Golden Growth With-Profit Annuity (GGWPA)

for Individual Investors

2011

Description

This is a policy of insurance. In return for a single premium investment, the GGWPA pays a regular income for life to the pensioner, spouse and dependants, as specified in the contract terms. This income will increase annually through participation in investment profits, adjusted for mortality profits or losses. The annuity income in payment is guaranteed never to decrease.

Investment profits: the annuity is priced assuming a minimum net investment return (the post-retirement interest rate, or PRI, which may be selected by the client). Investment profits arise to the extent that investment returns, which are smoothed using the formula shown below, exceed the selected PRI.

Mortality profits or losses arise if the mortality experience of the portfolio of annuity clients is different to the mortality assumption used in pricing. The cumulative impact of this element on annuity increases is expected to be very small in the long term relative to investment profits.

When choosing an investment of this nature, it is important to consider price and future increase potential.

Date of inception

1990.

Fund objective

On a post-retirement interest rate of 4% p.a., the Fund targets annual increases that are broadly in line with CPI over periods of 10 years or more. Over the long term we expect inflation to average 5.5% p.a., which is at the top end of the target inflation range of 3% to 6% p.a. that has been set by the SA Reserve Bank. This makes the Fund's targeted increase 5.5% p.a. for a 4% p.a. PRI: note that this is a target, not a guarantee.

The Fund aims to outperform similar with-profit annuity funds and uses international best practice risk management technology to protect the Fund against the risk of long-term investment returns falling below the PRI.

How we aim to achieve the Fund's objective

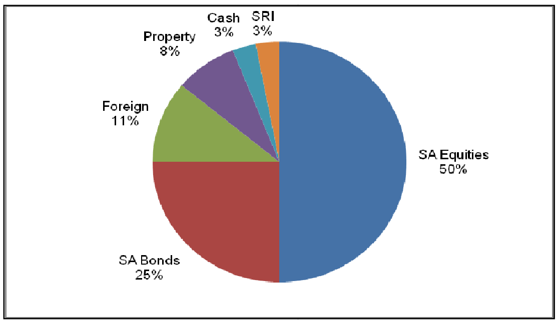
The with-profit annuity portfolio uses dynamic hedging risk management technology, which has specific advantages over traditional methods since: it provides a better match for the liabilities at a lower capital charge, and allows the bonus generating portfolio greater freedom to invest in growth assets in order to achieve a better long-term investment return. The risk of adverse market conditions is priced for in advance, rather than being clawed back from future increases.

The bonus generating portfolio is invested in an actively managed balanced fund mandate, with exposure to different local and international asset classes.

Risk profile

The product's risk profile can be classified as low to moderate (lower than funds using traditional methods). Future increases are not guaranteed, but linked to the performance of the assets; therefore, pensioners take on a level of market risk. Increases once declared can never be taken away and pensions can never decrease.

Asset allocation of bonus generating portfolio



Asset manager

Momentum Asset Managers. A multi-manager option is available on request, and is subject to additional fees.

Smoothing

The bonus rate declared at the end of year t for year t+1 is smoothed over a 6-year period using the following formula:

(30% × year t return) + (25% × year t-1 return) + (17.5% × year t-2 return) + (15% × year t-3 return) + (7.5% × year t-4 return) + (5% × year t-5 return)

Annual increases and bonus history

Annual pension increases will amount to {(1 + b - c) / (1 + d)} – 1

(subject to a minimum of zero), where:

b is the bonus rate described above

c is the investment fee and a small adjustment for mortality experience if required

d is the PRI.

Bonuses for periods ending 31 December 2011

	Actual Bonus declaration*	Increase for 4% PRI	Inflation
3-year average	10.2%	5.9%	6.3%
5-year average	12.2%	7.8%	6.7%
10-year average	10.8%	6.6%	5.7%

*Bonuses for 2002-2008 are based on the closed bonus series. A new bonus series was opened in 2008.

It should be noted that past performance is not necessarily a guide to the future.

Fees

Initial administration fee of 1% is applied plus a once-off fee of R167 during 2011 increasing by CPI every year.

Ongoing per member fee of R49.50 p.m. during 2011, increasing by CPI every year.

Annual fee to cover capital charge, expense charge and asset management fee of 1% plus 0.05% for every 0.5% increase in PRI above 2.5%.

Minimum investment

R250 000

Maximum post-retirement interest rate

4.5%. Higher PRIs are considered subject to future pension increase expectations being clearly communicated.

Contact details

For quotations:

Email: EBannuities@metropolitan.co.za
or call +27 21 917 3010