

Principles & Practices of Financial Management

**in respect of Metropolitan Employee Benefits'
discretionary participation products**



Published: December 2007

Website : www.meteb.co.za

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1. INTRODUCTION

This document sets out the principles and practices of financial management (“PPFM”) of the discretionary participation business of the Employee Benefits division of Metropolitan Life Limited (“Metropolitan”). This introduction and any subsequent introductory sections are provided as background information and do not form part of the principles or practices.

1.1. Company Information

Metropolitan Life Ltd is a life assurance company based in South Africa. It is over 100 years old, having started business in 1898, and is currently a wholly owned subsidiary of Metropolitan Holdings Ltd.

1.2. Purpose of the PPFM

- 1.2.1. Metropolitan is required to meet all its contractual obligations to policyholders. We also seek to provide our discretionary participation policyholders with competitive returns over and above these minimum obligations. In seeking to achieve these objectives, we make decisions that we believe are in the interests of our discretionary participation policyholders, having regard to their reasonable expectations and to the requirement to treat policyholders fairly.
- 1.2.2. The PPFM defines the principles and practices the company follows when making these decisions. It describes the nature of the discretion retained by the Board and the parameters within which this discretion would be used.
- 1.2.3. The principles are the enduring statements of the overarching standards adopted by Metropolitan in managing its discretionary participation business. They also describe the business model used by Metropolitan for managing the discretionary aspects of this business and in responding to longer-term changes in the business and economic environment.
- 1.2.4. The practices aim to set out in more detail how Metropolitan seeks to manage its discretionary participation business. Together with the principles they aim to provide sufficient detail to enable our clients to understand the possible risks and rewards of investing in a discretionary participation portfolio with Metropolitan.

- 1.2.5. Management of discretionary participation business is not a mechanistic process carried out strictly on the basis of compliance with a detailed set of pre-determined rules, guidelines or criteria. Rather, it requires Metropolitan to make many judgements about the actions it should take in endeavoring to meet the objectives which are described in this document. These judgements are made by Metropolitan in good faith, although it cannot be guaranteed that they will result in the objectives described in this document being achieved.
- 1.2.6. Discretionary participation business is long term in nature. Whilst Metropolitan wishes its policyholders to have as clear an understanding as practicable of how Metropolitan will manage this business, it is not in the policyholders' interest for Metropolitan to do so by reference to rigid and inflexible criteria. Metropolitan therefore seeks to respond to events in managing this business, and may adjust accordingly the principles and practices by reference to which it seeks to carry on that business. Metropolitan will endeavor to inform policyholders of changes to the principles at least three months in advance of such changes taking effect, and will endeavor to inform policyholders of changes to the practices within a reasonable period after such changes take effect.
- 1.2.7. The PPFM is not intended to alter the rights and obligations which Metropolitan, or its policyholders, have under any policy documents that Metropolitan has issued. Should there be any conflict between the PPFM and what is said in any such policy documents, the latter shall prevail.
- 1.2.8. This PPFM is available on the Metropolitan website (www.meteb.co.za). Printed copies will be made available to interested parties on request, although a fee may be charged for this service.
- 1.2.9. It should be noted that the PPFM should not be read as a document providing advice on whether or not to invest in discretionary participation products. This document is intended only to provide information regarding the management of these products and any individual/group considering this as an investment opportunity should still seek financial advice in this regard.
- 1.2.10 Given the fact that these principles and practices can be changed, as mentioned above, and that this document has been written in simple language, policyholders and prospective policyholders should not treat the statements in this document as binding commitments or representations by Metropolitan as to how it manages discretionary participation business or as to how it will do so in the future.

1.3. Governance

The responsibility for the governance of discretionary participation business lies with Metropolitan's Board of Directors, who must approve any changes to principles or practices. The Metropolitan Board appointed the Metropolitan Holdings Actuarial Committee, a sub-committee of the Board of Metropolitan Holdings Ltd., to act as a Discretionary Participation Committee on their behalf. The function of the Discretionary Participation Committee is to provide the Metropolitan Board with an independent assessment of the insurer's compliance with the principles and practices set out in this document. The committee has at least one independent non-executive director as a member.

1.4. Business covered by the PPFM

The PPFM applies to the following products:

- 1.4.1. Employee Benefits smoothed bonus business.
- 1.4.2. Employee Benefits with-profit annuity business.

2. EMPLOYEE BENEFITS SMOOTH BONUS

2.1 Introduction

2.1.1 The purpose of this section is to define the Principles and Practices of Financial Management ("PPFM") that currently apply to Employee Benefits Smooth Bonus business. In particular this section covers the following smooth bonus products managed by Metropolitan Employee Benefits:

- Metropolitan Smooth Growth Fund (Global)
- Metropolitan Smooth Growth Fund (Local)
- Metropolitan Secure Growth Fund
- Investment Solutions Global FullVest
- Investment Solutions Domestic FullVest
- Metropolitan Multi-Manager Smooth Growth Fund (Global) (Partially and Fully Vesting)
- Metropolitan Multi-Manager Smooth Growth Fund (Local) (Partially Vesting)
- Metropolitan Cash Growth Fund

2.1.2 Metropolitan Employee Benefits operates two distinct categories of smoothed-bonus business, namely fully vested and partially vested smooth bonus products. The partially vested smooth bonus products declare monthly final bonuses in advance consisting of a vesting and non-vesting element, and the fully vesting smooth bonus products declare monthly final bonuses in advance consisting of just a vesting component.

2.1.3 It should be noted that there is a separate partially vested fund operated in respect of the old Commercial Union Life business (which has been closed to new business since Metropolitan took-over Commercial Union). This portfolio was merged into the Metropolitan equivalent portfolio (Metropolitan Smooth Growth Fund (Global)) with effect from 1 January 2005.

2.2 Bonus Declarations

Principles

- 2.1.1 Monthly final bonus rates are set with the aim of providing a smoothed build-up of benefits over time for all products except the Metropolitan Cash Growth Fund. Monthly final bonus rates for the Metropolitan Cash Growth Fund are set with the aim of replicating the returns of a money market portfolio.
- 2.2.2 Vested bonuses become guaranteed additions to the vested policy benefits.
- 2.2.3 All policyholders will receive the bonus rate applicable to the bonus series in which they are invested. There will be no cross-subsidisation between different bonus series or products.
- 2.2.4 There will, however, be cross-subsidisation between different generations of policyholders within a particular bonus series. This is an implicit feature of the product type.
- 2.2.5 A bonus smoothing formula is used to assist in the declaration of bonuses. The formula attempts to provide an element of stability in the returns to policyholders by spreading surpluses/deficits over a period.
- 2.2.6 The structure of the smoothing formulae used will be reviewed regularly and adjusted where necessary to ensure that they continue to meet the objectives of the respective products.
- 2.2.7 All parameters and assumptions used in the smoothing formula will be monitored frequently to ensure that they remain appropriate.
- 2.2.8 The bonuses declared on a particular product will be a function of the objectives of that product and will therefore remain independent of bonuses declared on any other products.

Practices

- 2.2.9 The assumptions, parameters and methods used to derive the monthly bonuses will be changed only in order to:
- comply with any new legislative or regulatory rules or guidance.

- ensure that the smooth bonus products can meet their reserving and capital adequacy requirements at all times.
 - allow for greater accuracy in the methods used.
 - allow for the possible use of any new financial management techniques.
- 2.2.10 Final monthly bonuses are declared in advance and may consist of a vesting and/or a non-vesting component. For the fully vesting products only vesting bonuses are declared.
- 2.2.11 Gross final total monthly bonuses are non-negative. No guarantees are made about the level of the monthly vesting bonus rate except that the gross vesting bonus will be non-negative.
- 2.2.12 For all products except the Metropolitan Cash Growth Fund, the smoothing formula targets a long-term inflation-based return which then gets adjusted by taking into account the underlying experience as implied by the current funding levels in arriving at the bonuses. For the Metropolitan Cash Growth Fund, the smoothing formula targets a money market based return.
- 2.2.13 The bonus smoothing formula essentially allows for the distribution of surplus or the recovery of deficits. The period over which the surplus is distributed or deficit recovered is dependant on the funding level and the smoothing philosophy of the respective products.
- 2.2.14 The smoothing process will decrease returns to policyholders during times of exceptional market performance, as some of the returns will be held back for future distribution.
- 2.2.15 However, during volatile and falling markets, policyholders will benefit from the smoothing process, which will ensure less volatility in the returns received.
- 2.2.16 The level of the vesting bonus is a function of the preset long-term target as well as the level of surplus available for distribution.
- 2.2.17 The higher the level of investment returns earned, the greater will be the proportion of total bonus declared that is non-vesting.
- 2.2.18 Metropolitan reserves the right to override the bonus rates generated by the bonus smoothing formulae.

2.2.19 The Metropolitan Board may remove non-vested bonuses (wholly or in part) if funding levels fall well below the 100% level and if there is no reasonable prospect of restoring them to an acceptable level within a reasonable period of time. Such removal will also take into account competitive and economic factors as well as principles and practices previously followed. Metropolitan may reduce the fund value for the Metropolitan Cash Growth Fund at any time should the funding level fall below 100%. The reduction will be limited to the amount necessary to restore the funding level to 100%.

2.2.20 At the end of each financial period, a specific percentage of the non-vested account is transferred to the vested account. Metropolitan reserves the right to adjust this percentage depending on the financial circumstances of the respective funds and prevailing investment market conditions.

2.3 Discontinuances

Principles

2.3.1 The terms applied for both partial and full terminations will be clearly set out in the policy contracts; therefore no additional charges will be levied on payments to policyholders, except as set out in the policy contracts.

Practices

2.3.2 If a policyholder's smooth bonus fund investment is fully funded, all payments are guaranteed at that policyholder's smooth bonus fund's fund value for both full and partial terminations.

2.3.3 However, if a policyholder's smooth bonus fund investment is under funded (i.e. the funding level is less than 100%), then the following restrictions apply for partial terminations: The fund value of the policyholder's smooth bonus fund investment is guaranteed on all disinvestments up to a maximum of 10% of the policyholder's smooth bonus fund investment balance per annum. All payments in excess of these limits are made at (the lower) market value. There are increased limits that apply to clients that operate an individual member investment choice platform. This practice does not apply to the Metropolitan Cash Growth Fund; the full fund value is always payable.

2.3.4 The above condition does not apply to benefit payments under the Smooth Growth Fund and the Secure Growth Fund. Benefit payments are defined as payments made as a result of members exiting by resignation, retirement, disability, death or retrenchment. These payments are guaranteed at fund value; moreover, once 10% of the net cash flow of the fund has been disinvested over a calendar year, Metropolitan guarantees that the funding level for the remaining members is unchanged following any further benefit payments in excess of the 10% limit. Resignations, early retirements and retrenchments in the case of individuals whose benefits exceed 10% of the total assets of their fund are an exclusion to this condition.

2.3.5 In the case of full terminations for under funded smooth bonus investment funds, clients have the option of taking the (lower) market value immediately, or alternately, receiving the fund value over 10 years – the fund value will earn the bonuses declared over the payment period. For the Metropolitan Cash Growth Fund the full fund value is paid immediately.

2.4 Charges

Principles

2.4.1 A capital charge is levied on the underlying assets of the product to provide shareholders with a return on their capital employed to support the guarantees inherent in the product.

2.4.2 The capital charge will be amended only if there is a significant change in the underlying experience due to external legislative changes or the cost of smoothing, guarantees and the use of capital. Such a change will be communicated to clients in accordance with the policy rules. A separate risk charge is applied to individual member choice (IMC) clients for the additional benefits provided under their contracts.

2.4.3 A management fee is also levied to compensate Metropolitan for the services provided in the management and administration of the smooth bonus products.

Practices

2.4.4. The level of the capital charge will be reviewed regularly to ensure that it remains appropriate should the capital requirements of the product change (either due to legislative or internal capital management changes).

2.4.5 The capital charge, management fee and risk charge (where applicable) will be adjusted in light of changes to the underlying experience.

2.4.6 The declared monthly bonuses are net of the capital charge and gross of the management fee (including the risk charge where applicable).

2.5 Profit Sharing

Principles

2.5.1 In this context profit (or surplus) is defined to be the excess market value remaining once a client's fund value has been paid out on either full or partial terminations.

2.5.2 All profits (as defined above) arising within the policyholder funds will be retained for the sole benefit of existing and future policyholders.

Practices

2.5.3 Any profit arising in the fund following a termination (both full and partial) will remain within the pool. Such profits may be held as a separately identifiable reserve.

2.5.4 The reserves (where applicable) funded by the profits will be used to support the benefits of existing and future generations of policyholders.

2.6 New Business

Principles

2.6.1 The level of new business written is regularly reviewed.

2.6.2 A fund will be closed to new business, if it is deemed likely that the inflows from the new business will severely jeopardise the benefits of the existing policyholders in the fund (e.g. if any new inflows will significantly worsen the overall funding level of the pool, thus potentially reducing the level of bonuses to all policyholders).

Practices

2.6.3 If the funding level deviates significantly from the targeted long-term range, then the bonus series will be closed to new business. A separate bonus series will be opened within the product for any new inflows (from new policyholders). The two bonus series will be merged once their funding levels are close to each other and it is in the best interests of the policyholders to do so.

2.7 Conflicts of Interest

Principles

2.7.1 Metropolitan aims to treat all parties fairly at all times, balancing any conflicts of interest that arise between different policyholders and between policyholders and shareholders.

Practices

2.7.2 We will endeavour to ensure that any conflicts of interest between policyholders and shareholders are clearly communicated to the relevant parties as far as is reasonably possible.

2.7.3 Where conflicts of interest arise, appropriate measures such as the separation of business functions will be put into place to manage these conflicts of interest.

2.8 Business Risks

Principles

2.8.1 The smooth bonus products are exposed to business risks from a variety of sources. There are various risk management procedures in place to monitor, control and assess the impact of these business risks, and where necessary to identify and implement appropriate risk-reducing measures.

Practices

- 2.8.2 The Board has established governance committees and processes to monitor and control significant business risks.
- 2.8.3 Investment risk is the major determinant of benefits available to policyholders.
- 2.8.4 Other than in the event of insolvency of Metropolitan, the policyholders are not subject to general business risks arising from investments in related companies.
- 2.8.5 Risks determined by the Board to arise in connection with the investment business of the Fund are attributed to the Fund. Costs and benefits are attributed in the same manner.

2.9 Investment Policy

Principles

- 2.9.1 Investments of the smooth bonus funds are in a broad range of asset types which may include equities, bonds, property, cash and alternative investments.
- 2.9.2 Performance benchmarks and maximum and minimum exposures for different asset classes are set in an investment mandate.
- 2.9.3 Given the nature and term of the liabilities and the inflation-based target, the investment strategy is built on those asset classes that are most likely to provide a real return over the long-term. The underlying assets of the Metropolitan Cash Growth Fund will be invested in assets that are more likely to provide money market returns.
- 2.9.4 The assets are actively managed with the aim of meeting the real return and money market return targets.
- 2.9.5 The existence of non-vesting bonuses within certain products implies that under current conditions, such products will have significant exposure to equities versus fixed interest investments and property.
- 2.9.6 The availability of suitable assets will influence the investment policy.

2.9.7 The investment policy is also expected to cover the portfolio's exposure and limits to ethical and socially responsible investment.

2.9.8 The above principles are nevertheless overridden by the prevailing regulatory requirements.

Practices

2.9.9 The investments underlying the smooth bonus funds are managed by various asset managers in accordance with investment mandates and guidelines specified by the product owner.

2.9.10 There are long-term asset allocation benchmarks and permitted ranges within which the asset managers may depart from the benchmark weightings.

2.9.11 Assets are rebalanced on a regular basis if they move out of the allocation ranges. Short-term tactical asset allocation may be employed.

2.9.12 Each product's assets will be held separately from other products and will be clearly identifiable.

2.9.13 The asset managers may use derivatives as part of the portfolio management process. However, derivatives may not be used for speculation. Furthermore, hedging may be employed in order to protect funding levels.

2.9.14 The mandates with the various asset managers' permit investment in related parties up to a certain limit. Any investment beyond this limit requires our written approval.

2.9.15 Counterparty credit limits will also be maintained within the limits set by the Group and the Regulator.

3. WITH-PROFIT ANNUITY BUSINESS

3.1 Introduction

3.1.1 This section records the Principles and Practices of Financial Management that are applied in the management of the with profit annuity products underwritten by Metropolitan Employee Benefits. These products (herein after referred to as “the Products”) are:

- The Golden Growth With Profit Annuity (GGWPA),
- The IS Golden Growth With Profit Annuity, and
- The Flexible Growth Living Annuity Plan.

In preparing this section we have endeavored to ensure that it accurately reflects how we manage these Products.

The Flexible Growth Living Annuity Plan is a hybrid annuity with two constituent products, (1) a guaranteed annuity, one of the options being the Golden Growth With Profit Annuity, and (2) a living annuity where the investment options include the Metropolitan Employee Benefits Smooth Bonus products. As the Principles and Practices for these products are covered in detail in the respective PPFM's, the Flexible Growth Living Annuity Plan will not be covered separately.

3.1.2 This PPFM is intended to help policyholders and their consultants (amongst others) to better understand the way in which Metropolitan Employee Benefits manages its With Profit Annuity business.

3.2 The Amounts Payable under these Policies

Principles

3.2.1 We aim to treat our policyholders fairly, having regard to the information provided in our marketing material, policy documents and other communication to policyholders.

3.2.2 The Products pay a monthly pension for the life of the pensioner and the surviving spouse (if applicable). In return, the pensioner pays Metropolitan a single premium at inception of the policy - normally the pensioner’s retirement date.

- 3.2.3 The initial pension payable under these policies is calculated at inception based on assumptions such as mortality, expenses and the discount rate (post retirement interest rate –PRI) chosen. Additional factors impacting the pricing include marital status, spouse’s reversion percentage and the guarantee period. This pension is guaranteed for life.
- 3.2.4 The initial guaranteed pension is increased every year through the declaration of an annual bonus (which could be zero), the level of which is at Metropolitan’s discretion. Once an increase has been granted, the new, higher pension is guaranteed for life. Negative bonuses are not allowed.
- 3.2.5 One bonus rate is declared for each Product. Within each Product, this reflects a level of cross-subsidy between different policyholders and the pooling of risk as each Product contains policyholders of differing types, entry dates, PRI, ages etc.
- 3.2.6 The bonus philosophy aims to provide a return that is fair relative to the investment performance of the underlying assets.
- 3.2.7 There are no interim or terminal bonuses payable and all bonuses declared on the Products are fully vesting.
- 3.2.8 The entire surplus arising in the fund, either from investment return or mortality profits, stays in the fund and is distributed to policyholders subject to the smoothing policy.
- 3.2.9 To protect policyholders against short-term fluctuations in investment markets, smoothing is applied as discussed in 3.2.12.

Practices

3.2.10 Increases

- 3.2.10.1 Annual increases are declared in December every year and are effective 1 January to 31 December of the following year.
- 3.2.10.2 Increases awarded depend on the bonus declared (see 3.2.11 for further information) and the post retirement interest rate (PRI) specified by the client.
- 3.2.10.3 Under these Products, annual pension increases will amount to:

$$\{(1 + b - c) / (1 + d)\} - 1 \text{ (subject to a minimum of zero)}$$

where:

b is the rate of bonus, net of investment management fees, declared annually by Metropolitan on the respective portfolios.

c is a risk charge dependent on the valuation interest rate, and

d is the discount rate.

3.2.10.4 Policyholders only receive increases if the declared bonus rate exceeds the discount rate selected.

3.2.10.5 Increases once granted can never be removed, i.e. once the annuity increases have been declared, the new annuity payment level is guaranteed for life.

3.2.11 Bonus declarations

3.2.11.1 When determining what bonus declaration would represent an equitable distribution to policyholders, Metropolitan takes the following into consideration:

- The need to ensure that the Products are able to meet their contractual and regulatory responsibilities;
- The need to ensure that policyholders' reasonable expectations are met, now and in the future;
- The investment strategy of the respective Products;
- The expected investment return to be earned, both in the short-, medium- and long-term; and
- The need to protect policyholders against short-term market fluctuations by smoothing bonus declarations from one year to the next.

3.2.11.2 Bonuses are linked to the performance of assets invested according to a traditional balanced fund mandate by calculating the weighted average return experienced over the preceding six years. This value is then adjusted to allow for the mortality experience of the portfolio. Mortality profits and losses are treated as part of the pool, i.e. mortality profits would lead to higher future increases.

3.2.11.3 This calculated bonus could be amended through management actions if necessary to meet the principles listed in 3.2.11.1.

3.2.11.4 Metropolitan's Statutory Actuary approves the bonus every year.

3.2.11.5 Metropolitan may change the process described above in circumstances not considered to be normal financial and economic circumstances.

3.2.12 Smoothing

3.2.12.1 Metropolitan uses a six-year smoothing formula that reflects the weighted average return over this period.

3.2.12.2 Although Metropolitan realises the need to provide smoothed increases from one year to the next, there is no maximum amount by which the annual bonus declaration could change.

3.2.12.3 The need to ensure the financial security of the Products is vital and outweighs any smoothing requirements.

3.2.13 Surplus

3.2.13.1 Surplus is defined as the excess of the assets over the liabilities.

3.2.13.2 Any surplus is housed in a bonus smoothing account (BSA) with separate BSA's kept for the different Products.

3.2.13.3 The surplus would increase if the declared bonus were lower than the calculated bonus as described in paragraph 3.2.11.2.

3.2.13.4 As a result, both investment and mortality profits are included in the surplus. All other profits/losses are for the account of the shareholders.

3.2.13.5 These Products are managed as stand-alone products and do not share in the profits of any other area of business.

3.2.13.6 The total surplus for each Product is attributable to the policyholders of the particular Product and will be distributed to the policyholders of that Product through higher future bonuses.

3.2.13.7 The BSA could also be negative. This would lead to lower bonuses in the future.

3.3 Investment Strategy

Principles

3.3.1 The underlying investment strategy followed aims to achieve long-term real returns to enable competitive pension increases to be awarded.

3.3.2 The investment strategy must have regard to the following:

3.3.2.1 Maintaining an appropriate overall level of risk;

3.3.2.2 Provide an appropriate level of diversification by investing in a number of different asset classes;

3.3.2.3 The volatility and short- and long-term return expected on these asset classes;

3.3.2.4 The nature and term of the liabilities;

3.3.2.5 Regulatory and legislative constraints; and

3.3.2.6 Advice from our asset managers and investment consultants.

3.3.3 Metropolitan uses asset-liability modelling techniques to balance the policyholders' reasonable expectations with respect to future bonuses and the financial soundness of the portfolio. Therefore, an investment strategy is used that optimises the split between assets providing a degree of matching (between assets and liabilities) and assets generating future bonuses.

3.3.4 The assets for each of the Products are separately identifiable.

3.3.5 Policyholder and shareholder assets are managed separately.

Practices

3.3.6 Metropolitan determines the investment strategy in accordance with the Principles listed above.

3.3.7 A committee comprising actuarial, investment and valuation specialists oversees the management of the investment process.

3.3.8 Investment mandates exist between Metropolitan Employee Benefits and its asset managers that set out the investment strategy and guidelines. Although the mandates are not expected to change often, adjustments are possible if the economic, investment or regulatory environment changes. The areas of importance covered by the investment mandates include:

3.3.8.1 The approved asset classes that must be invested in to ensure an appropriately diversified investment strategy;

3.3.8.2 Target percentage allocations for each of these asset classes;

3.3.8.3 Asset allocation ranges - the minimum and maximum limits for each asset class that the investments must comply with;

3.3.8.4 Benchmarks against which the performance of each asset class is measured;

3.3.8.5 Limitations on credit and counterparty exposures; and

3.3.8.6 The use of derivatives.

3.3.9 Derivatives are used to reduce risk and improve the management of the portfolio.

3.3.10 The asset managers report on a monthly basis on the performance and compliance of the asset portfolios.

3.3.11 Sufficient liquid assets are held to enable the Products to meet the monthly pension payment requirements.

3.3.12 The Products invest mainly in exchange tradable investments.

3.3.13 The Products comply with Section 26(5) of The Long-term Insurance Act, relating to the investment in "Related Parties".

3.4 Business Risks

3.4.1 Policyholders of these Products are exposed mainly to two risks:

- Investment risk, as poor investment returns would lead to lower future bonuses, and
- Longevity risk, as policyholders living longer than expected would lead to mortality losses resulting in lower future bonuses.

3.4.2 Apart from these two risks, policyholders are not influenced or affected by the risks associated with other business lines.

3.5 Charges and Expenses

Principles

3.5.1 Expected future expenses are priced for and included in the purchase price received.

3.5.2 These expenses are deducted from the assets and paid to Metropolitan, either at inception or on a monthly basis.

3.5.3 Metropolitan carries the risk of expenses escalating above the allowance in the basis.

3.5.4 An annual charge is levied by Metropolitan to cover the cost of capital (i.e. the cost to Metropolitan of meeting statutory obligations to set aside the required capital to cover the risks associated with the business), asset management services and other risks associated with the business.

Practices

3.5.5 Expenses included in the pricing are commission, once-off initial administration expenses as well as renewal expenses.

- 3.5.6 The commission and initial administration expenses are deducted at inception.
- 3.5.7 The renewal expense is deducted monthly and is a fixed fee per pensioner per month. This fee increases annually in line with inflation.
- 3.5.8 Metropolitan also has a Service Level Agreement (SLA) with a third party whereby the third party is responsible for the administration of certain funds. The SLA describes the services rendered and the remuneration paid for these services. In these situations the said remuneration is deducted from the assets in lieu of the expense charges to Metropolitan.
- 3.5.9 The annual charge is calculated and deducted on a monthly basis.
- 3.5.10 There are no tax implications for the Fund as this is an Untaxed Policyholder Fund.
- 3.5.11 Shareholders are only entitled to the charges and expenses as detailed above and do not share in the investment and mortality profits and losses generated by the fund.

3.6 Inherited Estate

Principles

- 3.6.1 We do not aim to hold an inherited estate. Metropolitan views the inherited estate as the excess of the assets held in the GGWPA over and above the amounts we need from time to time to ensure that the other Principles highlighted in this PPFM are met.

3.7 Taking On and Ceasing of New Business

Principles

- 3.7.1 Metropolitan will only write new business on terms that will not prejudice the existing policyholders.
- 3.7.2 Metropolitan could cease to write new business and will assess at the time what action is required depending on the prevailing circumstances.

3.7.3 There are currently no limits on the maximum level of new business that can be written, but a limit might be placed on new business in certain conditions.

Practices

3.7.4 Metropolitan would not use assumptions that would prejudice the existing policyholders, for example a very aggressive mortality basis relative to the basis used for existing policyholders.

3.7.5 Metropolitan would consider closing the existing bonus series and opening a new bonus series if it cannot ensure equity between existing and new pensioners without doing so. In particular, this will be done if the funding level of the existing bonus series is so high that, in the opinion of Metropolitan, it results in inequity between existing and new pensioners. This also holds if the funding level is too low.

3.7.6 Separate bonus declarations will be made on the two bonus series until such a time that the funding levels have converged sufficiently to merge the two bonus series.

3.8 Conflicts of Interest

Principles

3.8.1 Metropolitan aims to treat all parties fairly at all times, balancing any conflicting interest that may arise between different policyholders and between policyholders and shareholders.

3.8.2 The assets backing these Products are ring-fenced, i.e. the assets are kept separate from all other policyholder assets as well as from shareholder assets.

Practices

3.8.3 These Products are operated on a stand-alone basis and all profits and losses generated by the fund remain in the fund as described in this document.

3.8.4 Shareholders are only entitled to the charges and expenses as detailed above and do not share in the investment and mortality profits and losses generated by the fund.

3.8.5 A separate bonus series will be opened if the funding level of the existing bonus series is so high that, in the opinion of Metropolitan, it results in inequity between existing and new pensioners. This also holds if the funding level is too low.

CONTACT DETAILS

Zuwi Mgcotyelwa
Investment Services
Telephone: (021) 917 3044
E-mail: zmgcotyelwa@metropolitan.co.za

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