as some variations exist, one must consult the individual policy contracts for the exact details of the investment guarantees. Guaranteed values are usually adjusted in an appropriate manner when a policy is altered.

Portfolio	Investment guarantee
Lifegro Smoothed Bonus	The 'standard guarantee': guaranteed average rate of 3,75% per year over the full term of the contract for contracts that are not retirement annuities and 4,25% for retirement annuities. The guarantee applies until the earlier of; the selected maturity date or the 40th anniversary of the commencement of the original policy.
Momentum and FNB Life Smoothed Bonus (closed 2003)	The 'standard guarantee': guaranteed average rate of 4,5% per year over the full term of the contract.
Southern Sure Profits	The 'standard guarantee': guaranteed average rate of 4,5% per year over the full term of the contract.
Southern Sure Profit Series 45	The 'stringent bonus guarantee': the bonus rate is guaranteed to be no less than 4,5% in **any** year.
Master Protector Plan	The 'standard guarantee': guaranteed average rate of 4,5% per year over the full term of the contract.
Southern Sure Gain	The 'standard guarantee': guaranteed average rate of 4% per year over the full term of the contract.
Southern Sure Gain Series 40	The 'stringent bonus guarantee': the bonus rate is guaranteed to be no less than 4% in **any** year.
Southern Deferred Maturities	A return of capital invested is guaranteed.
Sage Universal Series Smoothed Bonus	A return of capital invested is guaranteed.
Sage NedProfits	A 'standard guarantee' of 3% per year on average over the full term of the contract for contracts that are not retirement annuities and 3,25% per year for retirement annuities.
Sage Fidelis and National Mutual Fidelis (Retirement Annuities)	A 'stringent guarantee' of 8% per year for the first five years, 6% per year for the next five years and 4,5% per year thereafter.
Investo Smoothed Bonus, including FNB Life (since 2003)	Non-negative bonus rates are guaranteed for policies sold prior to February 2005. A return of capital invested is guaranteed for all policies sold from February 2005.
Performance Guaranteed Fund	Non-negative bonus rates are guaranteed. Management fees will furthermore be returned to policyholders if the portfolio did not achieve an investment return at least equal to inflation over the guarantee term or initial savings term depending on the policy wording.
Odyssey	There is a 'stringent guarantee' of 3,5% per year for contracts that are not retirement annuities and 4% per year for retirement annuities. The rates are subject to change every 10 years or in the event of a change of basis in taxation for life insurers or retirement annuity funds (as the case may be).
CU	The 'standard guarantee': guaranteed average rate of 4,5% per year over the full term of the contract for contracts that are not retirement annuities and 5% for retirement annuities.

Note that the guaranteed rates apply to the amounts actually invested, in other words after expense and risk charges have been deducted.

7. 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.

Asset share of a group of policies represents its retrospective value, which is the accumulation of actual premiums paid, plus actual investment returns, less the cost of administration, tax, the cost of death and other risk benefits, shareholders' share of distributable surplus and a contribution for the use of capital and provision of guarantees. For the purposes of this document, asset share defined is only applicable to the conventional with-profit business.

Board means the Board of Directors of the Insurer.

Bonus Stabilisation Account (BSA) is the difference between the value of the assets and the value of liabilities and is the total surplus (negative or positive as the case may be) available for distribution. For the purposes of this document, the BSA is only applicable to the conventional with-profit business due to the prospective nature of the liabilities.

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.

Claim bonus is an amount that is added when a claim becomes payable in terms of the conventional with-profit contract. The amount is a non-vested bonus that is not guaranteed in advance.

Contractual claims are the claims payable in terms of the contract, for example on death, disability, maturity or retirement.

Contractual end date for a policy is the maturity date or date of retirement as specified in the contract, or the date of death.

Cross-subsidisation is a situation where a policyholder or group of policyholders is better or worse off as a result of being pooled with other policyholders in an investment portfolio or product. The cross-subsidy can be mitigated by ensuring the pooling of policyholders 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 or products 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 is 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.

Early termination refers to the full or part-withdrawal of funds from a policy (including those resulting from surrenders, early retirement, non-interest-bearing loans and switches) prior to a policy's contractual end date.

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

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.

Investment account represents a particular policy's share of the pool of assets held in the discretionary participation business portfolio. The investment account increases with premiums and bonuses and decreases with charges for expenses. The investment account may also be referred to as the policy's fund value or book value. The account is not applicable to the conventional with-profit business.

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

Interim bonus applies to smoothed bonus policies ending prior to the next declaration owing to death, disability, maturity, retirement or early termination. Interim bonus rates apply from the last declaration date to the date of the claim event.

Long-term Insurance Act means the Long-term Insurance Act, No. 52 of 1998.

Market value adjuster (MVA) is the reduction of the investment account on early termination. The MVA depends on the current level of the market and its purpose is to protect policyholders who remain in the portfolio. For the purposes of this document, MVA is only applicable to the smoothed bonus portfolios.

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 cash flow amount and timing.

Non-vested bonus rates are bonus rates that are declared annually and are not guaranteed. For smoothed bonus portfolios, a non-vested bonus is the difference between the declared annual 'total' bonus rate applied to the total fund and the declared Vested bonus rate applied to the vested fund. The Insurer may reduce or remove these bonuses in certain circumstances, including after severe and sustained market downturns.

Policyholder liabilities are the amounts that the Insurer expects to need to meet present and future commitments to policyholders. Liabilities are valued in terms of Solvency Assessment & Management (SAM) in combination with the 'Financial Soundness Standards for Insurers' method as described in the Insurance Act.

Reversionary bonus is a type of bonus rate declared annually which becomes a permanent increase in the amount of benefit guaranteed under a conventional with-profits policy. It may also be referred to as an income bonus.

Risk charges are deductions made from the premium or investment account to cover the cost of benefits payable on life contingencies (such as death or disability). For the purposes of this document, Risk charges are only applicable to the smoothed bonus portfolios.

Surplus is defined as the difference between the market value of the assets (less any deferred tax liabilities) and the sum of the Investment accounts. 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). For the purposes of this document, Surplus is only applicable to the secured funds and smoothed bonus portfolios.

Surrender is a type of 'early termination', also referred to as cancelling or cashing-in a policy and happens if a policyholder takes some or all of the funds from a policy prior to the contractual end date of the policy. In the case of a retirement annuity, it is referred to as 'early retirement' as the policyholder cannot surrender but can retire at the minimum retirement age.

Terminal bonus is an amount that is added when a claim becomes payable in terms of the convention with-profit policy contract. The amount is not guaranteed in advance. Terminal bonus rates are also sometimes referred to as final or capital bonus rates.

Vested bonus rates are bonus rates that are guaranteed and cannot be removed.