



**LIBERTY
LIFE**

PERSONAL BENEFITS
With-profit policies

Investment in smoothed bonus policies for retirement funds

Investment returns are smoothed to reduce market ups and downs

This broad overview of how smoothed bonus policies work only applies to members of retirement funds administered by Liberty Corporate Benefits that are invested in the following portfolios:

- Liberty Corporate Balanced Bonus
- Liberty Corporate Advanced Bonus
- Fedsure Guaranteed
- Fedsure Omega Plus
- Norwich Guaranteed
- Norwich Unique
- Norwich Omega
- Norwich Omega Plus

Smoothed bonus portfolios are designed to smooth investment returns over the lifetime of the policy. These policies are also known as with-profit or discretionary participation policies.

Members' investments are pooled together

In smoothed bonus policies, the money of all the members is pooled into an investment portfolio. We track the performance of the underlying investment and use this to work out how much of the growth we should give the members. We refer to this as a bonus. We use some assumptions when we do the bonus calculation so bonuses are, to a certain extent, at our discretion.

We add bonuses to each member's investment

Bonuses are declared regularly – either annually, quarterly or monthly. These bonuses may be declared in advance or in arrears. We allocate a portion of the bonus to each member's investment when it is declared.

This is different to a market-related policy

This is different to a market-related policy where the value of the investment goes up and down in line with the market and members share immediately in the performance of the underlying investment.

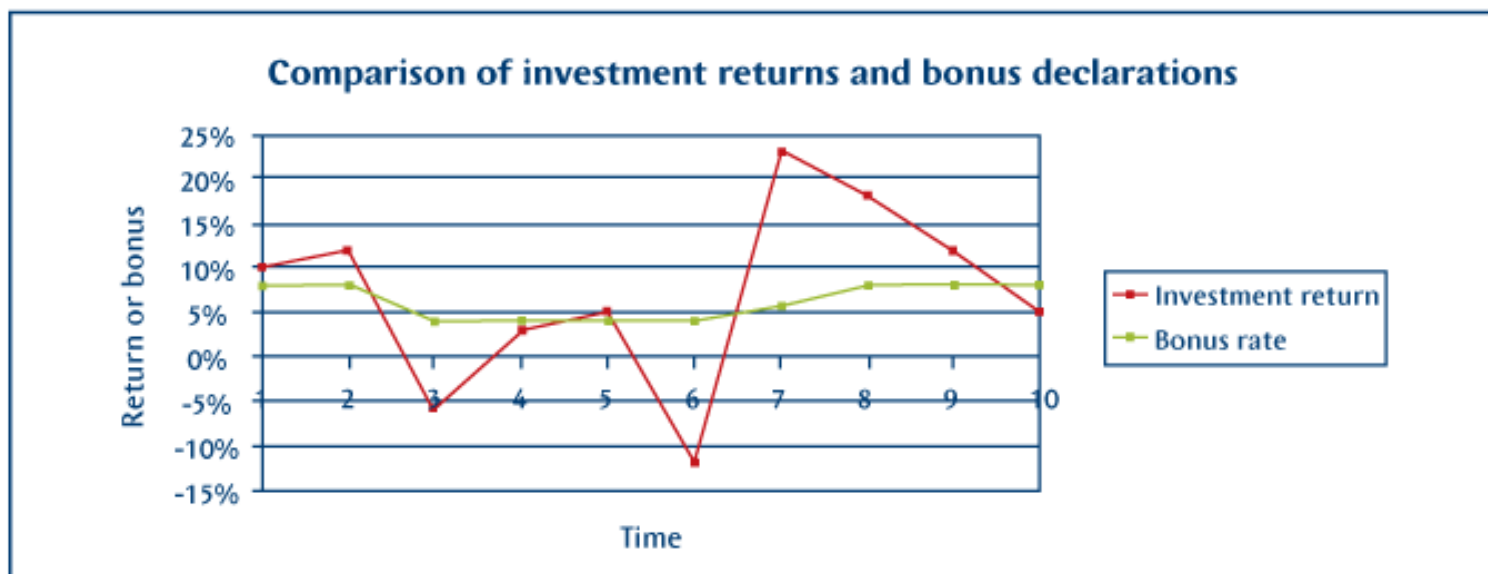
However, the intention is that in the long run you would get the same payout from a smoothed-bonus policy as a market-related policy, just with fewer ups and

downs along the way.

Smoothing reduces short-term volatility

In a period when returns are high, we may declare a lower bonus than the actual return for that period. On the other hand, when actual returns are low or negative we would declare a higher bonus than the actual return for the period. The total bonus declared in any one year will never be negative, however we may declare a zero bonus, so smoothed bonus policies can never go down in value – this is different to market-related policies which can go up or down in value.

The bonus rates we declare reflect a smoothing of the actual underlying investment returns over time. This reduces the volatility of returns. The graph shows the comparison of actual investment returns and bonus declarations over time.



Investment growth is shared with a pool of investors

This means that the earnings on your policy do not reflect the performance of the underlying investment exactly (as earnings of market-related policies do). Instead, it shares the investment growth over time with a pool of investors.

How the bonus works

How the bonus is calculated

The bonus takes into account the premiums you have paid (less charges for risk benefits and expenses), the investment growth and past bonuses we have declared.

Payment and guarantees depend on the type of policy you have.

The various portfolios all have different ways in which bonuses are declared:

Portfolio	Frequency and timing of bonus declaration	When the bonus is declared
Liberty Corporate Balanced Bonus	Once a year in arrear	31 December each year
Liberty Corporate Advanced Bonus	Once every three months in advance	The start of each calendar quarter
Fedsure Guaranteed	Once a year in arrear	31 December each year
Fedsure Omega Plus	Once a month in advance	The start of each calendar month
Norwich Guaranteed	Once a year in arrear	31 December each year
Norwich Unique	Once a year in advance	1 January each year
Norwich Omega	Once a year in arrear	31 December each year
Norwich Omega Plus	Once a month in advance	The start of each calendar month

Note:

- The portfolios that declare bonuses annually in arrear will declare an interim bonus that applies until the next final bonus declaration is made.
- Portfolios that declare bonuses in advance do not declare final bonuses at the end of the cycle.

Guarantees

There is a portion of the bonus that is guaranteed as soon as we have declared it. There may also be a portion that is not guaranteed. This depends on the specific investment portfolio.

The reason that we do not guarantee the whole bonus is to keep the investment flexible. We may remove non-guaranteed bonuses in exceptional circumstances, if market conditions are much poorer than expected.

What affects the size of the bonus?

How the investment performs

The most important factor in the size of the bonus is how the underlying investment performs. We invest your money in a combination of quality assets:

- Listed equities (local and offshore)
- Fixed interest stocks, property and cash.

The combination depends on the product you have and the mandate given to the asset manager.

The decisions we make on how to best manage the investment

Other factors affecting the size of the bonus include how we decide to smooth the investment to reduce short-term volatility. We look at the bonuses we have given in the past to ensure that the investment remains fair to all investors and that it is in line with their policy conditions. We also take current bonus rates declared by our competitors into account.

Distributions to shareholders, tax and fee deductions

The bonus rate is also affected by the portion of the returns that are distributed to shareholders, and any deductions for tax and management fees.

If you withdraw early

Your policy is designed for your contributions to stay invested until the maturity date, that is it is designed for long-term performance.

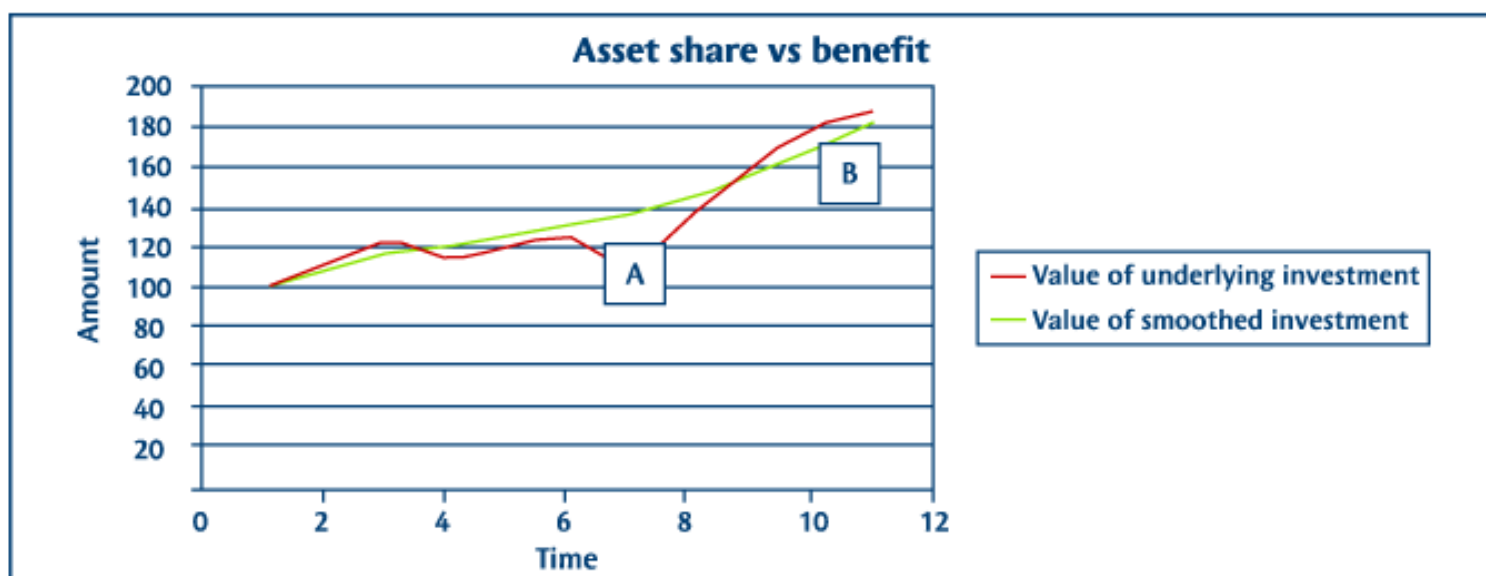
If you withdraw your investment early, you get the interim bonus

If you choose to withdraw your investment early, you may not receive a share of the final bonus declaration.

Where the portfolio declares a final bonus annually in arrear and you leave the fund in that year you will only receive the interim bonus declared. Only members in the portfolio at the end of each cycle benefit from the final bonus. *If your fund withdraws from the portfolio we may adjust the payout.*

If your fund withdraws its entire investment in the portfolio, a lower value may be paid out. This depends on the value of the underlying investments at the date they are withdrawn.

The graph and explanation below illustrate this point (This only applies if a fund withdraws its investment in the portfolio. It does not apply if an individual member leaves the fund):



We may adjust the payout if the value of the underlying investment is lower than the value of the smoothed investment (as shown at Point A). In this case, we would adjust the payout so that it reflects the value of the underlying investment rather than the value of the smoothed investment.

This is to protect the remaining members. If too many funds are taking advantage of the higher smoothed investment amounts when the underlying investments are doing poorly, then this would affect the pool of money available for other members' investments.

This adjustment is called a market value adjustment.

If market conditions are better (shown at Point B), the fund that withdraws early would receive the value of the smoothed investment rather than that of the underlying investment.

Contact us if you have any questions or need help

It is important to us that you understand how your smoothed bonus policy works. This brochure gives you a broad overview but you can get detailed information from any of the following:

- Visit www.liberty.co.za, go to Fund Performance on the bar at the top of the page and then to 'How smoothed-bonus policies work'
- Contact your financial adviser
- Phone our call centre on (011) 408 2999

This information as well as the more detailed document on www.liberty.co.za provide information required by current legislation, that is Directive 147 of the Financial Services Board (FSB) which governs the regulation of smoothed-bonus policies.

Explanations of common terms

Asset manager	The person who makes decisions on how to invest the assets in any investment.
Bonus declared in advance	The bonus declaration is made before the period to which it applies. Returns on the portfolio are known in advance.
Bonus declared in arrear	The bonus declaration is made after the period to which it applies. The final return for the period is only known at the end of the period
Final bonus	A bonus declared at the end of each calendar year and added to all members' values (portfolios that pay bonuses once a year in arrear)
Interim bonus	The bonus that applies during the calendar year, before the final bonus is declared. This is added to all members' benefits who leave the fund before the final bonus is declared (portfolios that pay bonuses once a year in arrear)
Market value adjustment	An adjustment made to a fund termination value so that it reflects the value of the underlying investment
Retirement fund	A pension or provident fund that you are a member of