PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

JUST.

RETHINK RETIREMENT

Effective 1 March 2016

1. Company background

Just Retirement Life (South Africa) Ltd. (referred to by its brand name of “Just”) was established in 2014 as a wholly owned subsidiary of Just Retirement (South Africa) Holdings (Pty) Limited, which in turn is a wholly owned subsidiary of Just Retirement (Holdings) Limited (UK).

Just Retirement (Holdings) Limited is a UK-regulated insurance group. It forms part of JRP Group Plc, which is a listed company in the UK.

2. Products covered by the Principles and Practices of Financial Management (PPFM)

The following products are covered by this PPFM:

- The Just Lifetime Income (Investment Driven); and
- The Just Lifetime Income (Investment Driven) with Mortality Guarantee.

3. Purpose of the PPFM

The Just Lifetime Income (Investment Driven) product is defined as a Discretionary Participation Product (DPP). However, in practice, Just does not have any discretion over participation in profits and losses as this is determined by a fixed formula.

3.1. Discretionary participation products (DPPs)

These products have the following features:

- Policies provide a guaranteed income for life that can never reduce, regardless of what happens to investment markets or how long you live.
- Policy premiums are invested in a pooled fund made up of a range of assets, a significant proportion of which are in the form of equities.
- Policies are allocated investment returns on the pooled fund and certain of the surpluses/deficits of the pooled fund, including those arising from mortality and expense risks.
- Allocations to policies (increases) are smoothed to protect policyholders from short-term fluctuations in asset prices or other possible experience variations.

3.2. Discretion

Just is required to exercise some discretion in managing the investments.

The purpose of this document is to help policyholders understand the risks and rewards of Just's DPPs, by setting out:

- the principles for applying this discretion and responding to long term changes in the business and economic environment;
- the detailed practices used to manage this discretion;
- the governance framework to ensure these principles and practices are adhered to.

This document is available on Just's website at http://www.justsa.co.za/ or a hard copy can be obtained on request.

4. Governance and compliance

Just's Board of Directors is responsible for the governance of DPPs. It has appointed an independent actuary to provide to the Board, amongst other things, an independent annual assessment of Just's compliance with the principles and practices set out in this document. In preparing this report the independent actuary will make proposals in respect of the annual increases allocated to the DPPs.

Any future changes to the PPFM will need to be approved by the Board after discussion with the independent actuary. Policyholders will be notified of any material changes to the PPFM.

5. Overriding principles

These are the most important principles that override any other principles and practices in this document:

- Just will meet all promises set out in your policy contract and other legal and regulatory requirements.
- Just aims to manage the business in line with the reasonable expectations of policyholders, considering Just's past practice, industry practice, Just's marketing documentation, application forms, fund fact sheets and other similar documents provided to you when you purchased your annuity.
- Just aims to treat different types and groups of discretionary participation policyholders fairly, and to treat policyholders and shareholders fairly in any matters where there could be conflicts of interest.

6. Investment and risk management strategy

6.1. Nature and extent of insurer discretion

Just has discretion over:

- the method and parameters used to manage the market and interest rate risk of the product;
- setting appropriate investment mandates for the product and choosing third party asset managers to invest the assets according to the mandate;
- choosing whether to use asset consultants, and which ones to use, to assist in selecting the third-party asset managers.

6.2. Principle

The investment and risk management strategy is designed to reflect the reasonable benefit expectations of policyholders set out in policy contracts and marketing material and simultaneously manage interest rate and market risk.

- The investment strategy will take the following into account:
    - Expected long term risk and returns of different asset classes;
    - An appropriate level of diversification by investing in a number of different asset classes;
    - The nature and term of the liabilities.

6.3. Practices

- For the purpose of adequate management of the investment risk, the portfolio of assets supporting the DPP will be held in two distinct portfolios.
    - An Investment Portfolio (IP). A balanced portfolio consisting of a collective investment scheme or pooled life portfolio investing in local and international equities, bonds, commodities, property and cash. The target asset allocation will be published in product fact sheets. The performance of this portfolio will be the main driver of future pension increases.
    - A Matching Fixed Income Portfolio (MFIP). The MFIP is a diversified fixed income portfolio designed to match the size and timing of future expected annuity income payments in order to manage the interest rate risk of the portfolio.
- Just decides on the appropriate composition of the MFIP to balance risk and reward given the available instruments in the market.
- Just determines daily the proportion of assets to be held in the MFIP and IP by calculating the change in asset and liability values in response to changes in interest rates and market movements.
- The long term strategic asset allocation of the IP influences the reasonable benefit expectations of the policyholder at inception, and Just has no discretion to change this.
- The investments in the IP are managed by various asset managers in accordance with investment mandates and guidelines specified by Just, which include:
    - the approved asset classes to ensure an appropriately diversified investment strategy;
    - tactical asset allocation ranges - the minimum and maximum limits for each asset class; and
    - benchmarks against which the performance of each asset class is measured.
- Derivatives can be used to reduce investment risk, improve the efficient management of the portfolio and to aid tactical asset allocation.
- Sufficient liquid assets are held to enable the products to meet the monthly annuity income payment and risk management requirements.

- Counterparty exposure limits will be maintained within the limits set by Just and the regulatory authorities.
- Just monitors the performance of the appointed managers and has the discretion, together with the asset consultant where appropriate, to change portfolios.

7. Charges and expense allocation

7.1. Nature and extent of insurer discretion

Just has discretion to choose a specialist third party administrator to make annuity payments and/or third party asset managers to manage the investment portfolio(s).

7.2. Principles

- The total level of charges will be disclosed to the client in the policy document.
- The charges of the third-party administrator and asset managers will be passed on to the policyholder without amendment.

7.3. Practices

- The Insurer will monitor the performance and relative competitiveness of the administrator and asset managers on an ongoing basis.
- The Insurer can replace the appointed administrator and/or asset manager (in consultation with the asset consultant where one has been appointed) with another provider.

8. Surplus sharing within a product

Surplus is the excess of the assets over the liabilities of a particular DPP and can be negative (i.e. a deficit).

8.1. Nature and extent of insurer discretion

The insurer has no discretion over the sharing of surplus within a DPP as the surplus will be shared according to the disclosed annuity increase formula.

8.2. Principles

The sharing of surplus items between policyholders will only be allowed to the extent that it is part of the product design and is disclosed in the policy contract.

8.3. Practices

Surplus or deficits can arise from any of the following items:

- A fixed interest investment forming part of the MFIP failing to meet its payment obligations;
- Changes to the actual long term return above the risk-free return on investments in the MFIP compared to what has been assumed in the reserving basis;
- Changes to the reserving basis used by an independent actuary to calculate the value of liabilities; and
- The performance of the hedging strategy including trading costs to manage the investment and interest rate risk of the DPP.
- The following experience item only applies to the Just Lifetime Income (Investment Driven) without Mortality Guarantee:

   - Mortality profits/losses when actual mortality experience differs from the best estimate assumptions used in reserving.
- Surplus/deficit items arising in an annuity increase year will be smoothed over a fixed six-year period and shared with policyholders of the relevant DPP by way of an experience adjustment to annual annuity income increases.
- The calculation of surplus items and the resulting experience adjustments to increases will be independently audited on an annual basis.
- Shareholders will not share in any surplus but will make good any deficit.

9. Surplus sharing between products

It is a fundamental principle of insurance that the pooling of risk of a larger number of policyholders provides a benefit to all policyholders by making the outcome more stable and predictable. Just will facilitate the sharing of certain risks between its different DPPs.

9.1. Nature and extent of insurer discretion

The insurer has no discretion around the sharing of surplus between products as this will be done on a proportional basis.

9.2. Principles

All policyholders except those with a mortality guarantee will share mortality experience. The shareholders will guarantee the mortality experience of those with a mortality guarantee which means that increases will not be impacted by mortality experience.

9.3. Practices

- The profits and losses will be distributed on a proportional basis based on the size of the different participating products at the calculation date.
- The following risks will be shared between different products to provide better outcomes for all:
   - Mortality profits/losses when actual mortality experience differs from the best estimate assumptions used in reserving.
   - A fixed interest investment forming part of the MFIP failing to meet its payment obligations;
   - Changes to the actual long term return above the risk-free return on investments in the MFIP compared to what has been assumed in the reserving basis.

10. Declaration of annuity income increases

10.1. Date of calculation of increases

Increases will be calculated at the end of October each year and will be awarded in the relevant increase month in the following calendar year.

10.2. Nature and extent of insurer discretion

Just has no discretion over the calculation of annuity income increases as it is based on the fixed formula.

10.3. Principles

- Annuity income increases are based on investment performance according to the fixed formula, adjusted for any Surplus Sharing (see paragraphs 8 and 9).
- Increases are declared annually in advance for each DPP and are added to the policy on the disclosed increase date.

10.4. Practices

- The annuity income increase calculation is based on the formula disclosed in your policy contract, which uses:
  - The actual historic investment performance (after investment charges) of the IP as set out in the Fund Fact Sheet;
  - The experience adjustment at the date of calculation as discussed in paragraphs 8 and 9.

11. New business

11.1. Nature and extent of insurer discretion

The insurer has discretion to open, close or merge different DPPs to ensure fairness between different policyholders.

11.2. Principles

The Insurer will only write new business into an existing DPP on terms that will not unfairly prejudice the existing policyholders.

11.3. Practices

- Just has the discretion to close a DPP to new business or inflows from existing policyholders, if this introduces an unacceptably high cross-subsidy between policyholders.
- If a DPP has been closed to new business or inflows from existing policyholders, then a new DPP may be opened. This new DPP may be merged with the old DPP once their funding levels are within acceptable limits of each other.
- If a DPP has been closed to new business or inflows from existing policyholders, it may be re-opened for new business or inflows from existing policyholders at a later date. An example of an instance where Just may decide to re-open a closed DPP would be where it was in the best interest of policyholders to merge the closed DPP with an existing open DPP.

12. Shareholder support

In order to address the potential conflict of interest between policyholders and shareholders Just operates a transparent framework for sharing surplus items between policyholders using a simple formula.

12.1. Nature and extent of insurer discretion

Just has no discretion over the timing or the amount of shareholder capital that needs to be injected into the pool when required.

12.2. Principles

Just will inject capital to eliminate any deficit in the DPP.

12.3. Practices

- The valuation of the DPP will be performed by the Insurer's independent actuaries.
- Where there is a deficit in a DPP after allowing for all surplus items, Just will inject an amount to eliminate the deficit in the DPP – this will be determined by an independent actuary.
- The capital injected will belong to the policyholders and does not take the form of a loan by the shareholders to the policyholders.