

# Old Mutual Group Schemes

## How we manage our Savings Portfolio

### *Purpose of this guide*

This guide briefly explains how Old Mutual manages its smoothed bonus funds.

### **This guide applies to the Group Schemes Savings Portfolio.**

The principles and practices described in this document are important. Although smoothed bonus funds are directly invested in the market, bonuses are not directly linked to the returns earned. Old Mutual has discretion in the level of bonuses declared and exercises this discretion to ensure fairness in the declaration of bonuses.

These principles and practices may need to be adapted over time to take account of changing circumstances, for example changes in the business, economic or regulatory environment. Approval of any change needs to be given by the Old Mutual Board and its Committee for Customer Affairs, and will be communicated to all affected clients.

### *What is a Smoothed Bonus Fund?*

A Smoothed Bonus Fund is a fund managed by Old Mutual for a category or class of policies. All premiums (after deducting all applicable contractual fees) paid by clients are invested in the fund. Policyholders benefit from the returns achieved on the underlying investments through bonus declarations. The bonuses are declared to give a smoothed return to policyholders over time.

### *How do the bonus rates work?*

The main objective of Old Mutual's bonus declaration policy is to ensure that over time the bonuses produce a similar but smoothed return to the underlying investments in the fund (after any applicable tax and charges).

The Fund Year runs from January to December. At the start of the year, an interim bonus is set which is used to determine the value of policyholders' funds during the year and the amount that will be paid for maturities and terminations during that year. After the end of each year, final bonuses are declared based on the investment performance over that year.

### *Setting interim bonus rates*

Old Mutual looks at the following in setting the interim bonus rate:

- The interim bonus should (as far as possible) provide a good return compared with inflation.
- Interim bonus rates are set fairly conservatively to lower the possibility of having to adjust values downward at year-end.
- Interim bonus rates may be changed during the year as economic conditions change (for example interest rates).

### *Setting final bonus rates*

Old Mutual looks at the following important aspects in setting the final bonus rates:

- The overall investment return on the fund's investments (after any tax and charges) earned since the previous bonus declaration.
- The difference between the total policy values and the value of the fund's investments must be within acceptable limits.
- Current economic conditions, including the level of inflation.
- The ability of the smoothed bonus fund to withstand market falls.
- The bonus rates declared by Old Mutual's main competitors.

### *What is smoothing and what are its benefits?*

Smoothing aims to protect your policy benefits against the sharp ups and downs of the market, while the investment in this portfolio aims to beat inflation over the longer term.

During periods of very good investment performance of the portfolio's investments, a portion of investment growth is not declared as a bonus. It is held back, so that in times of poor investment performance, there are funds available to declare a higher bonus than would otherwise have been possible.

**It is important to note that any funds held back in order to smooth investment returns are kept for the future benefit of**

**policyholders whose policies are covered by the fund.**

### ***What happens if investment returns are low or if there is a market crash?***

#### ***Market / fund value adjustments***

After periods of poor investment returns, the amount that policyholders receive when withdrawing from the fund prior to their maturity date may need to be adjusted downward. This “market value adjustment” is necessary to protect future bonus levels for policies remaining in the fund until their maturity date. If this adjustment was not in place, the values paid to those leaving before maturity would be too high and could mean that those that remain receive future bonuses that would be too low.

**A market value adjustment is only applied when a policyholder wishes to withdraw money before maturity. If you continue paying premiums according to your policy and withdraw from the fund only on maturity you will not be affected by a market value adjustment.**

#### ***Actions Old Mutual can take***

If investment conditions are extremely bad, Old Mutual may need to take some action to make sure that future bonuses can be maintained. These actions need to be approved by the Old Mutual Board.

Old Mutual can take any (or all) of the following actions:

- Market value adjustments may be applied
- Interim bonuses may be reduced during the Fund Year
- Low or zero final bonuses may be declared
- In an extreme situation non-guaranteed values may be removed.

**Guarantees provided by Old Mutual will at all times be honoured.**

### ***What is the portfolio invested in?***

The investments underlying the fund are made up of a balanced mix of local and international investments, such as shares and bonds.

### ***Where can you find out more?***

If you are an existing client, your policy documentation and / or original quote should contain additional detail about your specific fund. Although every effort has been made to present information consistent with your contract, the terms and conditions in your contract will apply where these differ from this guide.

Old Mutual has also prepared a more detailed official document on its Principles and Practices of Financial Management (PPFM). This guide is based on the PPFM and although every effort has been made to present information consistent with the PPFM, the official PPFM will apply where these differ from this guide. The PPFM is available on the Old Mutual website or in hard copy on request.

You can also find out more from your Old Mutual adviser or broker, or by calling Old Mutual client services on 0860 60 7000 or by visiting the Old Mutual website ([www.oldmutual.co.za](http://www.oldmutual.co.za)).



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