

# MGM Membership

Your Guide

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### What are the aims of this guide?

For Conventional With Profits (CWP) and Unitised With Profits (UWP) policyholders this guide aims to:

- Explain briefly how the MGM With Profits fund works;
- Help you decide whether an investment in MGM's With Profits fund is right for you;
- Help you discuss With Profits with your Financial Adviser.

For Flexible Income Annuity policyholders this guide aims to:

- Explain what With Profits means for Flexible Income annuity policies;
- Help you decide whether an investment in MGM's Flexible Income Annuity is right for you;
- Help you discuss the Flexible Income Annuity with your Financial Adviser;

### When to read this guide

You should read this guide before making your investment, and on having made your investment, to remind yourself of how the With Profits fund and bonus declarations aim to work.

At the same time, you may wish to read the following documents:

- the literature for the product you have invested in, such as the key features document which gives the main points of the product; and
- your personal illustration, which illustrates what you might get back from your investment based on certain assumptions.

This guide is an important document, so please keep it in a safe place with your other policy documents.

References to 'our' or 'we' mean MGM Advantage.

### What does this guide cover?

This guide explains:

- The different types of membership policy issued by MGM Advantage;
- MGM Advantage's current approach to managing our With Profits fund; and
- how our approach to managing our With Profits fund will influence the amount you get back from your policy with us.

Over time, our approach may change so please make sure you have the latest version of this guide.

### What type of policy do I have?

MGM Advantage currently has three types of members:

- i. Conventional With Profits Members;
- ii. Unitised With Profits members; and,
- iii. Flexible Income Annuity members.

Bonuses work differently for each type of policy.

- i. If you have a sum assured or guaranteed pension then you are a conventional With Profits member.
- ii. If you are invested in the Bonus Growth Fund or have a With Profits bond or have an MGM International With Profits Plan, then you are a unitised With Profits member.
- iii. If you have a Flexible Income Annuity product, then you are a member of this type.

**Flexible Income Annuity members need to read "MGM Advantage Flexible Income Annuity" only.**

### What is a With Profits investment? (CWP \ UWP)

"With Profits" is an investment type that:

- Provides investors returns related to the performance of the assets held, and also gives a share in the profits of the Society;
- Aims to grow the value of your investment over the medium to longer-term, which MGM Advantage consider to be five years or more;
- Provides certain guarantees of the minimum value of the investment on certain dates; and,
- Uses a concept we describe as 'smoothing', to provide protection from the normal ups and downs associated with stockmarket investments.

### How does the With Profits fund work? (CWP \ UWP)

Your investment, after any initial charges, is pooled with the investments of other customers who have invested in our With Profits fund. This pooling of investments enables us to invest in a wide range of assets on your behalf.

These assets are different types of investments; such as stocks and shares, property, fixed-interest assets and cash deposits. The proportion of the total fund we put into each type of investment will vary over time.

We also notionally split the whole With Profits fund for different groups of customers. For example, we have different fund groups, called sub-funds, for our CWP policyholders and for our UWP policyholders. In addition we maintain a separate sub-fund for all our MGM International With Profits Plan policyholders.

Your investment gives you a notional share in the appropriate sub-fund of our With Profits fund, and the value of your share will depend mainly on the performance of the assets from the date your investment is made.

### How do we ensure all investors are treated fairly?

(CWP \ UWP)

As we mentioned, your investment is pooled with that of other similar policyholders. A unique feature of With Profits investing is that the returns you receive will not be based solely on the performance of the fund from the date(s) you made your investment(s).

Your investment will be pooled with other policyholders who entered the same With Profits sub-fund as you at around the same time, and you will all experience the same investment performance. We aim to pay the whole sub-fund their 'fair share' of the profit in the With Profits fund.

Currently, we group policyholders by the month in which they join and leave the With Profits fund. The purpose of this approach is to reduce the risk of deciding to enter or exit the fund on one day, only to find that the investment value moves against you. It may be easier to consider it as a kind of automatic averaging of your investment in the With Profits fund over the months you hold your policy.

When deciding what is a fair share for each group of policyholders, we take into account several factors including:

- How much has been invested.
- Investment performance.
- The Society's other gains and losses from running the business.
- The charges we have made.
- Any guarantees that apply.

Using these deciding factors, we calculate the underlying 'fair share' for each group of policyholders. Then we use a combination of Annual Bonuses, Final Bonuses and, in certain circumstances, Market Value Reductions to provide a smoothed overall return.

Smoothing means that policyholders are much less exposed to short-term market changes, allowing the overall returns to be more reflective of the underlying investment conditions relevant to the assets of the sub-fund policyholders are invested in.

### What are 'Bonuses' and 'Market Value Reductions'?

(CWP \ UWP)

There are two main types of bonus that can apply to your policy:

'Annual Bonuses' and a 'Final Bonus'.

In deciding bonus rates, we will take account of the following factors:

- i The underlying share as calculated above,
- ii Our stated smoothing policy,
- iii The extent to which we need to maintain a cushion to adequately reflect the solvency of the fund.

We do not always guarantee that bonuses will be added to your policy, and different types of policy can receive different bonuses.

Our With Profits Actuary advises the Society's Board on bonus rates that are allocated to policyholders.

We review bonuses at least once a year, but we can change them at any time.

### Annual Bonuses

'Annual Bonuses' are applied to your investment with us every year. We try to keep the Annual Bonus rate relatively level from year to year rather than make dramatic changes. This means that we may declare a lower Annual Bonus than we expect to earn in an average year, with the balance being given in the form of a Final Bonus.

### Final Bonuses

A Final Bonus may be added at the end of your investment in the With Profits fund.

Any Final Bonus will ensure that your total payout reflects your fair share at the time of exit, subject to any smoothing adjustment as described below.

### Market Value Reductions

For some policies we can also make what is called a 'Market Value Reduction' (MVR). This can also be called a Market Value Adjustment or MVA.

If other investors exit the With Profits fund when their 'fair share' value is below the smoothed value, an MVR is applied to protect the remaining With Profits investors. A Final Bonus will not be added to a policy where an MVR is applied.

An MVR may significantly reduce what is paid out on a policy compared to the smoothed value.

The terms and conditions of your policy may restrict the size of any MVR we can introduce, in light of the fair share levels at the time.

Of course, the MVR (if any) cannot reduce any guaranteed minimum payouts, and you can check whether an MVR applies simply by contacting us. See page 6 "How to contact us."

Your policy may also give you a date, or dates, on which an MVR will not apply, even if they would otherwise be in force.

After introducing an MVR, we will review if it should still apply

- at least once every three months
- if bonus levels change

### What other factors affect the value of my plan?

The following factors have a direct impact on the value of your policy:

- Annual Bonus Level;
- Final Bonus;
- MVRs. (UWP only)

Each review checks whether and at what level the MVR should apply.

The following factors may have an affect on the Bonuses and MVRs applied to your policy.

### Investment Performance

Our investment strategy is to maximise the returns to With Profits policyholders over the longer term whilst ensuring we are able to meet any guaranteed minimum values we have committed to.

The With Profits fund investment performance will depend on several factors, including how much of the fund we invest in different types of investments. We hold some higher-risk, and potentially higher-return, investments such as shares and property. The rest is in lower-risk investments, such as fixed-interest bonds issued by the Government or by companies, and cash deposits that earn interest.

Over time, the performance of different types of investment will vary. The MGM Advantage Investment Committee has responsibility for managing the With Profits fund investment strategy.

### The Society's other gains and losses

The Society's other gains and losses, which are called profits, that arise from gains and losses running our business may get added into the fund from time to time. These can arise from various sources; for example our actual profits from other types of business written by the Society. We pass on some of these profits to enhance the value of your investment. Not all profit the Society makes will necessarily be credited immediately to the members, as it is prudent to retain some to, for example, help grow the business in the future. MGM International With Profits policyholders should also refer to the section "MGMI WPP" for further information on how these affect their policy.

### Guarantees

Certain guarantees may apply to your policy. If they do, the nature and date or dates they apply will be stated in your policy documentation. Guarantees can increase the value of your policy and may mean that you get back more than your fair share of the fund.

If you surrender your policy early or switch out of With Profits into another fund the guarantees may not apply.

### Smoothing

As mentioned above, we may 'smooth' the fund performance to reduce the effect of short term ups and downs of the stockmarket on payouts. Smoothing will not prevent future bonuses from recognising good or bad investment returns over the longer term.

We can change how we do smoothing at any time. How much affect smoothing may have still depends on investment performance and our need to be fair to all investors in the With Profits fund.

The reality of our smoothing policy is reflected in the Annual and Final Bonuses declared and, where necessary, any applied MVR.

### Our charges

We will incur costs in administering your plan. If your policy includes an element of life cover, there will also be costs in providing this protection.

How we apply these charges will depend on the type of policy you have, and will affect the value of your policy.

Any difference between charges and expenses are added to the Society's profits. As a mutual society, over time, these profits are distributed as described in "The Society's other gains and losses" above.

### Guarantees and payments to other With Profits investors

Our guarantees to other With Profits investors could affect what you get back, as these could affect how we invest the assets in the With Profits fund.

Also, any payments to policyholders when the guaranteed values are above the fair share level will be supported by the With Profits fund as a whole.

### Tax

Some elements of the With Profits fund are subject to tax, within the fund. Any tax paid will reduce what you get back.

Our aim is to spread the cost of taxation for the With Profits fund as fairly as possible throughout the With Profits fund.

### MGM International With Profits Plan (MGMI WPP)

This section explains how the treatment of these policies differs from the treatment of other UWP policies. These differences arise from the Scheme of Transfer that moved the policies from MGM International, a former subsidiary of MGM, into the main MGM With Profits fund.

In outline the differences are as follows:

- Investments supporting MGMI WPP policies are held in a separate sub fund (as noted above) and the investment return credited to these policies will be based on the return earned by the sub fund.

- MGMI WPP policies do **not** participate in “the Society’s other gains and losses” arising from the normal operations of the Society. However, if the Society’s Board decides it is fair to all members to do so, MGMI WPP Policies would participate in distributions of extraordinary gains or losses.
- MGMI policies have charges for guarantees built into the charges applied to their policies and hence are **not** affected by the costs of guarantees paid to other policyholders
- Smoothing for MGMI WPP policyholders applies only to this group of policyholders taking into account the finances available in the sub fund

The Society has the right to stop maintaining a separate sub fund once the assets of that sub fund fall below €10million. Should this occur policies will continue to be treated in line with these principles adjusted only to allow for the merging of investments into the Society’s other With Profits funds.

### MGM Advantage Flexible Income Annuity (FIA)

This section explains briefly how the MGM Flexible Income Annuity shares in some of the profits of the Society.

Customers of this product have used their pension savings to invest in a range of externally managed funds to provide retirement income. The customer chooses from a range of funds offered. The With Profits fund is not used for this purpose.

MGM Flexible Income Annuity customers are therefore entitled only to a share in the Society’s “other gains and losses” (as described on page 5 of this guide) and mortality profits and losses from other Flexible Income Annuity customers. The bonuses declared will reflect these profits and losses.

The expected cost of the Minimum Income Guarantee is paid for by the charges on the policy. If the actual cost of the guarantee is more or less than this, the difference is met by or contributes to the Society’s profits.

Our With Profits Actuary advises the Society’s Board on bonus rates that are allocated to policyholders. Bonuses on the Flexible Income Annuity are declared annually, although we do not guarantee a bonus will be paid. There is no final bonus. The FIA smoothing policy is different from regular With Profits smoothing. It aims to distribute “other gains and losses” only in full each year although extreme levels of profit or losses may be spread over a number of years.

### Where can I find out more?

If you are still unsure about investing in With Profits, please seek advice from your Financial Adviser or call our customer centre on 01903 836067 (or +441903 836067 if calling from outside the UK).

This guide is a customer overview of our Principles and Practices of Financial Management (PPFM). The PPFM is a more detailed and technical guide to how we manage the With Profits fund.

### How to contact us

If you would like a copy, please contact our customer centre on 01903 836067 (or +441903 836067 if calling from outside the UK), email us at [customers@mgmadvantage.com](mailto:customers@mgmadvantage.com), or view our web site at [mgmadvantage.com](http://mgmadvantage.com).

