momentum

Principles and practices of the financial management of Momentum Retail's discretionary participation products

Secured funds

CLIENT SUMMARY

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ENGLISH

Secured funds

This document summarises how Momentum manages its secured funds and explains where and how we invest, how we smooth and what bonus rates we declare. It focuses on the management of the pool and not on all the finer details of the different policies that invest in secured funds.

Momentum follows the obligations as stated in the policy contracts and complies with any legal and regulatory requirements. If there are any differences between this summary document and the policy contract and/or legal requirements, the contract and/or legal requirements will be considered final and correct.

What are discretionary participation products?

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

Managing discretionary participation products requires trust between policyholders and Momentum. Decisions are taken by Momentum with the intention of being in the best interests of policyholders and the sustainability of the products. Sustainability of the products means that Momentum will use and invest the policyholders' money wisely.

What are secured funds?

Secured funds are smoothed bonus portfolios with no market value adjusters. That is, on early termination, even if the value of the underlying assets in a secured fund drops below the value of all the policyholders' investment accounts, there are no reductions to the investment account (other than early termination charges) to protect policyholders who remain in the portfolio. Momentum can use structured notes with embedded guarantees and other tools to facilitate the terms and conditions of the secured funds.

Investing in a secured fund is one of the options available to you when taking out a Momentum savings or investment policy. Pension and provident funds and other institutional policyholders also use secured funds to invest the savings of a group of people.

How does a secured fund work?

Momentum invests the pool of money you and other policyholders contributed, in a range of suitable assets such as money market instruments, inflation-linked and nominal bonds, equities, alternative investments and offshore assets. The actual investment returns earned on the underlying asset portfolio of the secured fund usually vary from month to month and may sometimes even be negative, but Momentum can make use of derivative instruments to protect capital.

Returns are passed on to policyholders through a process known as a bonus declaration. Momentum declares bonus rates that are more stable than the actual net investment returns (the returns after deducting any fund related charges, e.g., the asset management charge) earned on the underlying asset portfolio. This means that the declared bonus rates within a given month may be higher or lower than the actual net investment returns earned on the underlying asset portfolio in that month. This is called "smoothing".

Your policy has an investment account where your premiums (after deducting appropriate fees) are guaranteed and grow with the bonus rates that Momentum declares but shrinks when money is paid out to you in claims and when Momentum charges fees.

Individuals who have invested money in a secured fund will receive the balance in the investment account when a claim is processed, which may be subject to fees (including but not limited to early termination charges). Furthermore, as defined in their funds' rules or employment contracts, individual pension and provident fund members (or their beneficiaries) will receive benefits when we process a valid claim from the secured fund.

Who should invest in a secured fund?

A secured fund is a suitable choice for investors who want to guarantee that the value of their investment will never drop.

Momentum can limit the amount of new business it accepts into a secured fund if it is in the interest of new or existing policyholders to do so. This includes either temporary or permanent closure to new business. A closed secured fund can be opened again to new business if the existing policyholders in the portfolio are not excessively advantaged or disadvantaged by doing so.

What fees does Momentum charge?

Momentum charges you to administer the policy and, in some cases, for providing guarantees (see below). The charges depend on the type of policy that you have. The policy contract and/or the relevant secured funds minimum disclosure document (MDD), which can also be referred to as a fund fact sheet, will explain this in more detail.

What are the guarantees?

All the secured funds provide a capital guarantee. This means that bonus rates are never negative after deducting portfolio management fees (including capital charges) and life insurance company tax (where applicable). This guarantee applies to any claim.

All bonus rates declared are fully vested, meaning that Momentum guarantees them, regardless of what might happen to the assets in the portfolio in future, and it can never be removed.

What will happen if policyholders want to terminate their investments?

If a policyholder disinvests the whole, or a large proportion of their secured fund, Momentum would normally pay the full value of the policy investment account upfront, which may be subject to fees (including but not limited to early termination charges). However, Momentum reserves the right to pay a disinvestment from an institutional policyholder at full value but over a period of up to 12 months if the value of the underlying assets is below the value of all the policyholders' investment accounts, and total outflows from the portfolio are of such a magnitude that they may have a materially negative impact on the portfolio and may therefore prejudice remaining policyholders.

How does Momentum decide on the bonus rates to declare?

Investors receive the returns earned on the assets in the portfolio as bonuses that we add to their investment accounts.

As mentioned earlier, one of the objectives of the bonus declaration is to smooth the highs and lows of investment performance. As a result of smoothing, the bonus rate that we declare in a particular month is unlikely to be the same as the investment returns earned on the underlying asset portfolio in that month.

The way that assets are invested, means that returns are fairly stable and predictable. Bonus rates normally are close to the returns earned and are stable from month to month. Any balance of returns not yet distributed as bonuses is known as "surplus" or "deficit" and belongs to the specific group of secured fund policyholders.

Depending on the economic outlook and interest rate forecasts, Momentum decides what a long-term, sustainable bonus rate would be. We also consider the returns earned in the previous month, and any returns previously earned that have not been distributed as bonuses but were retained. Momentum may use returns that were earned in previous months, but that have not been distributed as bonuses, to increase the bonus rate in the current month or future months. Similarly, we may hold back part of the returns earned in the current month and use these to increase bonus rates in future months.

Returns not distributed as bonuses in a particular month stay in the pool of assets, and we may distribute these to policyholders later. Momentum may not keep any of these undistributed returns. Our entitlement is limited to the fees and charges that the policy contract sets out.

Momentum's Head of Actuarial Function declares bonus rates for the secured funds on a monthly basis.

How are the underlying assets invested?

Depending on the secured fund, the pool of money is invested in different assets such as local and offshore money market instruments, inflation-linked and nominal bonds, equities and alternative investments (including structured notes). The main objective of all the secured funds is to meet the capital guarantee at all times. In addition, the funds aim to outperform their respective benchmarks over the specified investment horizon.

How does Momentum manage policyholder interests?

If the value of the underlying assets in a secured fund drops significantly below the value of all the policyholders' investment accounts, and the outlook for positive investment returns is bleak, rendering the recovery in the value of the underlying assets unlikely, in order to protect the portfolio and make sure all policyholders are treated fairly, Momentum may:

- change how the underlying assets are invested;
- temporarily or permanently close the portfolio to new business;
- declare lower bonus rates; or
- inject money into the portfolio on a temporary or permanent basis.

How can I get more information?

You can view a more detailed document here or request it from your financial adviser or our head office. It is called Principles and Practices of Financial Management of Momentum's discretionary participation products (PPFM) and has a general section covering all discretionary products as well as one specific to the secured funds.

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We will write to all current policyholders if we change our approach to managing our secured funds.

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