Principles and Practices of Financial Management

for Sanlam Corporate Participating Annuity Products

Sanlam Corporate: Investments

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Introduction

Background

Sanlam is a leading financial services group in South Africa, providing a broad range of financial products and services. Our vision is to be the leader in wealth creation and protection for our clients. Our business philosophy is captured in the traditional values of honesty, diligence, ethical behaviour, innovation, stakeholder values and strong ties with business partners.

In order to safeguard the interests of our clients, sound governance and strong financial backing are required. The PPFM forms part of the governance structure, and Sanlam's financial strength is illustrated, inter alia, by the level of its capital and assets under management and administration. These are disclosed in Sanlam's Annual Report that is available from Sanlam's website (www.sanlam.co.za).

The Sanlam Group conducts its business through the holding company Sanlam Limited, a corporate head office and various business clusters:

- Retail cluster
- Investment cluster
- Short-term Insurance cluster
- Corporate Cluster
- Sanlam Emerging Markets

These business activities are conducted in the name of various legal subsidiaries such as Sanlam Life Insurance Limited, Sanlam Developing Markets (previously African Life Assurance Limited), Sanlam Investment Management (Pty) Limited, etc.

Sanlam Corporate (SC) provides life insurance, investment and annuity products for group schemes and retirement funds.

Purpose of Principles and Practices of Financial Management

In order to manage *discretionary participation business*[1], long-term insurers must use their discretion in managing investments and allocating bonuses. This documents sets out the Principles and Practices of Financial Management (PPFM) that are applied in the management of Sanlam Corporate's discretionary participation funds. It should be noted, however, that a PPFM is neither a comprehensive explanation of the management of the *discretionary participation* business nor of every matter that may affect a particular policy contract.

Sanlam Life Insurance Limited ("Sanlam Life ") has published the following six documents covering the PPFM on its website, (www.sanlam.co.za).

- PPFM for SPF smoothed bonus products
- PPFM for SC smoothed bonus products
- PPFM for SPF reversionary bonus products
- PPFM for Sanlam Life participating annuity products
- PFM for Sanlam Life linked and market-related products
- PFM for SC Provider pension products

Note

[1] Items in italics are defined in the Glossary

Sanlam Developing Markets Limited has published the following document covering the PPFM on its website,

- PPFM for Sanlam Developing Markets Limited's individual *smooth bonus products*.

Please contact Channel Life (www.channel.co.za) if you require the PPFM for their *smoothed bonus products.*

All Sanlam Life's *participating annuity products* fall into the *discretionary participation business* category.

Principles and Practices

The **Principles** define the overarching standards that have been adopted to manage Sanlam Life's participating annuity business and are not expected to change often. The Principles are the standards used to maintain the long-term solvency of the fund for current and future policyholders. They also describe the broad framework used:

- when discretion is applied in the management of *participating annuity products*; and
- in response to longer-term changes in the business and economic environment.

The Practices describe the current approach used to:

- manage participating annuity products; and
- respond to changes in the business and economic environment in the shorter term.

Practices are therefore expected to change more frequently than Principles.

Compliance

The Sanlam Life Insurance Limited Board ("Sanlam Life Board") is responsible for the governance of *participating annuity products* written by Sanlam Life, and it has tasked the Sanlam Customer Interest Committee to monitor compliance with the PPFM on its behalf.

The PPFM may change as the economic or business environment changes. Any change to a Principle or Practice will be approved by the Sanlam Life Board, on recommendation from the *Head of Actuarial Function* and the Sanlam Customer Interest Committee.

At least three months before a change to a Principle is implemented, the relevant policyholders and the Registrar of Long-Term Insurance will be informed and the proposed change will be published on our website. Any change to a Practice will be published on our website and policyholders will also be informed of such a change in the annual portfolio statement.

Overriding Principles of Financial Management

The principles in Section 2 cover all SC *participating annuity products*. Principles specific to certain products are covered in the various sections relating to these products.

Principle regarding legal and contractual obligations

Sanlam Life is committed to comply with the requirements of all contractual obligations and other legal and regulatory requirements, including the *demutualisation rules* (for policies in force at demutualisation). These requirements apply if there is any inconsistency between them and the PPFM.

Principles regarding the general management of participating annuity business

Sanlam Life applies the following key principles to its *participating annuity business*.

a) Each product has separate assets that are used to support the benefits of the particular policyholders as a group. The assets are increased by *net premiums* and adjusted with investment returns earned, which can be positive or negative. It is reduced by benefit payments, *terminations*, charges and applicable taxes, which are deducted from the portfolio. The value of the underlying assets of a particular *participating annuity product* is also called the market value of that product.

   The surplus or deficit in a portfolio is the difference between the market value and the *book value*. This is called the *Bonus Stabilisation Reserve (BSR).* A product's *funding level* is the ratio of market value to *book value*.

   For the product covered in this PPFM, policyholders share in the investment return of their respective underlying portfolios as well as the profits or losses resulting from differences between assumed and experienced mortality. Policyholders do not share in other experience profits and losses, for example those arising from expenses. This means that policyholders are exposed to the investment risk (including credit risk), but not to other *business risks*. The Sanlam Life shareholders are exposed to the risks and rewards associated with those *business risks*.

   Sanlam Life may leverage the assets in the underlying portfolios for transactions such as scrip lending. Any income or losses arising from these transactions will be for Sanlam Life shareholders' own account, and therefore do not affect the benefits to which policyholders are entitled.

b) It is important for the various elements of product design and pricing to fit together. Particular attention is therefore paid to the following elements during the design and ongoing management of our *participating annuity products*:

   - pricing and reserving for participating annuity benefits;
   - investment policy;
   - the nature of bonuses declared;
   - policyholder expectations, in particular with regard to bonuses, through marketing material, policy contracts and other communications that are accurate and easy to understand; and
   - conditions for movements into and out of a fund to protect the interests of all policyholders.

Principles regarding bonuses

a) Sanlam Life's bonus philosophy is that the underlying assets for a particular group of participating annuity policies will, over time, be used for the benefit of those policyholders subject to charges recovered from the portfolio.

b) The bonus philosophy further aims to provide a reasonable compromise between smoothing the volatility of investment returns on the one hand and ensuring equity among different generations of policyholders on the other. The approach used when determining bonus rates is as follows:

- The starting point is the smoothed weighted return on the underlying reference portfolio.
- This return is adjusted to eliminate surpluses or deficits in the portfolio over a suitable period.

c) Policyholders' reasonable benefit expectations are also taken into account when discretion is applied to bonus declarations.

d) The Sanlam Life Board approves the bonus philosophy on the advice of the *Head of Actuarial Function*. A committee of the Sanlam Life Board approves the bonus rates that are determined in accordance with the bonus philosophy.

Principles regarding investment strategy

a) An *Asset-liability committee (ALCO)*, comprising Sanlam Life employees with actuarial, investment and client solution backgrounds, oversees the investment policy for the various participating annuity portfolios.

b) The aim is to find the optimum balance between attractive investment returns and stable investment returns, given the need to meet smoothed benefits and to support the granting of stable bonus rates in line with the product design.

c) Policyholders' funds are managed separately from shareholders' funds.

d) The requirements for the investment management of each portfolio are set out in investment guidelines, with a view to managing risk through:

- limits on exposure to *volatile assets*;
- limiting credit risk to investment grade or higher rated debt instruments. Adequate diversification is also ensured by setting limits for any single counter party. There is no limit on exposure to the RSA government, since this is considered risk free;
- limits on asset concentration – particularly with regard to *strategic investments* and Sanlam Limited shares. The exposure of policyholders' portfolios to these investments is based on portfolio investment considerations and is restricted with reference to a specific counter party's weight in the *benchmark portfolio*;
- limits on exposure to certain types of assets, such as assets that cannot be easily liquidated and unlisted equities; and
- compliance with regulatory constraints.

e) The guidelines contain benchmarks for the performance measurement of each asset class and limits on deviations from these benchmarks to help manage returns on portfolios.

f) Feedback on the investment policy, its implementation and the performance of the participating annuity portfolios is provided regularly to the *Asset Liability Committee (ALCO)* and the Sanlam Life Board.

g) Some portfolios may invest in one or more of the managed asset classes in order to improve the diversification of these portfolios. Managed asset classes include, amongst others: *hedge funds, exchange traded funds, property investments, private equity investments, derivatives,* credit conduits, etc. The managers of these managed asset classes, which may include companies within the Sanlam Group, deduct their management fees and expenses directly from the investment returns. These deductions are in addition to the charges contained in the *actuarial basis*.

h) *Derivative* instruments may be utilised:

- to hedge the portfolio against unforeseen circumstances;
- for strategic and tactical asset allocation; and
- to take advantage of anomalies or inefficiencies in the derivative market pricing in order to enhance returns.

Derivatives may not be used to speculate.

Principles regarding charges

a) Charges, as applicable, will be recovered from policyholders' funds for, inter alia:

- administration and marketing;
- tax (if applicable);
- other regulatory charges; and
- investment activities and other guarantees.

b) The charges are set mindful of the need to provide competitive products that provide value for money to policyholders and reasonable profits to shareholders. Charges also take into account the need for capital to operate a life insurance business (and participating annuity business in particular) and the need for fair compensation to shareholders for risks assumed.

c) No explicit profit charges are taken, but profit will arise from the difference between charges levied and expenses incurred.

d) The charges are specified in the *actuarial basis* that applies to a specific policy.

e) Rand-based charges are increased to allow for inflation, as specified in the *actuarial basis*.

f) Charges are used to, inter alia, pay for policy expenses. Policy expenses may change in the long term. If the *actuarial basis* permits it Sanlam may, in addition to the inflationary increases, also change the charges. The *Head of Actuarial Function* should be satisfied that any change to charges is reasonable, based on actual past and expected future experience.

g) In the case of policies issued prior to Sanlam Life's demutualisation, the *Head of Actuarial Function* has to certify that changes in charges are fair in relation to charges in the market and must inform the Financial Services Conduct Authority of such changes.

Principles regarding new business and portfolio mergers

a) The Sanlam Life Board manages the types and volumes of new business as part of its management of the overall risk, profitability and ongoing solvency of Sanlam Life.

b) The Sanlam Life Board may close portfolios to new business if new business is no longer considered to be viable or if new fund inflows are deemed to be unfair, based on the *funding level* of the portfolio, to either existing policyholders in the fund or to new policyholders entering the fund. Alternatively, adjustments may be made to the terms on which new business is accepted to ensure equity. The administration processes involved in the closing of portfolios to new business will then determine whether portfolios are closed or terms adjusted for new policyholders.

c) It may be in the best interest of policyholders in a *diminishing mature portfolio* to have their diminishing portfolio combined with a larger portfolio. This will entail a transfer of the market value, including the *Bonus Stabilisation Reserve*, from the diminishing portfolio to the larger portfolio. This will only be done if equity is achieved between the portfolios being combined.

Principles regarding financial assistance

The Sanlam Life Board may provide financial support to *under funded* portfolios if the deficit in the portfolio is not expected to be eliminated within the next three years. The Sanlam Life Board may also decide to provide support under other circumstances if it is deemed to be in shareholders' interests. The support will normally be in the form of loans that may be recovered from the portfolio if the loans are no longer considered necessary.

Governance

A sound governance structure is needed to manage *discretionary participation business*, which forms a substantial proportion of Sanlam Life's liabilities. The Sanlam Life Board is ultimately responsible for the governance of *discretionary participation business*, but a number of parties assist in this regard, including:

- the Sanlam Audit, Actuarial and Finance Committee;
- the Sanlam Customer Interest Committee;
- the Asset Liability Committee (ALCO);
- the Sanlam Actuarial Forum;
- the Head of Actuarial Function; and
- the external auditors and their actuarial resources.

Participating Annuities

Overview of Participating Annuities

This is a portfolio where investment returns are smoothed by way of annual bonus declarations. The annual increase that pensioners receive is based on the bonus declared and the purchase rate.

If the market value of the assets in the portfolio is greater than the book value, a positive bonus stabilisation reserve is created, which will be used to enhance future bonuses. Conversely, if the market value of the assets is less than the book value, a negative bonus stabilisation reserve is created, which will be eliminated by lower bonuses in the future.

The Participating Annuity portfolios are closed to new clients.

Principles

Bonuses vest fully for future income benefit payments and may not be taken away by declaring negative bonuses.

Practices

Practices regarding bonuses

a) Bonuses are declared annually in advance according to the bonus philosophy approved by the Sanlam Life Board. The Sanlam Life Board receives an annual bonus report and must approve any changes to the philosophy.

b) Bonuses are declared net of charges and tax in the policyholders' fund (if applicable).

c) The starting point is to set bonuses equal to the expected long-term rate of return on the assets underlying the fund and then to adjust these bonuses with actual experience to date (as reflected by the funding level). The difference between the actual funding level and 100% is normally added to the bonus over a rolling 4-year period. The following exceptions apply:

- Net surpluses that arise due to reductions in the expected long-term rate of return may be spread over the full future lifetime of the portfolio.
- The bonus is subject to a minimum of the purchase rate

Investment practices

a) Sanlam Investment Management (SIM) manages most of the assets.

b) The investment guideline limits the maximum exposure to volatile assets having due regard to the nature of the product and the income benefit payments guaranteed.

c) Credit risk is limited to investment grade debt instruments, although there will not necessarily be exposure to the lowest grade. Fixed interest instruments with any counter party, other than the RSA government, may not comprise more than 20% of the market value of RSA fixed interest and RSA cash components of the portfolio.

d) The maximum offshore exposure is subject to limits prescribed by the South African Reserve Bank (SARB).

e) ALCO can increase or decrease the above limits, subject to regulatory requirements, by up to 10% as circumstances change. For example, it can increase maximum exposure to volatile assets from say 10% to 20%

Practices regarding charges

a) If applicable, tax and any other statutory charges are levied.

b) The fund charges (including any investment management performance charges) are contained in the actuarial basis.

c) Any changes to charges are subject to:

- demutualisation requirements;
- the actuarial basis permitting such changes; and
- approval by the Head of Actuarial Function.

d) The Head of Actuarial Function should be satisfied that any change to charges is reasonable based on actual past and expected future experience.

Practices regarding movements out of the fund

Four calendar months' written notice is required for all terminations. The lower of book value (less the allowance for future charges) and market value is paid out, unless it is considered not to be in the interests of remaining policyholders to pay out book value immediately. Payment is then made over a period which must not exceed 3 years.

Sanlam With-Profit Annuity

Overview of Sanlam With-Profit Annuity

The Sanlam With-Profit annuity provides annuity income where increases are smoothed by way of using weighted recent returns of the past six years. The product pays a regular income, typically monthly, for the life of the annuitant and the surviving spouse, if applicable. In return, the annuitant or their retirement fund/employer, pays Sanlam a single premium at inception of the policy.

Annuity income is calculated at inception based on certain assumptions such as mortality, expenses, pricing yields, *purchase rate* (or post-retirement interest rate, PRI) and *scaling factor (or investment participation rate, IPR)* (where applicable). Additional factors affecting the initial annuity income include whether a single or joint life annuity is selected, the guarantee term and decrease in income on first death (for joint-life annuities) percentage. This annuity income is guaranteed for life.

If the market value of the assets in the portfolio is greater than the *book value*, a positive *bonus stabilisation reserve* is created, which will be used to enhance future bonuses. Conversely, if the market value of the assets is less than the *book value*, a negative *bonus stabilisation reserve* is created, which will be eliminated by lower bonuses in the future.

The assets will be managed using a dynamic hedging approach whereby investments are separated into a growth portfolio (also defined as reference portfolio), and a matching portfolio.

The growth portfolio targets the returns of the investment funds it is invested in and contains mostly growth assets. The matching portfolio, is set up to limit the risk of assets falling to a level which can at least sustain pensions at their current level and contains low risk assets.

Dynamic hedging aims to rebalance the assets between the growth portfolio, and the matching portfolio on a regular basis to reduce investment risk. This is done by switching out of the reference portfolio into the matching portfolio, as markets fall and as the guarantee of non-decreasing pensions becomes more onerous. The strategy aims to achieve increases in line with the geometric weighted average of returns on the reference portfolio over a six year period.

The Participating Annuity portfolio is open to new business.

Principles of managing the Sanlam With Profit Annuity

Bonuses vest fully for future income benefit payments and may not be taken away by declaring negative bonuses.

Practices of managing the Sanlam With-Profit Annuity

Practices

Practices regarding bonuses

Various mechanisms exist within the bonus formula to ensure that long-run returns are less volatile and any bonus declaration does not harm the future sustainability of the remaining pool of policyholders, by ensuring that assets are sufficient to grant bonuses at an appropriate level for the full duration of beneficiaries' lives.

a) Bonuses are declared annually in advance according to the bonus philosophy approved by the Sanlam Life Board. The Sanlam Life Board receives an annual bonus report and must approve any changes to the philosophy. Whilst for each policyholder, bonuses are declared annually, two increase dates are permitted, and the bonuses for each increase date will be declared prior to the increase.

b) Bonuses are declared net of charges and tax in the policyholders' fund (if applicable).

c) The starting point is to set bonuses equal to the value as determined in the bonus formula based on the underlying reference portfolio returns, without adjustment, and then to adjust these bonuses by a value that would, if applied for the next four years, result the surplus or deficit being distributed. The following exceptions apply:

- The increase is subject to a minimum of the 0%.

d) Surplus can arise from investment returns and mortality surpluses. These surpluses will be retained for the sole benefit of existing and future policyholders via adjustment to bonuses.

e) Increases can either be in March or September annually as selected at inception of the policy. For increases applicable during March, the increase will be based on the bonus declared which considers the underlying smoothed returns calculated as at 31 December the previous year.

For increases applicable during September, the increase will be based on the bonus declared which considers the underlying smoothed returns calculated as at 30 June on the year which the increase is applicable.

The profit adjustment is intended to be the same for all increases in a given year, to ensure fairness between policyholders with different increase dates. This will be determined in advance of the first increase date.

Investment practices

a) Sanlam Investment Management (SIM) manages most of the assets.

b) The investment guideline limits the maximum exposure to *volatile assets* having due regard to the nature of the product and the income benefit payments guaranteed. The underlying reference portfolio selected at policy inception may be changed in the instance where the risk and/or return characteristics of the fund are no longer deemed appropriate, considering the nature of the product and the income benefit payments guaranteed.

c) Credit risk is limited to investment grade debt instruments, although there will not necessarily be exposure to the lowest grade. Fixed interest instruments with any counter party, other than the RSA government, may not comprise more than 20% of the market value of RSA fixed interest and RSA cash components of the portfolio.

d) The maximum offshore exposure is subject to limits prescribed by the South African Reserve Bank (SARB).

e) *ALCO* can increase or decrease the above limits, subject to regulatory requirements, by up to 10% as circumstances change. For example, it can increase maximum exposure to *volatile assets* from say 10% to 20%.

f) Bonuses will be calculated based on the returns of the selected underlying portfolios, with allowance for adjustments as set out in the bonus formula

g) Whilst subject to change, the underlying reference portfolio is:

The underlying portfolio is invested equally the SMM Moderate Absolute fund and Stable Bonus Fund.

h) The underlying funds can be changed as long as they adhere to regulation 28 as per the Pension Funds Act.

Practices regarding charges

a) If applicable, tax and any other statutory charges are levied.

b) The fund charges (including any investment management performance charges) are contained in the actuarial basis.

c) Any changes to charges are subject to:

- demutualisation requirements;
- the *actuarial basis* permitting such changes; and
- approval by the *head of actuarial function*.

d) The *Head of actuarial function* should be satisfied that any change to charges is reasonable based on actual past and expected future experience.

Other practices

The determination of a retirement fund's tax liability (if applicable) is the responsibility of the retirement fund. Sanlam Corporate provides the fund with the required information to calculate its tax liability (if applicable). The deduction of tax may result in negative net returns.

AF - Sanlam With-Profit Annuity

Overview of AF - Sanlam With-Profit Annuity AFWPA

AFWPA provides annuity income where increases are smoothed by way of using weighted recent returns of the past six years. The product pays a regular income, typically monthly, for the life of the annuitant and the surviving spouse, if applicable. In return, the annuitant or their retirement fund/employer, pays Sanlam a single premium at inception of the policy.

Annuity income is calculated at inception based on certain assumptions such as mortality, expenses, pricing yields, *purchase rate* (or post-retirement interest rate, PRI) and *scaling factor (or investment participation rate, IPR)* (where applicable). Additional factors affecting the initial annuity income include whether a single or joint life annuity is selected, the guarantee term and decrease in income on first death (for joint-life annuities) percentage. This annuity income is guaranteed for life.

If the market value of the assets in the portfolio is greater than the *book value*, a positive *bonus stabilisation reserve* is created, which will be used to enhance future bonuses. Conversely, if the market value of the assets is less than the *book value*, a negative *bonus stabilisation reserve* is created, which will be eliminated by lower bonuses in the future.

The assets will be managed using a dynamic hedging approach whereby investments are separated into a growth portfolio (also defined as reference portfolio), and a matching portfolio.

The growth portfolio aims to perform in line with the AF Performer Life Pooled Fund and contains mostly growth assets. The matching portfolio, is set up to limit the risk of assets falling below a level which can at least sustain pensions at their current level and contains low risk assets.

Dynamic hedging aims to rebalance the assets between the growth portfolio, and the matching portfolio on a regular basis to reduce investment risk. This is done by switching out of the reference portfolio into the matching portfolio, as markets fall and as the guarantee of non-decreasing pensions becomes more onerous. The strategy aims to achieve increases in line with the geometric weighted average of returns on the reference portfolio over a six year period.

The AFWPA portfolio is open to new business.

Principles of managing the AFWPA

Bonuses vest fully for future income benefit payments and may not be taken away by declaring negative bonuses.

Practices of managing the Sanlam With-Profit Annuity

Practices

Practices regarding bonuses

Various mechanisms exist within the bonus formula to ensure that long-run returns are less volatile and any bonus declaration does not harm the future sustainability of the remaining pool of policyholders, by ensuring that assets are sufficient to grant bonuses at an appropriate level for the full duration of beneficiaries' lives.

f) Bonuses are declared annually in advance according to the bonus philosophy approved by the Sanlam Life Board. The Sanlam Life Board receives an annual bonus report and must approve any changes to the philosophy. Bonuses are declared annually, but any increase date is permitted, with the same declared bonus applicable for increases in the calendar year following the bonus declaration.

g) Bonuses are declared net of charges and tax in the policyholders' fund (if applicable).

h) The starting point is to set bonuses equal to the value as determined in the bonus formula based on the underlying reference portfolio returns, without adjustment, and then to adjust these bonuses by a value that would, if applied for the next four years, result the surplus or deficit being distributed. The following exceptions apply:

- The increase is subject to a minimum of the 0%.

i) Surplus can arise from investment returns and mortality surpluses. These surpluses will be retained for the sole benefit of existing and future policyholders via adjustment to bonuses.

j) Increases can be selected to be in any month annually, decided at inception of the policy in the quotation. The increase will be based on the bonus declared which considers the underlying smoothed returns calculated as at 31 October the previous year.

The profit adjustment is set to be the same for any increase month in a given year, as the bonus, once approved determines the increases in the forthcoming year.

Investment practices

i) Alex Forbes (AF) manages most of the assets with the reference portfolio being the AF Performer Life Pooled Fund. The fund fact sheet and information are published by Alex Forbes.

j) The underlying reference portfolio selected at policy inception may be changed at discretion of Alex Forbes. This may occur for various reasons, with one being where the risk and/or return characteristics of the fund are no longer deemed appropriate taking the nature of the product and the income benefit payments guaranteed into account.

k) The composition of investments considers the mandate of AF Performer Life Pooled Fund.

l) Bonuses will be calculated based on the returns of the selected underlying portfolios, with allowance for adjustments as set out in the bonus formula

m) Whilst subject to change, the underlying reference portfolio is:

The underlying portfolio is invested fully in the AF Performer Life Pooled Fund.

n) The underlying funds can be changed as long as they adhere to regulation 28 as per the Pension Funds Act.

Practices regarding charges

e) If applicable, tax and any other statutory charges are levied.

f) The AF Performer Life Pooled Fund charges (investment management performance charges) a fee.

g) Any changes to charges are subject to:

- the *actuarial basis* permitting such changes; and
- approval by the *head of actuarial function*.

h) The *Head of Actuarial Function* should be satisfied that any change to charges is reasonable based on actual past and expected future experience.

Other practices

The determination of a retirement fund's tax liability (if applicable) is the responsibility of the retirement fund. Sanlam Corporate provides the fund with the required information to calculate its tax liability (if applicable). The deduction of tax may result in negative net returns.

Further Information

For further information please contact:

Sanlam Corporate: Investments
Tel: 021 950 2167
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Sanlam Corporate Investments (SCINVEST) is an operating division of Sanlam Life Insurance Ltd, which specialises in the provision of risk, investment and fund administration services to institutions and retirement funds. Sanlam Corporate Investments is a sub-division of SCINVEST which develops and provides structured investment and retirement solutions, annuity and guaranteed products for the institutional and retirement fund industry.

Sanlam Life Insurance Ltd is an authorised financial services provider.

Registration Number 1998/021121/06

Glossary

Actuarial basis

In relation to a policy, this means the underlying actuarial rules, specifications and formulae in terms of which the policy operates, which:

a) in compliance with the Long-Term Insurance Act, 1998 are approved by the Head of Actuarial Function of the insurer, in particular for the purposes of sections 46 and 52; and

b) if and while the Insurance Act, 1943 applied to the policy, in compliance with that Act, were approved by the valuator of the insurer, in particular for the purposes of sections 34 and 62(2) of that Act.

Asset Liability Committee (ALCO)

A committee of investment and actuarial professionals that determines the investment strategy for the asset portfolios underlying the discretionary participation business.

Benchmark portfolio

The portfolio against which performance is measured.

Bonus Stabilisation Reserve (BSR)

The difference between the market value and the book value of a portfolio.

Book value

Book value is calculated by valuing the liability including all assumed bonuses, excluding future experience adjustments.

Business risks

The risk of losses due to the actual experience being different from the assumptions made when pricing a product. Business risks also include the risk of losses incurred in respect of other products.

Derivative

A contract whose value is derived from that of other investment instruments.

Diminishing mature portfolio

A mature portfolio (often closed for new business) is one where the claims paid out are greater than the new premiums being received. The portfolio becomes so small that it is difficult to manage on its own.

Discretionary participation business

Any business that allows discretion to be used in the way bonuses are declared. All Sanlam Life's *participating annuity products* fall into this category.

Exchange traded funds

ETFs are investments that try to replicate a stock market index such as the ALSI40.

Funding level

The funding level is the ratio of market value to book value of a portfolio.

Hedge fund

A portfolio which uses any strategies or takes any positions that could result in the portfolio incurring losses greater than its total market value at any point in time, and which strategies or positions include but are not limited to short positions. A short position is where an asset is sold by a seller for delivery at a future date or time, and the seller does not own such asset at the time of the sale. Though hedge funds do not necessarily hedge their investments against adverse market moves, the term is used to distinguish them from regulated retail investment funds – for example, collective investment schemes.

Hedging

Hedging is a strategy designed to reduce exposure to market risk, for example a fall in equity prices.

Net Premiums

The premium less charges recovered from the premium.

Partial terminations

Removing part of the funds under Sanlam Life's management from Sanlam Life's portfolios or products.

Private equity investments

Private equity is a broad term that commonly refers to any type of equity investment in an asset in which the equity is not freely tradable on a public stock market.

Head of Actuarial Function

The Head of Actuarial Function performs an oversight and reviewing role on specified actuarial functions (calculations, results and reports) within an Insurer, as well as providing advice to the Board of directors on these activities, by reporting to the Board.

Strategic investments

Sanlam Life's investments in subsidiaries and associated companies.

Switches

Movement of funds between different Sanlam Life portfolios or products.

Terminations

Removing funds under Sanlam Life's management from Sanlam Life's portfolios or products.

Under funded

When the liabilities are more than the assets in the portfolio, i.e. when the portfolio is less than 100% funded. The Bonus Stabilisation Reserve (BSR) will then be negative.

Volatile assets

The value of these assets is expected to vary considerably over time. Volatile asset classes include equities and international investments.

Sanlam

Live with confidence