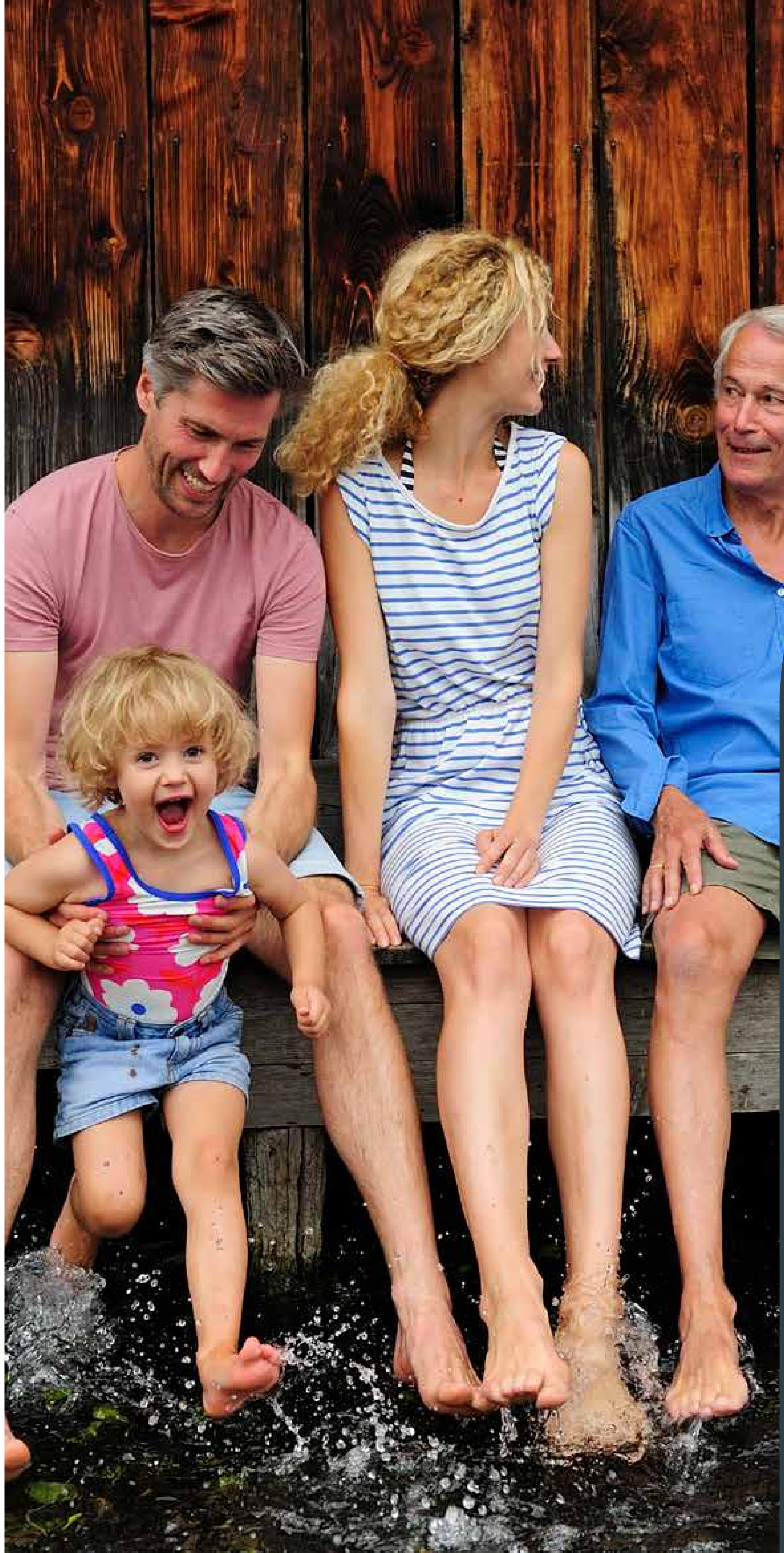
Participating Policies

Your guide to how we manage your participating policy

TAL / INVESTMENTS



Important information

This information booklet has been compiled by TAL Life Limited ABN 70 050 109 450 (TAL).

This reference guide has been developed to assist you in understanding how we manage our participating policies. It outlines the Principles that govern decisions made in the management of our participating policies.

General information only

This guide contains general information only. It does not take into account your personal objectives, financial situation or needs. Before making any decision in respect of a participating policy, you should consider the relevant product disclosure document having regard to your own situation. We recommend that you consult a licensed or authorised financial adviser if you require financial advice that takes into account your personal circumstances.

While the Principles set out in this document guide how we manage our participating policies, Policy Owners should not treat the statements made in this document as binding commitments.

This guide, including the Principles stated within, is not intended to alter the rights and obligations of TAL or Policy Owners under the applicable policy documents. Should there be any conflict between this document and what is said in any policy document, the terms of the policy document shall prevail.

While all care has been taken to ensure that the information provided in this booklet is accurate and complete, neither TAL nor its employees accept liability for any loss or damage caused as a result of reliance on the information provided.

The information in this booklet is current as at 31 January 2022.

Contact us

If you have any questions about how we manage your participating policy, please contact us by:

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Introduction

A participating policy is a type of life insurance policy issued by a life insurance company that allows the Policy Owner or customer to share in the life insurer's investment profits generated from the participating funds it invests into.

Management of our participating policies is guided by the Principles included in this guide.

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How are participating policies managed?

The management of participating policies requires consideration of several principles, practices and Australian financial service regulations.

We, as Policy Issuer, are required to make a number of judgements in good faith and consider issues like:

- equitable treatment of different pools of Policy Owners
- actual and expected investment returns
- the amount of capital required to safeguard Policy Owners' benefits, and
- Policy Owner Reasonable Benefit Expectations.

Our decisions are supported by the advice of a number of subject matter experts. A key expert is the Appointed Actuary, who is an experienced life insurance professional and has a regulatory duty to ensure that we give appropriate consideration to the protection of the interests of all Policy Owners.

All decisions must comply with Australian laws, as well as regulations issued by Australian financial services regulators. These include:

- Life Insurance Act 1995 (Cth).
- Income Tax Assessment Act 1997 (Cth).
- Corporations Act 2001 (Cth).
- Superannuation Industry (Supervision) Act 1993 (Cth).
- Prudential Standards issued by APRA.
- Prior Part 9 court rulings.

What are the Principles?

Principles are statements of the way we intend to manage our participating policies over the long term. The goal of the Principles is to promote the responsible management of participating policies in order to achieve outcomes for both Policy Owners and the Policy Issuer which are beneficial and fair.

Although designed to last, changes in industry and business conditions may mean that we need to make changes to the Principles from time to time. We will only do this with the approval of the Board.

Details of material changes to Principles will be updated on www.tal.com.au in the Investments and Superannuation section under Disclosure Documents.

Our Guiding Principles

The Guiding Principles are the most important of the principles, and all the other Principles are secondary to them. If there is any conflict between a Guiding Principle and another Principle, the Guiding Principle will prevail.

The Guiding Principles are as follows:

Priority to Policy Owners

In the event of a conflict of interest between the Policy Issuer and Policy Owners, the interests of Policy Owners must always be treated as the priority.

Balancing everyone's interests

The Board will seek to balance the interests of all Policy Owners and groups of Policy Owners equally.

The fund aims to be self-sustaining

Under normal business conditions, the money in the participating fund is used only to support paying benefits to participating Policy Owners. At the same time, Policy Owners should not expect to get benefits supported from money outside the participating fund, such as additional capital provided by the shareholders of the Policy Issuer. The participating fund is managed to balance the investment risks and the long-term returns to Policy Owners while avoiding the need for additional shareholder capital.

Adhere to laws and regulations

The participating fund will be managed according to all relevant laws and regulations.

Separating and combining pools for the benefit of Policy Owners

Similar participating policies may be grouped together in a "pool". Policies from the same pool will share in the financial performance of that pool. Over time, some pools will get smaller, and it will likely be sensible to merge these pools with others in order to avoid negative impacts on Policy Owners.

How are profits distributed?

The Life Act requires that participating Policy Owners cannot receive less than 80% of the total investment profits generated by the participating policies. This requirement is adhered to for all participating policies issued by TAL.

Distribution of profits

Policy Owner Retained Profits are distributed to Policy Owners in the form of bonuses or interest credits. Once bonuses or interest credits are declared, they are added to the account balance or the balance of accrued regular bonuses of Policy Owners.

Determining your profit entitlement

The portion of profits payable to Policy Owners must consider Policy Owner Reasonable Benefit Expectations and equity.

Policy Owner Reasonable Benefit Expectations

Policy Owner Reasonable Benefit Expectations represent the Board's view of how a Policy Owner would reasonably expect a life insurance company to manage participating policies and distribute the profits to Policy Owners.

All management decisions consider Policy Owner Reasonable Benefit Expectations, along with the other Guiding Principles outlined in this document.

Policy Owner Reasonable Benefit Expectations develop over time and in response to management decisions, actions and communications under a range of business circumstances; which can include:

- Policy terms & conditions
- Marketing material
- Annual statements
- Past practices
- Investment strategy and financial strength of the participating funds
- Industry practice
- Market outlook

Equity

Equity can be expressed as:

No group of Policy Owners should enjoy a windfall gain at the expense of another.

Equity between different groups of Policy Owners is a key consideration for the management of participating policies.

Smoothing of bonus and crediting rates

To determine the bonus rates and crediting rates, the Policy Issuer must consider the actual and expected future performance of the participating fund as well as Policy Owner Reasonable Benefit Expectations and the need to treat different groups of Policy Owners equally. Bonus rates and crediting rates are smoothed over time to avoid sharp or volatile movements in the profit amounts distributed over time.

Excessively high bonus rates and crediting rates relative to earnings rates should be avoided, as they might damage the participating funds' self-supportability and the Policy issuer's ability to meet Policy Owner Reasonable Benefit Expectations in the future.

Excessively low bonus rates and crediting rates should also be avoided under normal market conditions, as they might fail to achieve equity between current and future generations of Policy Owners and fail to meet Policy Owner Reasonable Benefit Expectations.

In addition to bonus rates and crediting rates, the Policy Issuer must calculate and pay surrender values to Policy Owners. Surrender values are generally determined with consideration to Policy Owner Reasonable Benefit Expectations and minimum surrender value rules[1] specified by APRA.

[1]. The minimum amount payable is determined by APRA Prudential Standard LPS 360 Termination Values, Minimum Surrender Values and Paid-up Values.

YOUR GUARANTEED BENEFITS ARE SECURED

Your policy may provide for guaranteed benefits. These benefits are protected by the Life Act and APRA prudential standards, which require significant capital reserves for the participating business from TAL as the Policy Issuer.

Each participating fund has an Estate which represents surplus assets in the participating fund. The Estate is also used to provide security to your guaranteed benefits.

For Traditional Policy Owners, your guaranteed benefits are sum assured (guaranteed amounts agreed at the start of a policy) and previously declared regular bonuses.

For Investment Account Policy Owners, your guaranteed benefits are the amounts invested (less any amounts withdrawn) and interest credited by regular crediting rates.

How are bonuses and crediting rates determined?

The Board determines bonuses and crediting rates payable to participating Policy Owners, after receiving the advice of the Appointed Actuary. For most types of policies, the bonus rates and crediting rates cannot be less than zero in any year.

The amounts paid to Policy Owners are determined in line with the following principles:

Treat all Policy Owners equally

The Appointed Actuary and Board will endeavour to treat all Policy Owners equally.

Redemption payments will be consistent with requirements

Payments to Policy Owners in the event of a claim, maturity or surrender will be consistent with the contractual commitments made to Policy Owners, equity between groups of Policy Owners and the requirements of relevant Prudential Standards and legislation.

Historical payments and future payment expectations will influence payment determinations

Bonus and interest payments will consider historic bonus payments made to Policy Owners, as historical practices partially form the basis of Policy Owner Reasonable Benefit Expectations.

Bonus and crediting rate declarations will also consider the stability of amounts payable to Policy Owners over time, by using smoothing mechanisms to distribute profits to Policy Owners.

This may mean that bonuses and crediting rates do not immediately pass the investment earnings of the participating funds in full to Policy Owners, but instead pass the investment earnings smoothly to Policy Owners through the entire lifetime of the policy.

Payments are determined independent of our other business

Bonus and interest payments to Policy Owners are determined with reference to the experience of the participating fund they invest in only. The financial performance of other parts of the business will not have any impact on bonus payments under normal circumstances.

Declared regular bonuses and crediting rates cannot be removed

Regular bonuses and crediting rates are used to share profits to Policy Owners. Once regular bonuses or crediting rates are declared, they are added to the guaranteed benefits to Policy Owners and cannot be removed.

Bonuses or crediting rates may not be made each year

Regular bonuses, crediting rates and special, interim or terminal bonuses may not be paid in a given year, if the participating fund does not have, or expect to have in future, sufficient assets to support bonuses or crediting rates. This decision is at the discretion of the Board upon receiving advice from the Appointed Actuary.

Terminal bonuses rates can be changed

Terminal bonuses may include an amount reflecting a share of the participating fund's unrealised capital gains. In the event of significant movements in investments markets, terminal bonus rates may be changed in order to achieve policyholder equity. This is done to maintain policyholder equity for those customers terminating their policies relative to those that remain.

Changes to market conditions or experience may be shared across Policy Owners

Experiences such as investment earnings, mortality and withdrawal experiences may be shared across many policies to avoid inequitable impacts for any subset of Policy Owners.

Bonus types

Traditional participating policies such as Whole of Life, Endowment and Pure Endowment policies are eligible for bonuses. For these policies, the basic benefits are defined at the start of the policy, reference a sum insured and may increase as bonuses are declared. There are four types of bonuses, as shown below:

1. **Regular bonus**
   Regular bonuses (also known as Reversionary Bonuses) are declared annually by the Policy Issuer and are added to the basic benefits. Regular bonuses are guaranteed once declared.
2. **Interim bonus**
   Interim bonus rates represent the Policy Owners' share of profits achieved during the part of the year that they remained in force. Interim bonuses are not guaranteed and can be changed without notice.
3. **Terminal bonus**
   Terminal bonuses are paid out at the termination of policies, either through policy surrender, maturity or death. Terminal bonus rates are set to movements in investment markets and are reviewed periodically for suitability against current investment conditions. Terminal bonuses are not guaranteed and can be changed without notice.
4. **Special bonus**
   Special bonuses are used to share any retained profits in excess of requirements to Policy Owners and are added to the basic benefits. Special bonuses do not form part of Policy Owner Reasonable Benefit Expectations but are guaranteed if declared.

Crediting Rate types

There are three types of crediting rates as shown below:

1. **Regular Crediting Rate**
   Regular crediting rates are declared annually by the Policy Issuer and are credited daily to Policy Owners' account balances. Regular credited interests are guaranteed once declared.
2. **Interim Crediting Rate**
   Interim crediting rates represent the Policy Owners' share of profits achieved during the part of the year that they remained in force. Interim crediting rates are credited daily to Policy Owners' account balances, but they are not guaranteed and can be varied without notice.
3. **Special and Terminal Crediting Rates**
   Special and Terminal crediting rates are used to share any retained profits in excess of requirements to Policy Owners. Special crediting rates do not form part of Policy Owner Reasonable Benefit Expectations, but are added to the basic benefits and are guaranteed if declared. Terminal crediting rates are not guaranteed and can be varied without notice.

How are fees and expenses deducted?

The expenses incurred in managing the participating policies are deducted from the participating fund. Higher expenses result in lower profits to be shared between Policy Owners and the Policy Issuer, and ultimately lower payouts to Policy Owners.

Many of our costs, such as the costs of paying staff, are shared between the participating policies and our other insurance business activity. We seek to allocate a fair and reasonable share of these expenses to the participating funds. The expense allocations are reviewed annually by the Appointed Actuary, who has a statutory responsibility to protect Policy Owners' interests.

A fee is an amount clearly charged to Investment Account Policy Owners, either via deductions from the investment earnings on Policy Owner account balances or reductions in the interest credited to Policy Owner accounts. Fees charged to Policy Owners are specified in the policy document.

Our fee and expenses principles

The key principles in managing fees and expenses charged to the participating fund are as follows:

Fees will be consistent with terms and conditions

Fees charged to participating Policy Owners will be consistent with the contractual commitments made to Policy Owners.

Changes to fees will be communicated first

TAL won't charge a fee that hasn't been previously communicated to Policy Owners.

Allocated expenses will be fair

The Appointed Actuary must certify that the expenses allocated to the participating fund are fair.

Allocated expenses must relate to the administration of the fund

Expenses allocated to the participating fund are only those required to administer or manage the participating policies, consistent with Policy Owner Reasonable Benefit Expectations. Administration expenses that are not related to the participating fund must not be deducted from the participating fund.

The fund will share in non-direct expenses

Some expenses of TAL are not directly related to any particular type of business, such as the cost of office premises. The participating fund will cover its fair share of these expenses.

Allocations of expenses will be equitable

The allocation of expenses between groups of Policy Owners will be performed on a fair basis.

Expenses will not be double charged

Policy Owners will not be double charged for fees and expenses. If a fee is charged to a participating policy, TAL should not deduct expenses that are explicitly covered by that fee.

What is the investment strategy?

The investment strategy refers to the way the assets of the participating fund are invested. Participating Policy Owners have a reasonable expectation that the investments supporting their policies are managed to deliver a return that is commensurate with the risk that is being taken and the value of the guarantee.

Our investment strategy principles

The key principles in the investment strategy for the participating policies are as follows:

The investment strategy considers both the long term nature of a participating policy and current market conditions

The investment strategy aims to achieve the highest long-term return while managing investment risks to limit the possibility that the participating fund cannot meet its commitments to Policy Owners.

The strategic asset allocation is aligned with Policy Owner risk and return expectations

The Strategic Asset Allocation (SAA) is set by the Board to meet the Policy Owner Reasonable Benefit Expectations, the return expectations for the specific asset classes and the capital position of the participating fund. The SAA may be reviewed by the Board from time to time to achieve these objectives and consider changes in market conditions.

The investment strategy will consider any guarantees made to Policy Owner

The guarantees of participating policies have value to Policy Owners. This value depends on the level of financial risk taken by the participating fund, with higher levels of risk driving a higher guarantee value. The investment strategy will consider the value of Policy Owners guarantees so that it can secure this value where possible.

Derivatives can be used for protection from risk but not to take additional risk

Financial derivatives can be useful tools that the participating fund may use to manage financial risks. However, when used to speculate on financial markets to make profits, they are a high-risk strategy. The participating funds are not allowed to use financial derivatives to speculate.

The participating funds cannot borrow money

The participating funds may not be used as collateral for any loan or engage in the borrowing of money.

Sufficient liquidity will be maintained for normal redemption expectations.

At all times, sufficient liquid assets such as cash are held to pay the participating Policy Owners' claims as they mature.

Further Information

Further information on the investment strategy, including asset allocation details, can be found on the TAL websites:

https://www.tal.com.au/existing-customers/investments-and-superannuation/disclosure-documents

https://www.asteronlife.com.au/investments-and-superannuation

Glossary

APRA	The Australian Prudential Regulation Authority (APRA) is an independent statutory authority that supervises institutions across banking, insurance and superannuation and promotes financial system stability in Australia.
Appointed Actuary	The Appointed Actuary is appointed by the Policy Issuer to assist with the sound and prudent management of the life insurance company and ensure that the life insurance company gives appropriate consideration to the protection of Policy Owners interests.
APRA Prudential Standards	Prudential Standards are established by APRA. They aim to maintain the safety and soundness of the institutions (such as life insurance companies) that APRA regulates. APRA's prudential standards set out, amongst other things, minimum capital, governance and risk management requirements.
Investment Account Policy	An investment account policy is similar to a bank account. It has an account balance which grows with contributions and interest credits, less any fees charged and amounts withdrawn.
Part 9	A Part 9 transfer refers to the transfer of the business, or part of the business, of a life insurance company to another life insurance company. The scheme of the transfer must be confirmed by the Federal Court of Australia under Part 9 of the Life Act.
Policy Issuer	Policy Issuer refers to the life insurer that has issued the participating policy, in this instance TAL.
Policy Owner	The person who has ownership rights in an insurance policy, usually the policyholder or insured.
Policy Owner Reasonable Benefit Expectations	Policy Owner Reasonable Benefit Expectations represent the Board's view of how a Policy Owner would reasonably expect a life insurance company to manage participating policies and distribute the profits to Policy Owners.
Retained Profits	Retained profits are profits generated by the participating policies but haven't been distributed to Policy Owners and the Policy Issuer yet. Retained profits are distributed over time, and The Life Act prescribes how they are divided between Policy Owners and the Policy Issuer.
The Board	The Board refers to the Board of Directors of the Policy Issuer.
The Estate	The Estate refers to certain participating fund assets in excess of liabilities of the participating policies. The Estate is unallocated to any specific Policy Owners, or group of Policy Owners and the use or distribution of the Estate is governed by the requirements of the Life Act and guided by the principles and practices of financial management established by the Policy Issuer.
The Life Act	The Life Act refers to the Life Insurance Act 1995 (Cth).
Traditional Policy	Whole of Life, Endowment Assurance and Pure Endowment policies are referred to as Traditional policies.

About TAL

TAL is Australia's leading life insurance specialist, protecting people – not things – for over 150 years. Today we insure more than 4.5 million Australians, and in 2020, we reached a new milestone, paying almost $2.5 billion in claims to more than 35,000 Australians and their families.

At TAL, we manage $6 billion in assets for over 60,000 Australians. We're proud to be part of the Dai-ichi Life Group, which manages over $550bn (USD) in assets globally.

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