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Monthly Investment Update:
Volume 12, Issue 09
December, 2019

invest CARE

UNIT LINKED PRODUCTS FROM SBI LIFE INSURANCE CO. LTD.

INVESTMENT OBJECTIVES AND VISION

(A) Investment Objectives:

The investment objectives of the Company are to maximize the risk adjusted returns and ensure reasonable liquidity at all times. Management of the investment portfolio is a crucial function as investment risk and returns, inter alia, determine the ability of the Company to competitively price its products, ensure solvency at all times and earn the expected profitability. The investment policy outlined in this document seeks to set the direction and philosophy for the Company's investment operations. The Policy outlined below conforms to the IRDAI Investment Regulations and the Insurance Act. The Policy covers investment parameters, exposure norms and other relevant factors that will assist in taking prudent investment decisions. The Policy framework also takes into account asset liability management, market risks, portfolio duration, liquidity considerations, and credit risk. To summarize the investment policy aims to achieve the following Investment Objectives:

a) To acquire and maintain quality assets that will meet the liabilities accepted by the Company;

b) To be able to meet the reasonable expectations of the policyholders taking into account the safety of their funds with optimum Return;

c) To adhere to all Regulatory provisions;

d) To conduct all the related activities in a cost effective and efficient manner; and

e) To achieve performance in line with benchmarks identified for the different investment portfolios.

The Company has also defined the Investment Objectives for each Fund separately, on the basis of aforesaid broader Investment objectives.

(B) Investment Vision:

"To invest the funds on the prudent principles of Safety, Liquidity & Returns, with an overall vision of meeting reasonable expectations of policy holders".

Source: SBI Life Investment Policy

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Major Economic Indicators

Economic Indicators

Particulars	31-Dec-19	30-Nov-19	Change (%)	31-Mar-19	Change (%)
₹/$	71.38	71.74	0.50%	69.16	-3.21%
Forex Res.(Bn- 1 Wk Lag)	$ 454.95	$ 448.60	1.42%	$ 406.67	11.87%
Oil Price ($/Barrel)	$ 66.65	$ 60.49	10.18%	$ 68.39	-2.54%
Gold (₹/10 gm)	39,076	37,876	3.17%	31,854	22.67%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	6415	22490	-71.48%	33189	-80.67%
Debt (monthly)	-8537	-4420	-93.14%	14408	-159.25%

Indices

Particulars	31-Dec-19	30-Nov-19	Change (%)	31-Mar-19	Change (%)
BSE Sensex	41,253.74	40,793.81	1.13%	38,672.91	6.67%
S&P CNX Nifty	12,168.45	12,056.05	0.93%	11,623.90	4.68%
Dow Jones Industrial Avg	28,538.44	28,051.41	1.74%	25,928.68	10.07%
FTSE 100	7,542.40	7,346.50	2.67%	7,279.20	3.62%
Hang Seng Index	28,189.75	26,346.49	7.00%	29,051.36	-2.97%
Nikkei 225	23,656.62	23,293.91	1.56%	21,205.81	11.56%
B S E Metal Index	10,428.20	9,778.97	6.64%	11,355.12	-8.16%
B S E Realty Index	2,280.54	2,166.53	5.26%	2,077.09	9.79%
B S E Information Technology Index	15,475.81	14,875.14	4.04%	15,280.30	1.28%
B S E Auto Index	18,485.00	18,099.52	2.13%	18,824.89	-1.81%
B S E Bankex	36,671.50	36,190.99	1.33%	34,141.94	7.41%
B S E Power Index	1,926.25	1,924.80	0.08%	2,034.41	-5.32%
B S E Healthcare Index	13,429.11	13,603.33	-1.28%	14,407.89	-6.79%
B S E Capital Goods Index	16,943.93	17,384.46	-2.53%	18,471.99	-8.27%
B S E FMCG Index	11,405.88	11,723.58	-2.71%	11,741.51	-2.86%
B S E Oil & Gas Index	14,744.76	15,155.61	-2.71%	15,269.70	-3.44%

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Primary Key Rates

Particulars	31-Dec-19	30-Nov-19	Change (%)	31-Mar-19	Change (%)
Repo Rate*	5.15%	5.15%	0.00%	6.25%	-1.10%
Reverse Repo Rate**	4.90%	4.90%	0.00%	6.00%	-1.10%
CRR#	4.00%	4.00%	0.00%	4.00%	0.00%
SLR *#	18.50%	18.50%	0.00%	19.25%	-0.75%
Call money rate	5.20%	5.20%	0.00%	6.35%	-1.15%
Current Inflation Rate (WPI)	0.58%	0.16%	0.42%	2.93%	-2.35%
Current Inflation Rate (CPI) (Nov 19)	5.54%	4.62%	0.92%	2.57%	2.97%
IIP (WPI) % y-o-y (Oct 19)	-3.80%	-4.30%	0.50%	1.70%	-5.50%
AAA spread (bps)	83.00	94.00	-11.70%	61.00	36.07%

	2016-17	2017-18	2018-19	Q1 FY20	Q2 FY20
Real GDP % (New Growth No. by CSO)	7.10%	6.70%	6.80%	5.00%	4.50%

Interest Rates (FIMMDA)

Particulars	31-Dec-19	30-Nov-19	Change (%)	31-Mar-19	Change (%)
91 days T - Bill	5.05%	4.82%	0.23%	6.12%	-1.07%
364 days T - Bill	5.20%	5.11%	0.09%	6.43%	-1.23%
5 Years G - Sec (Annualized)	6.35%	6.01%	0.35%	6.85%	-0.49%
10 Years G - Sec (Annualized)	6.56%	6.47%	0.09%	7.35%	-0.79%
30 Years G - Sec (Annualized)	7.09%	7.10%	-0.01%	7.60%	-0.51%

No change
Negative change
Positive change

*** w.e.f Oct 04, 2019**
**** w.e.f Oct 04, 2019**
 # w.e.f Feb 09, 2013
***# w.e.f Oct 04, 2019**

CPI – Consumer Price Index
WPI – Wholesale Price Index
IIP – Index of Industrial Production

Data Sources
NSE
BSE
RBI
FIMMDA
Bloomberg & Reuters

DEBT MARKET REVIEW AND OUTLOOK

Market Review

December 2019 – It's never over!

The month of December 2019 saw yields move in a see-saw fashion before finally settling downfall. Globally data was mixed and as far as India was concerned some economic recovery is visible at the grass roots level. With just a month to go for the Union budget all eyes will shift towards fiscal pressures next month.

The movement in yield and other key indicators are as under:

Instrument	Mar' 19	Nov' 19	Dec' 19	M-O-M Change	YTD Change
10 Yr G-sec	7.35%	6.47%	6.56%	0.09%	-0.79%
30 Yr G-sec	7.60%	7.10%	7.09%	-0.01%	-0.51%
3 Yr AAA Bond	7.85%	6.75%	6.70%	-0.05%	-1.15%
5 Yr AAA Bond	7.95%	7.30%	7.40%	0.10%	-0.55%
10 Yr AAA Bond	8.25%	7.40%	7.50%	0.10%	-0.75%
364 Days T-bill	6.43%	5.11%	5.20%	0.09%	-1.23%
91 Days T-bill	6.12%	4.82%	5.05%	0.23%	-1.07%
1Yr Certificate of Deposit	7.00%	5.75%	5.30%	-0.45%	-1.70%
Credit spreads bps	61	94	83	-11	22
Crude $/barrel	68.39	60.49	66.65	$ 6.16	$ -1.74
USD / INR	69.16	71.74	71.38	₹ -0.36	₹ 2.22

Macro Indicators:

India's retail price inflation rate jumped to 5.54% year-on-year in November 2019, much higher than previous month's 4.62% and higher than market expectations of 4.3%. Inflation crossed the midpoint of Reserve Bank of India's medium-term target of 4% - 6%. Wholesale prices in India rose by 0.58% year-on-year in November 2019 higher than last month's 0.16% but much lower than expectations of falling from 1.08% gain in the previous month

India's industrial production contracted by 3.8% year on year in October 2019. This is against a -4.3% growth last month. The IHS Markit India Manufacturing PMI (Purchasing Managers Index) rose to 52.7 in December 2019 from 51.2 in the previous month. The latest reading pointed to the strongest pace of expansion in the manufacturing sector in 7 months.

Exports contracted by 0.3% against 1.1% contraction last month, while imports fell sharply by 12.7% but still better than last -16% fall. Trade deficit widened to US $ 12.1 billion against US $ 11.01 billion last month.

Around the World:

US Fed maintained policy rates cut rates in December 2019 as they had already done 75 bps of cuts in 2019. Powell continued to refer to it as just a mid-cycle adjustment and mentioned about the strength of the economy and called it better than a glass half-full. US recession probabilities have dropped considerably and growth seems fine even across the Atlantic. This is the first month all Asian central banks maintained a pause across the continent. Monetary easing could come to an end even in Euro area and Japan as fiscal stimulus could be preferred. South Korea exports have picked up and China data like imports and CPI also have shown some improvement. Bond yields across developed markets have risen by 30-40 bps over the last couple of months. China in-fact even did a 50 bps of Reserve Ratio cut to boost the economy.

Debt Outlook:

The bond yields were flat India as they marginally rose by 3 bps this month, but that did not mean that the month was without volatility. After the MPC (Monetary Policy Committee) meeting in December 2019 where interest rates were kept at status quo, against expectations of a rate cut bond yields rose by 30 bps steadily in just about few sessions. All the fears of a fiscal deficit target breach and poor tax revenues amidst rising CPI started putting pressure on markets. Globally too bond yields hardened and with stronger global data crude oil also headed higher slowly towards US $ 70 per barrel. CPI is projected to rise above 6% next month. However, in the second half of December 2019 RBI provided some relief by announcing a US style Operation Twist where they would buy long end G-secs and sell short end G-secs. This brought back 10 Y yield to 6.5% from the 6.8% level but with the Union Budget scheduled on 1st Feb and MPC meeting after that, we expect 10 Yr yield in a range between 6.50% and 6.80% and expect yields to head towards the higher range in the rest of FY 2020.

Equity Outlook

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Equity Outlook for the month of January, 2020

Sensex gave a return of 1.1% for the month ending December 2019 ending at 41254. Nifty ending with a return of 0.9% at a 12168.

We see difference in returns of major indices. Sensex is now bettered Nifty with a return of 14.4% for CY 2019 being a narrow index compared to Nifty of 12%. Returns for the year in CNX Midcap and CNX Small cap index has been negative 4.3% and 9.5%. Banking is one of the major sector index that gave a decent return of 20.7% for the year. All this shows more of concentrated movement led by passive buying.

Markets headed up despite two negative news that came up during the month. India's GDP fell to a 26 quarters low of 4.5% for the period ending September 2019 & in a surprise move The Reserve Bank of India did not cut interest rates.

Our markets have performed poorly versus other developed markets:

Returns of Developed markets in local currency for CY 2019 are as follows:

US Dow Jones Index	22.3%
US S&P 500	28.9%
HK	09.1%
Brazil	31.6%
Shanghai	22.3%

Inflation came to haunt the markets at 5.4% in November 2019 versus 4.6% in October 2019. October IIP contracted to 3.8% versus 4.3%. FPI's (Foreign Portfolio Investors) bought stocks worth US $ 1.1 billion versus domestic institutions selling stocks worth US $ 216 million for the month.

This year is marked by few events that came to rock the equity markets. It started with risk appetite coming down in financing the NBFC's (Non-Banking Finance companies) by the lending industry in general. NBFC's which approximately used to lend to the extent of around 42% of retail credit in the market dropped to 33% % as at of September 2019 during this year. This saw the slowdown in growth rates and continued to persist till the end of the year un resolved yet.

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To review the economy RBI cut rates 4 times in the year to total to 135 basis points. While the pass through in the system is found inadequate yet. No clear reasons emerge. Government announced a slew of measures to boost the growth further. Apart from spending in the second quarter (37% of GDP contribution was because of incremental government expenditure) government announced ₹ 25000 crore AIF (Alternative Investment Fund) fund to help the beleaguered real estate sector, it cut corporate tax from 30% to 22% and announced a ₹ 1.02 trillion infrastructure fund.

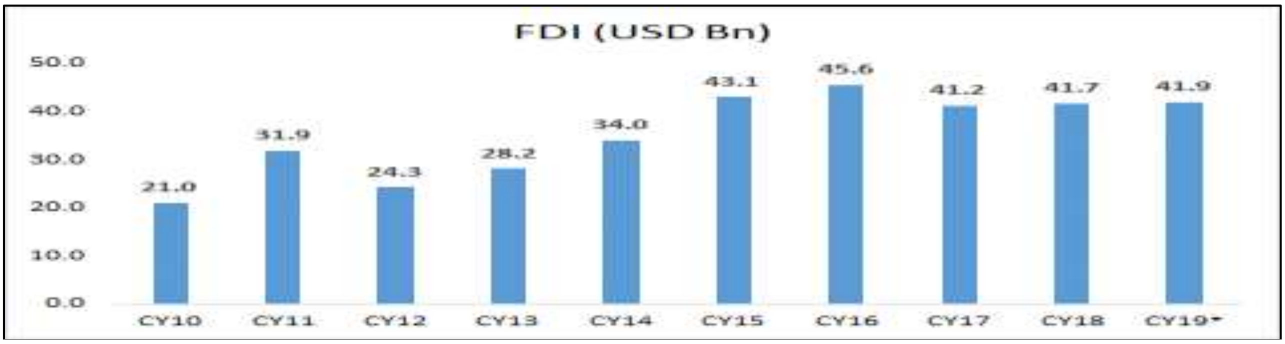
Few good developments too happened during the CY 2019. Ruling party NDA won the general elections in May 2019 with a convincing majority. A stable government was established. Making policies is easier than earlier now.

Towards the close of the year one key development was worth watching. Telecom wars were giving signs of ending. We saw increase in tariffs by all the three players.

On the international front it was one of the best years for international investors with S&P 500 index clocking 28%, Brazil giving 31.6% and Shanghai clocking 22.3% returns. Typically, with this kind of returns in home markets, India was lucky to receive US $ 14.5 billion of investment for the year from the FPI's for the calendar year.

This year would be remembered for the FDI that we received. Please find enclosed a chart of FDI that we received for the last 10 years. This goes far to say that as a destination of long term investments, India is one of the attractive ones as of now.

FDI (USD $ bn)



*CY 20 Data as on Oct 2019

As we move to the next year with a low base starting December quarter and the with BS VI confusion ending in March, we are optimistic of better growth from the June quarter. However, we still maintain the view that equities should perform better than fixed income. Therefore, the recommended funds include Equity, Balance and Mid Cap.

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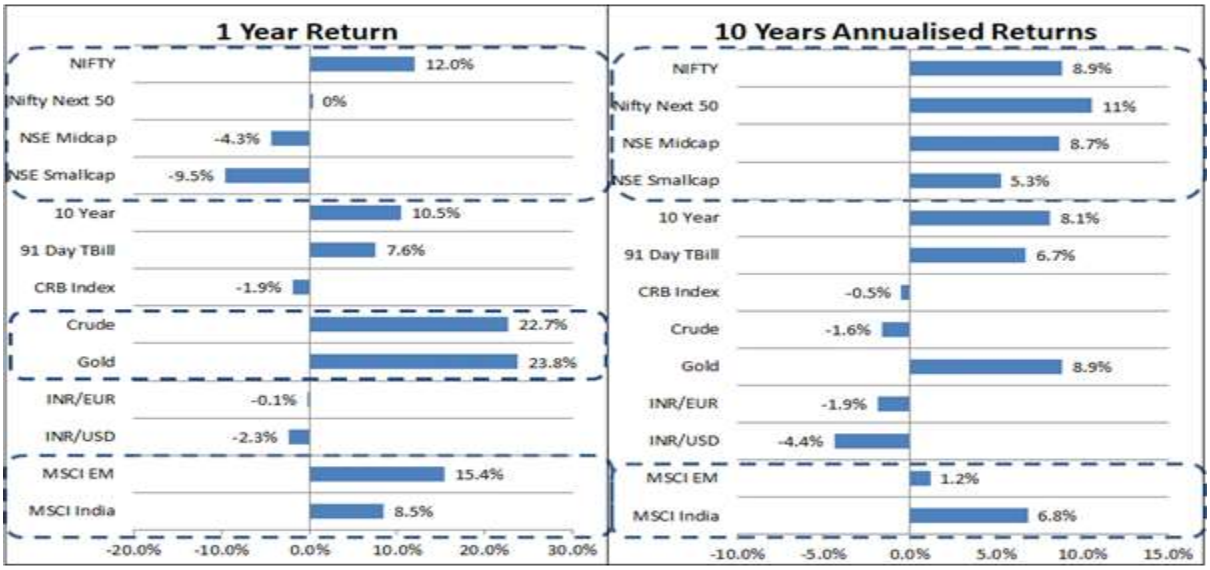
Below is the summary of Index returns, Asset class returns.

Probability of Index Returns December: In the below mentioned chart, we have given returns in major index for the last 40 years to explain average index returns for most of the time. This should help us understand the recent trends and long term returns.

			2016			
			2002			
			1982			
			1996			
			2018			
			1983			
			1984			
			2013	1980		
			1997	2012		
		2001	2004	2017	2005	1999
		1998	2019	1993	2006	2003
	2011	1987	1989	2014	2007	2009
	1995	2015	1994	1990	1988	1991
2008	2000	1986	2010	1992	1981	1985
-30 and below	-30 to -20	-20 to 0	0 to +20	20 to 40	40 to 60	60 and above
	Yearly returns in percent					

BSE Sensex (since 1980): Yearly performance +ve in December (+ve 31 out of 40 years) returns in between 0% to 20%, 14 times

Various Asset Classes Return- Long Term returns are healthy: In Below chart, we have given returns of certain asset classes for last one year to give the recent trends and 10 year return for showing how the risk return pans out.



RISK MANAGEMENT PRACTICE FOR UNIT LINKED PORTFOLIOS

Company's investment exposure to any sector is as per limits prescribed by IRDAI under Investment Regulations and the same is monitored on a daily basis. In addition, the company also follows stringent asset allocation metrics as per policy features communicated to the policy holder and the same is adhered to while making investment decisions. In case of guaranteed products, investments are made in suitable asset classes taking into account market and credit risk, and liquidity of the investment to ensure fulfillment of guarantee promised. There is an efficient stop loss policy in place, which is triggered every time the stock price breaches a specific threshold level. This warrants review of investment decision and establishes the rationale for continuance or discontinuance of the specific investment thus preventing sharp fall in value of our holdings and prolonged underperformance of the portfolio. Significant importance is given to asset liability management and accordingly, portfolios are reviewed on a monthly basis to ensure adherence.

Disclaimer:

1) This newsletter only gives an overview of economy and should not be construed as financial advice
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SBI Life Insurance Co. Ltd.
Registered Office and Corporate Office: "Natraj", M.V Road & Western Express Highway Junction, Andheri (E), Mumbai-400069
CIN: L99999MH2000PLC129113
Email: info@sbilife.co.in
IRDAI Regn. No. 111

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