

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

Major Economic Indicators



















Economic Indicators

Particulars	30-Nov-19	31-Oct-19	Change (%)	31-Mar-19	Change (%)
₹/\$	71.74	70.93	▶ -1.14%	69.16	▶ -3.73%
Forex Res.(Bn- 1 Wk Lag)	\$ 448.60	\$ 442.58	▶ 1.36%	\$ 406.67	▶ 10.31%
Oil Price (\$/Barrel)	\$ 60.49	\$ 60.67	▶ -0.30%	\$ 68.39	▶ -11.55%
Gold (₹/10 gm)	37,876	38,650	▶ -2.00%	31,854	▶ 18.91%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	22490	14657	▶ 53.44%	33189	▶ -32.24%
Debt (monthly)	-4420	4126	▶ -207.13%	14408	▶ -130.68%

Indices











Particulars	30-Nov-19	31-Oct-19	Change (%)	31-Mar-19	Change (%)
BSE Sensex	40,793.81	40,129.05	▶ 1.66%	38,672.91	▶ 5.48%
S&P CNX Nifty	12,056.05	11,877.45	▶ 1.50%	11,623.90	▶ 3.72%
Dow Jones Industrial Avg	28,051.41	27,046.23	▶ 3.72%	25,928.68	▶ 8.19%
FTSE 100	7,346.50	7,248.40	▶ 1.35%	7,279.20	▶ 0.92%
Hang Seng Index	26,346.49	26,906.72	▶ -2.08%	29,051.36	▶ -9.31%
Nikkei 225	23,293.91	22,927.04	▶ 1.60%	21,205.81	▶ 9.85%
B S E Bankex	36,190.99	33,924.81	▶ 6.68%	34,141.94	▶ 6.00%
B S E Metal Index	9,778.97	9,305.46	▶ 5.09%	11,355.12	▶ -13.88%
B S E Realty Index	2,166.53	2,062.95	▶ 5.02%	2,077.09	▶ 4.31%
B S E Healthcare Index	13,603.33	13,229.05	▶ 2.83%	14,407.89	▶ -5.58%
B S E Power Index	1,924.80	1,986.56	▶ -3.11%	2,034.41	▶ -5.39%
B S E Information Technology Index	14,875.14	15,392.04	▶ -3.36%	15,280.30	▶ -2.65%
B S E Oil & Gas Index	15,155.61	15,734.75	▶ -3.68%	15,269.70	▶ -0.75%
B S E FMCG Index	11,723.58	12,245.94	▶ -4.27%	11,741.51	▶ -0.15%
B S E Auto Index	18,099.52	18,945.63	▶ -4.47%	18,824.89	▶ -3.85%
B S E Capital Goods Index	17,384.46	18,823.14	▶ -7.64%	18,471.99	▶ -5.89%




Primary Key Rates

Particulars	30-Nov-19	31-Oct-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)	0.16%	0.33%	 -0.17%	2.93%	 -2.77%
Current Inflation Rate (CPI) (Oct 19)	4.62%	3.99%	 0.63%	2.57%	 2.05%
IIP (WPI) % y-o-y (Sept 19)	-4.30%	-1.10%	 -3.20%	1.70%	 -6.00%
AAA spread (bps)	94.00	77.00	 22.08%	61.00	 54.10%

	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	30-Nov-19	31-Oct-19	Change (%)	31-Mar-19	Change (%)
91 days T - Bill	4.82%	5.02%	 -0.20%	6.12%	 -1.30%
364 days T - Bill	5.11%	5.27%	 -0.16%	6.43%	 -1.32%
5 Years G - Sec (Annualized)	6.01%	6.04%	 -0.03%	6.85%	 -0.84%
10 Years G - Sec (Annualized)	6.47%	6.45%	 0.01%	7.35%	 -0.88%
30 Years G - Sec (Annualized)	7.10%	7.09%	 0.01%	7.60%	 -0.50%

 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

November 2019 – Year end and rally ends

The month of November 2019 saw yields fall owing to expectations of weak data and monetary easing. Better economic data globally and fiscal risks domestically will lead to reversal of bond yields. Fears of a recession in the developed economies also started falling.

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

Instrument	Mar' 19	Oct' 19	Nov' 19	M-O-M Change	YTD Change
10 Yr G-sec	7.35%	6.45%	6.47%	0.02%	-0.88%
30 Yr G-sec	7.60%	7.09%	7.10%	0.01%	-0.50%
3 Yr AAA Bond	7.85%	6.75%	6.75%	0.00%	-1.10%
5 Yr AAA Bond	7.95%	7.20%	7.30%	0.10%	-0.65%
10 Yr AAA Bond	8.25%	7.65%	7.40%	-0.25%	-0.85%
364 Days T-bill	6.43%	5.27%	5.11%	-0.16%	-1.32%
91 Days T-bill	6.12%	5.02%	4.82%	-0.20%	-1.30%
1Yr Certificate of Deposit	7.00%	5.90%	5.75%	-0.15%	-1.25%
Credit spreads bps	61	77	94	17	33
Crude \$/barrel	68.39	60.67	60.49	\$ -0.18	\$ -7.90
USD / INR	69.16	70.93	71.74	₹ 0.81	₹ 2.58

Macro Indicators:

India's retail price inflation rate jumped to 4.62% year-on-year in October 2019, much higher than previous month's 3.99% and slightly higher than market expectations of 4.35%. Inflation slightly crossed Reserve Bank of India's medium-term target of 4% for the 14th consecutive month. Wholesale prices in India rose by 0.16% year-on-year in September 2019, falling from 1.08% gain in the previous month.

India's industrial production contracted by 4.3% year-on-year in September 2019. This is against a -1.1% growth last month. The IHS Markit India Manufacturing PMI (Purchasing Managers Index) rose to 51.2 in November 2019 from 50.6 in the previous month. The latest reading pointed to the weakest pace of expansion in the manufacturing sector since October 2017.

Exports contracted by 1.1% against 6.6% last month, while imports fell sharply by 16.3% against 13.8% last month. Trade deficit widened to US \$ 11.01 billion against US \$ 10.86 billion last month.

Around the World:

US Fed cut rates in October 2019 as expected by 25 bps making it the third consecutive cut but Powell continued to refer to it as just a mid-cycle adjustment. After that event data in the US continued to be strong with jobs data being better than expected. Even PMI and durable goods order and sentiment indices are up in the US. No more rate cuts are priced in over the next 12 months and recession probabilities have dropped massively. 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 3-40 bps over the last couple of months.

Debt Outlook:

The bond yields in India fell 18 bps this month, but that was because of the imminent rate cut expectations in December 2019. Markets rallied expecting November 2019 end GDP (Gross Domestic Product) number would be abysmal and then this would raise expectations if monetary easing. But we did not concur with this view and thought that bond yields would rise owing to fiscal pressures. RBI will not be in a position to do too many rate cuts as inflation also had started heading higher. High frequency indicators also point to a recovery of sort already in November 2019. Globally too bond yields hardened and with stringer global data crude oil also headed higher. MPC (Monetary Policy Committee) surprised markets by keep status quo on rates and this pushed yields higher by 18 bps on the policy day. With weakening growth and lower tax collections the Centre's fiscal hole will widen and the breach of deficit could be as much 40 bps of GDP. The RBI Governor has started mentioning the CPI trajectory higher fiscal deficit and this means that rate cut is ruled out for now. This would push yields higher in the coming months. We expect 10 Yr yield in a range between 6.60% and 6.80% (6.45% GOI 2029).

Equity Outlook



Equity Market Outlook for the Month of December, 2019

Sensex and Nifty gave a return of 1.7% and 1.5% in the month of November, 2019 to end at 40794 and 12056. This is the new life time high close for each of the indices. Broader market was not as strong. BSE mid cap went up 1.48% and BSE small cap was up 0.02%. Banking and Metal stocks led the rally. Nifty Banking index was up 6.25% and BSE Metals index was up 5%. IT and FMCG indices fell 3.6% and 4.2% respectively.

Government further announced its intent to uplift sentiments. A ₹ 250 billion fund to complete projects that are unfinished in the Real estate sector & deferment of payments by Telecom companies (their dues on spectrum for two years) are steps in right direction.

FPI's (Foreign Portfolio Investors) invested US \$ 3.3 billion and Domestic Institutions pulled out US \$ 1.1 billion. Domestic institutions are sellers after a period of 6 months. Inflows to mutual funds slowed. Inflows were negative ₹ 3200 crore for November 2019.

On the economic front, September 2019 CPI rose to 4.62% (3.3% in August 2019) led by higher food inflation. WPI inflation was at 0.16% for October 2019. Real and Nominal GDP growth had come down significantly to a low of 4.5% from 6.1% for 2nd quarter of FY 2020. If not for Government spending growth would have collapsed to 3.1%. There are no indications of revival immediately, efforts to spur growth though are on. Credit flow into the system coupled with lack of private investment has impacted the growth numbers. Exports too dropped due to uncertainty surrounding trade talks.

After a long time, telecom came back. Collapse of many operators in the Airline industry (pricing wars), a big blow due to supreme court's verdict to pay up AGR (Adjusted Gross Revenue) due in excess of ₹ 1 trillion, may have perhaps led to sharp increase in tariffs. Telecom tariffs have moved more than 20% and this has signaled the end of price war and possible revival for the sector.

Results season has revealed a tepid growth in revenues for Nifty 50 companies where as the bottom line and at EBITDA level there was positive surprise. A chart indicating Nifty 50 and BSE 100 companies Revenue and profitability growth is enclosed for reference.

	September 19 Qtr Growth					
	Sales %		EBITDA %		PAT %	
	Actual QoQ	Est Vs Actual	Actual QoQ	Est Vs Actual	Actual QoQ	Est Vs Actual
Nifty	(4.0)	(0.4)	0.5	4.7	14.4	17.7
BSE 100	(4.3)	(5.3)	0.6	7.8	12.2	18.8

We continue with our positive stands on the market despite the fall. Firstly, there would be corrective action to stem the fall. Second, results will show growth in bottom line led by tax cuts and low base. Three, interest rate cuts will show up in borrowing costs and would eventually spur growth. Four, despite all said India would be one of the few economies growing at around 5% across the globe. Five, ETF led investments will keep the ball rolling.

Rallies may be led by few stocks in the index and therefore sticking to large caps would help. However, value is emerging in Mid Cap space. Therefore, a combination of Equity led and Mid Cap funds currently is most preferred.

Indices Valuation

Nifty	09-Dec	1M Back	3M Back	6M Back	12M Back	10 Year Avg	Nifty Midcap	09-Dec	1M Back	3M Back	6M Back	12M Back	10 Year Avg
Trailing PE	26.03	26.00	23.35	26.00	22.37	19.62	Trailing PE	26.35	26.39	33.74	34.11	47.36	23.32
Forward PE	21.21	20.93	18.32	19.05	19.19	16.86	Forward PE	18.76	18.24	16.03	16.28	19.54	16.60
Trailing PB	2.88	2.87	2.72	3.03	2.87	2.79	Trailing PB	2.08	2.07	1.91	2.19	2.21	1.96
Dividend Yr	0.01	0.01	0.01	0.01	0.01	0.01	Dividend Yield	0.01	0.01	0.01	0.01	0.01	0.02

Yields have to harden. Our analysis of switch from Bond fund to Equity Oriented funds would continue. Long term returns for Mid Cap Equity funds should far exceed Bond fund returns. Ditto with Equity funds.

We have provided details of asset class returns for One year and Ten years together with probability of index returns for your ready reference.

Exhibit 1: Various Asset class Return- Long Term returns are healthy

1 Year		10 Years CAGR	
NIFTY	10.8%	NIFTY	9.1%
Nifty Next 50	3%	Nifty Next 50	11%
NSE Midcap	-1.6%	NSE Midcap	9.2%
NSE Smallcap-6.5%		NSE Smallcap	5.9%
10 Year	12.9%	10 Year	8.1%
91 Day TBill	8.1%	91 Day TBill	6.7%
CRB Index7.1%		CRB Index	-0.7%
Crude	6.3%	Crude	-2.3%
Gold	25.3%	Gold	7.9%
INR/EUR	0.3%	INR/EUR	-1.2%
INR/USD*	-3.1%	INR/USD*	-4.4%
MSCI EM	4.6%	MSCI EM	0.9%
MSCI India	7.4%	MSCI India	7.1%

*Rupee depreciated against USD

In above 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.

In the below mentioned chart, we have given returns in major indices for the last 30 years plus to explain average index returns for most of the time. This should help us understand the recent trends and long term returns.

Exhibit 2: Probability of Index Returns November

			1986			
			2016			
		2001	1983	1980		
		2011	1982	1997		
		1987	2013	2004	2005	
		2000	1984	2017	2007	1999
		2015	2018	1994	1981	1988
		1996	2019	1993	2006	1990
	1995	2002	2010	1992	2003	2009
2008	1998	1989	2012	2014	1991	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 November (+ve 29 out of 40 years) returns in between 0% to 20%, 10 times

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
- 2) SBI Life Insurance Co. Ltd however makes no warranties, representations, promises or statements that information contained herein are correct and accurate. Please consult your Advisor/Consultant before making the investment decision

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