

North

Your guarantee in volatile times

Over the last 12 months we have experienced strong interest in North and the guarantee we provide.

We also recognise that you and your clients would like to be confident that the market turbulence has no impact on our ability to provide the guarantee.

We can assure you that AXA remains financially robust, and that in particular our risk management underpinning the guarantee is effective and efficient.

- the financial instruments that we use for hedging remain available, liquid, and fairly priced
- we have no material counterparty risk
- the short selling ban does not affect us
- the assets we create on our balance sheet through hedging are aligned with the liability we have under the guarantee, and
- our capital reserves remain well above those we believe we need to meet worst case scenarios.

Additionally, our experience in the United States, where our peer company AXA Equitable is one of the largest providers globally of these types of guarantees, confirms the robustness of our risk management approach on a far larger scale.

This is a product suited for the times. In fact, in the next month we're launching the Protected Investment guarantee, a 5 and 7 year return of capital, which will complement the existing Protected Growth guarantee.

The current volatility is symptomatic of market torn between two directions. This is a time of caution and capital preservation. Simultaneously, it is time to seek the right opportunities.

With North, you can do both.

For current writers of North, you are no doubt familiar with the principles that overarch our dynamic hedging process. Through dynamic hedging, North is the only guaranteed product in Australia where investors remain fully invested (100% participation, always) in growth assets of their choice, regardless of market conditions.

For those advisers who are new to the product or receiving client enquiries, please refer to the selection the FAQ attached.



redefining / investments

Frequently asked questions

Q. Can you describe North's philosophy in a nutshell?

We began designing North over two years ago, based on the success of similar protected products in the Global AXA Group's portfolio.

In our view, when it comes to investing, there is always an element of risk which makes investors uncomfortable. To address this, North takes the fear out of investing. North helps to eliminate emotional reactions to market movements, helping investors to avoid trying to time the market, avoid herding, be comfortable with risk, and save more.

Essentially, through our guarantees, we eliminate the risk of losing money while providing full access to market growth.

North administers superannuation, pension, and ordinary money. Our investment options include 50 managed funds with the guarantees, including index and active funds (or 110 without the guarantees). We also allow contributions, withdrawals, and switches through the term.

Q. What are the North 'guarantees'?

North is available with a Protected Investment guarantee (return of capital), with 5 and 7 year terms, or a Protected Growth guarantee (protect initial capital and lock in annual growth) over a choice of 10, 15 and 20 year terms.

Through dynamic hedging, North is the only guaranteed product in Australia where investors remain fully invested (100% participation, always) in growth assets of their choice, regardless of market conditions.

If investors feel that they no longer require the guarantee, they can simply turn it off at their discretion without affecting their assets or policy.

Q. How does 'dynamic hedging' work?

To provide the guarantee, we calculate the sensitivities of an investor's fund to market movements and match this risk with a portfolio of liquid, market-traded derivative instruments – primarily futures and interest rate swaps.

On a daily basis, our experienced team of analysts assess market movements and monitor the amount of risk that we are carrying to ensure that our hedge assets are moving in line with our hedge liabilities.

To maintain the effective performance of our program, hedging is rebalanced regularly to ensure ongoing protection.



Q. Dynamic hedging is new to the Australian market. Has this technique been tested elsewhere?

Dynamic hedging is a well known and proven risk management technique across the Global AXA Group.

AXA Equitable in the United States has been successfully hedging its book of guaranteed variable annuities over nearly a decade. Additionally, the existence of similar products across Asia and Europe has provided AXA Australia's North team with the required expertise and capabilities.

Q. Do you hold any capital for the guarantees?

As a second line of defence, we do hold capital for residual risks we bear. The amount of capital that we hold is based on applying very significant, instantaneous shock tests to financial market assumptions.

We currently have several times the amount of capital required, and this capital is invested in low-risk Cash Management Trusts.

Q. Is AXA in good shape during this time of volatility?

This is not the first investment cycle we have been through and it won't be the last. In the meantime it will continue to be a difficult time for our industry, from which no one is immune.

At AXA, we have built a reputation as a company that has a clear strategy, sets challenging long term goals, communicates them transparently and holds ourselves accountable for their delivery. We report against them on a regular basis.

It is an approach that has delivered consistently strong operating results over the long term and we will not be distracted from this despite current market volatility and its impact on our short term investment experience.

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