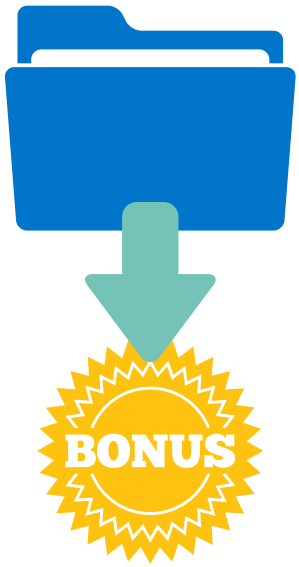
Sanlam

Funding levels and Market Value Adjustments Explained

Smoothed bonus portfolios are a special type of investment portfolio that provide "smoothing" and guarantees to members.

In order to provide the smoothing and guarantees, the portfolio declares a bonus every month in advance.



The bonus is calculated according to a formula:

When investment markets are doing well, a portion of any returns earned is held back and this creates a surplus in the portfolio.

This surplus is then used during times when investment markets fall, to provide a higher bonus to investors than the actual return earned.

By doing, this, the overall performance of the portfolio is "smoother" and less volatile than a typical market linked portfolio.

Smoothed bonus portfolios have two values, the book value and the market value.

The **market value** is the value of the underlying assets held – this will earn the return of the underlying assets as markets go up or down.

The **book value** is made up of contributions and bonuses declared.

÷ = **Portfolio's funding level**

When the portfolio's funding level is greater than 100% (i.e. market value greater than book value), we say the portfolio is **fully funded** and therefore has a surplus.

> **Surplus**

When the portfolio's funding level is less than 100% (i.e. market value less than book value), we say that the portfolio is **underfunded** and has a deficit.

< **Deficit**

Smoothed bonus portfolios provide guarantees to members on benefit payment events.

For the Sanlam Smoothed Bonus portfolios, the following are classified as benefit payment events:

Death | Disability | Retirement | Retrenchment | Resignation

On these specific benefit payment events members, receive the **book value**, regardless of the funding level. For selective (non-benefit) payment events, members will receive the **market value** and members will receive the lower of book and market value. Switching from one portfolio to another is classified as a non-benefit payment event.

What is a Market Value Adjustment (MVA)?

MVA's only apply when the smoothed bonus portfolio is underfunded and has a deficit.

When a member switch out of the smoothed bonus portfolio (when it is underfunded), due to any reason other than one of the specific benefit payment events, a Market Value Adjustment is applied to the member's withdrawal benefit. This means that the member will receive the book value of the portfolio multiplied by the portfolio's funding level (which will be lower than the value shown on the investment statement).

The market value adjustment is not a penalty, and simply puts the member in a similar position if he/she had instead invested in a market linked portfolio without the additional guarantees that only apply for the specific benefit payment events.

Example

Bob and Joe are both invested in a smoothed bonus portfolio and each have R1 million saved up for retirement. They are both going to retire at the end of August. In July and August, the investment markets fall, and the smoothed bonus portfolio declares a zero bonus and the funding level is adjusted to 90%. This means that the portfolio that Bob and Joe are invested in, is underfunded.

Bob stays invested in the smoothed bonus portfolio up to end August and receives a R1 million retirement benefit.

Bob receives R1 million

Joe is concerned about the poor performance, and the market volatility and decides to switch out of the smoothed bonus portfolio to a cash investment which he thinks is safer.

Because Joe is moving his investment on a selective (non-benefit payment) event, a Market Value Adjustment is applied to his investment. This means that he receives only 90% (market value) of his investment – that is R900 000 (and not R1 million.)

Had he stayed in the smoothed bonus portfolio until he retired, he would have received the R1 million like Bob.

Joe receives R900 000

Conclusion

Smoothed bonus portfolios are useful for members approaching retirement - even more so during volatile market periods. Members who panic and switch out of their smoothed bonus portfolios, may lose out when markets recover. We strongly urge members invested in a smoothed bonus portfolio to stay invested and enjoy the benefits of smoothing and guarantees.

Saving for retirement is a long term investment and members should stay invested in an appropriate long-term strategy, especially during volatile market periods.

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Note: Members who request to switch out of a smoothed bonus portfolio when it is underfunded, will receive a message from Sanlam via the Online portal, to warn them about the situation.