Market Value Adjustment (MVA)

Sanlam

Smoothed bonus portfolios are investment products that aim to protect members against investment market volatility as well as providing various levels of capital protection.

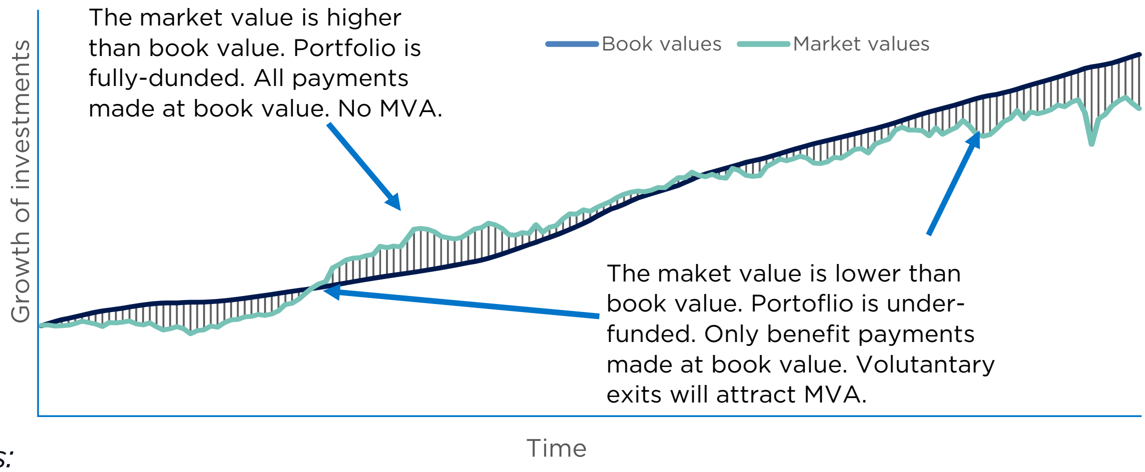
The members' **Book Value (BV)** grows steadily with the bonuses through time, whereas the underlying asset values changes in line with market performance. The value of the underlying assets is known as **Market Value (MV)**.

There are times were the MV decreases or increases drastically, deviating from the BV. This is represented by the portfolios funding level, which is the ratio of the MV to BV.

i.e. Funding level (FL) = Market Value/ Book Value

When the MV is higher than the BV, the portfolio is said to be fully-funded. In this case, some of the higher returns are set aside in the portfolio to supplement the bonuses during times of lower returns. ALL exits out of the portfolio will be made at BV.

When the MV is lower than the BV, the portfolio is said to be under-funded. ALL benefits payments are paid at BV. Benefit payments include; death, disability, retirement, resignation and retrenchments. Voluntary exits out of the portfolio such as terminations or switches will attract a Market Value Adjustment (MVA).



Examples:

EXAMPLE 1 (NO MVA): When the portfolio is fully-funded, FL=100%, the member who plans to switch R100 to another portfolio will receive the full amount, R100*100% = R100.

EXAMPLE 2 (MVA Applies): When the portfolio is under-funded, say FL = 95%, the member who plans to switch R100 to another portfolio will receive the switch amount adjusted by the MVA, R100*95% = R95.

Market Value Adjustment (MVA) is therefore an adjustment factor that aligns members fund values at termination with their market values. In that case, members receive a fair value of their assets.

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Benefit Payments

At Sanlam, all benefits payments will be paid at Book Value. The benefit payment events are death, disability, retirement, resignation, retrenchments.

Voluntary Switches

Voluntary exits will be paid at the lower of BV and MV. Voluntary switches include investment termination or switches out of the portfolio.

Why does it apply?

If the Market Value Adjustment is not applied on voluntary exits, members who remain in the portfolio will likely receive lower bonuses in the future. To protect against this, members who selectively switch to another portfolio receive their fair share of the underlying MV. This ensures fairness between those members remaining in the portfolio and those switching to another portfolio.

It is important to note that MVA is not a charge and does not benefit Sanlam's shareholders in any way.

When does it apply?

When the portfolio is under-funded, any switches out of the portfolio or any terminations will trigger a MVA. Our administration team will usually send a warning communication before the MVA is applied.

For more information:

Please follow the link to a short video that explains the Market Value Adjustment (MVA) concept in a digital/visual way:

https://youtu.be/nLREA3qVOV4
Or visit our website on http://sanl.am/sebi