

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	31-Jan-21	31-Dec-20	Change (%)	31-Mar-20	Change (%)
₹/\$	72.95	73.07	▶ 0.16%	75.63	▶ 3.54%
Forex Res.(Bn- 1 Wk Lag)	\$ 585.33	\$ 580.84	▶ 0.77%	\$ 475.56	▶ 23.08%
Oil Price (\$/Barrel)	\$ 55.04	\$ 51.33	▶ 7.23%	\$ 23.55	▶ 133.72%
Gold (₹/10 gm)	49,205	49,993	▶ -1.58%	40,989	▶ 20.04%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	14512	54017	▶ -73.13%	-62026	▶ -123.40%
Debt (monthly)	-5151	5311	▶ -196.99%	-58579	▶ -91.21%

Indices

Particulars	31-Jan-21	31-Dec-20	Change (%)	31-Mar-20	Change (%)
BSE Sensex	46,285.77	47,751.33	▶ -3.07%	29,468.49	▶ 57.07%
S&P CNX Nifty	13,634.60	13,981.75	▶ -2.48%	8,597.75	▶ 58.58%
Dow Jones Industrial Avg	29,982.62	30,606.48	▶ -2.04%	21,917.16	▶ 36.80%
FTSE 100	6,407.50	6,460.50	▶ -0.82%	5,672.00	▶ 12.97%
Hang Seng Index	28,283.71	27,231.13	▶ 3.87%	23,603.48	▶ 19.83%
Nikkei 225	27,663.39	27,444.17	▶ 0.80%	18,917.01	▶ 46.24%
B S E Auto Index	22,127.69	20,811.49	▶ 6.32%	10,746.15	▶ 105.91%
B S E Capital Goods Index	19,481.53	18,744.78	▶ 3.93%	10,979.45	▶ 77.44%
B S E Information Technology Index	24,820.69	24,248.26	▶ 2.36%	12,842.72	▶ 93.27%
B S E Oil & Gas Index	13,811.98	14,090.07	▶ -1.97%	10,020.85	▶ 37.83%
B S E Realty Index	2,418.52	2,478.14	▶ -2.41%	1,353.65	▶ 78.67%
B S E Power Index	2,004.65	2,062.13	▶ -2.79%	1,377.95	▶ 45.48%
B S E FMCG Index	12,218.24	12,608.96	▶ -3.10%	10,254.89	▶ 19.15%
B S E Bankex	34,662.51	35,888.42	▶ -3.42%	22,050.02	▶ 57.20%
B S E Healthcare Index	20,628.71	21,681.24	▶ -4.85%	12,148.57	▶ 69.80%
B S E Metal Index	11,031.12	11,599.41	▶ -4.90%	5,713.28	▶ 93.08%

Primary Key Rates

Particulars	31-Jan-21	31-Dec-20	Change (%)	31-Mar-20	Change (%)
Repo Rate*	4.00%	4.00%	▶ 0.00%	4.40%	▶ -0.40%
Reverse Repo Rate**	3.35%	3.35%	▶ 0.00%	4.00%	▶ -0.65%
CRR#	3.00%	3.00%	▶ 0.00%	3.00%	▶ 0.00%
SLR *#	18.00%	18.00%	▶ 0.00%	18.25%	▶ -0.25%
Call money rate	3.18%	2.10%	▶ 1.08%	4.30%	▶ -1.12%
Current Inflation Rate (WPI)	1.22%	1.55%	▶ -0.33%	2.26%	▶ -1.04%
Current Inflation Rate (CPI) (Dec 20)	4.59%	6.93%	▶ -2.34%	6.58%	▶ -1.99%
IIP (WPI) % y-o-y (Nov 20)	-1.90%	3.60%	▶ -5.50%	2.00%	▶ -3.90%
AAA spread (bps)	88.00	62.00	▶ 41.94%	90.00	▶ -2.22%

	2016-17	2017-18	2018-19	2019-20	Q1 FY21
Real GDP % (New Growth No. by CSO)	7.10%	6.70%	6.80%	4.20%	-23.90%

Interest Rates (FIMMDA)

Particulars	31-Jan-21	31-Dec-20	Change (%)	31-Mar-20	Change (%)
91 days T - Bill	3.37%	3.00%	▶ 0.37%	4.20%	▶ -0.83%
364 days T - Bill	3.73%	3.42%	▶ 0.31%	4.50%	▶ -0.77%
5 Years G - Sec (Annualized)	5.22%	5.04%	▶ 0.18%	5.40%	▶ -0.18%
10 Years G - Sec (Annualized)	5.91%	5.87%	▶ 0.04%	6.14%	▶ -0.23%
30 Years G - Sec (Annualized)	6.52%	6.53%	▶ -0.02%	6.79%	▶ -0.27%

-  No change
 Negative change
 Positive change

* w.e.f May 22, 2020

** w.e.f May 22, 2020

w.e.f Mar 27, 2020

*# w.e.f Apr 09, 2020

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

January 2021 – The calendar year ends on a better note

This budget was touted to be a "one in 100 years", and whether it was meant to be just an indication of the pandemic which was an once in a century kind of event or something even bigger is something that will be debated. But the Finance Minister certainly deserved credit for being practical and sensible. We think the theme of this budget is "Spend, grow and be realistic". Every year the budget becomes an event that ends the same way, with the FM trying to look over-optimistic about outcomes and being restrictive about expenditure just to please markets and rating agencies. This time around they certainly have managed quite a bit by pleasing equity markets and rating agencies while just disappointing the bond markets.

India Macro movers

December 2020 CPI at 4.59% came in much lower than largely led by food. It was against 6.93% in December 2020.

India's monthly merchandise trade balance for December 2020 at US \$ 15 billion came wider than consensus (US \$ 12 billion) and widened from US \$ 9.8 billion in November 2020. Merchandise exports were up 0.14% in December 2020 (versus 8.7% loss in November 2020) while imports were up 7.5% in December 2020.

While in most years the credit rating agencies are like hawks forcing governments to cut down deficits and debt burden, 2020 has been a difficult year and clearly the onus is on nations to recover and grow faster, which automatically would bring down their debt burdens. This is where Nirmala Sitharaman has excelled as the FY 2021 deficit is 9.5%, almost 200 bps higher than market expectations thanks to a total expenditure target which is ₹ 4 lac crores more than surveys and estimates. Higher spending would definitely mean better and quicker growth and this has pleased equities and also rating agencies but bond yields have jumped 15% scared by the higher fiscal deficits both in FY 2021 and FY 2022 (6.8% of GDP against 5.5% expected). the govt. is set to spend ₹ 11 lac crs over the January-March 2021 and this would have a splendid multiplier effect on growth. The other thing that should please analysts, economists and markets over the next few months is that the center has chosen to push capital spending up by ₹ 1 lac crs while cutting on the revenue expenditure side in FY 2022 adding further to the "quality of spending".

In prior years the FM tends to over-estimate revenues and here too no mathematical jugglery is involved as FY 2021 direct and indirect tax revenue assumptions are very much in line with historical growth rates achieved in the last quarter. The govt has also been conservative in assuming the disinvestments number at ₹ 1.75 lac crs

almost ₹ 25-50k crs less than market expectations. We believe it is always better and wise to under-promise and over-deliver and the govt. has taken the first step towards that in this budget.

Global News

The data in the US is mixed with slightly disappointing jobs reports but better than expected IP and CPI and retail sales data. The Fed is determined to keep buying US \$ 120 billion monthly in Treasury and MBS to keep the growth going. DM central banks are also approaching their policies to not allow their currencies to rally against the USD. ECB (European Central Bank) is figuring out reasons for the Euro strength while RBA recently raised QE purchases to weaken the Aussie Dollar.

Outlook

Bond Markets will find it hard to see yields coming down anytime soon especially since RBI will not be in a position to sound dovish at the back of a massive spending program left in FY 2021. Higher spending will have an inflationary impact and hence the best that MPC (Monetary Policy Committee) could do is provide solace that accommodative stance will continue. If RBI talks about liquidity withdrawal markets will get hit further and yields could rise to 6.2% against 6.05% seen today. But as long as stance is maintained and no talks of liquidity withdrawal is mentioned, we see yields staying stable with RBI intervention through OMOs (Open Market Operations).

Better than expected growth, revenue collections and maybe talks of index inclusion in bond indices could all act like positive surprised and bring yields down. We expect 10 yr yield to range between 6.15% and 5.9% in the rest of FY 2021. FY 2022 could see yields have a floor of 6% and range between 6-6.25%, because growth could improve in the coming months.

Equity Outlook

Equity Market Outlook for February, 2021

Good results especially from IT majors, swearing of new president ending the un certainty and subsequent expectation announcement of likely big push towards infrastructure in US made more money flow into EM's (Emerging Markets) and India as a result.

Sensex and Nifty ended at 46286 and 13635 down 3.1% and 2.5% on the back of profit booking and nervous, going towards budget. There was an apprehension on new year's fiscal deficit and funding this. There was a view that budget might look at stock markets as they did well during the year.

Budget on the other hand was full of positive surprises for the Capital Markets. First of all, it increased the Fiscal Deficit for 2021 and 2022 to 9.5% and 6.8% almost a 100 basis increase from where the market expected. It set a target deficit of 4.5% for 2026 setting aside all the FRBM (Fiscal Responsibility and Budget Management) targets, that earlier FM's cared for the most.

Targets appear realistic with Direct Tax revenue expected to grow 17% (22% Direct Tax and 11% indirect tax) and GST (Goods and Service Tax) expected to grow 22% given the low base. On the expenditure side Revenue expenditure is expected to grow -3% and Capital expenditure is expected to grow 26%.

Broader indices out performed with BSE Mid Cap index giving a positive return of 0.8%.

FPI's (Foreign Portfolio Investors) pumped in US \$ 3 billion into equities whereas the DII's (Direct Institutional Investors) sold stocks worth US \$ 2 billion. A closer look at sector indices reveals story of \$ strengthening. Metals index was down 4.9% for the month. Our markets showed a mixed performance versus Asian peers with Nifty performing better compared to Philippines and Malaysia but underperforming Thailand, Taiwan, Shanghai and Korea.

Results reported as of now is showing a good beat in expectations.

Though the story of \$ weakening and money shift towards EM's is continuing, Budget has given a new Philip to the Capital Markets. Setting aside the FRBM targets, laying stress on growth first and then revenue and improving the quality of spending by doing this more into Capital expenditure. Our core belief that Equity should outperform has strengthened because of this.

We continue to recommend Mid cap fund, Balance fund & Bond Optimizer fund for our policy holders.

Equity- Aspirational India

This budget is a surprising change from the past with its strong impetus to growth, emphasis on multiplier effects on the economy with increased outlays on social & physical infrastructure, conservatism in revenue/expenditure projections and transparency in fiscal numbers. For the last few years the economic growth was being adversely impacted by some or the other factor like demonetization, GST or the Covid pandemic. The FM has used this Budget as an opportunity to set India on a strong growth trajectory with a higher fiscal deficit not only for FY22 (at 6.8% of GDP (Gross Domestic Product) vs market expectations of 5.5%) but a consolidation target of 4.5% till FY26...this long and steady path means that the Government is likely to remain growth supportive for many years.

The FM has not changed any provisions in income tax. From a Capital Markets standpoint there was anxiousness around a likely hike in Capital Gains taxes, which has also not happened and is a big relief for markets.

The Budget numbers score high on transparency with off-budget items, like the dues of the Food Corporation of India, now being included in the Budget. Past subsidy arrears have also been accounted for, upping the credibility of the fiscal math.

The quality of expenditure from the Budget has also improved with Capital expenditure being ~16% of total budgeted spending vs ~12.5% over the last few years. There are increased allocations across various infrastructure segments of Roads, Rail & Water. Focus on affordable housing continues with extension of certain benefits for one more year. The budget has also increased outlays for improving the healthcare infrastructure in the country with additional allocation of ₹ 640 billion.

The proposal to set-up a bad bank for cleaning-up the banking system looks exciting and could increase the system lending capacity which is much-needed to support growth. The Govt. has also stated its intent to divest its stake from two PSU Banks and a general insurance company... the Govt. is indicating that it is increasingly looking to free up its resources to focus on governance. The setting up of a Development Financial Institution, that would target to raise ₹ 5 trillion over next three years, would be a big positive for financing the massive infrastructure needs of the country.

Other announcements that are likely to be supportive for equity markets are the announcement of a scrappage policy for automobiles. In continuation of its PLI (Production Linked Incentive) schemes the Government will launch 7 Mega Investment Textile Parks. The Govt. will also frame an asset monetization plan for monetizing road assets of NHAI,

Dedicated Freight Corridors of Railways, oil & gas pipelines etc and set-up an SPV (Special Purpose vehicle) to monetize Government/PSU land- all this is likely to generate resources for further investments in the coming years.

We believe this Budget reiterates the Government's commitment towards its aspiration of US \$ 5 trillion economy. We believe that reforms announcements from the Government. are likely to continue outside the Budget as well, like the PLI schemes that seek to benefit from diversification of global supply chains. As the pandemic fears recede this year and the on-the ground situation normalizes, the growth levers are in-place for an exciting journey ahead. While near-term valuations may look expensive given the recent run-up in the market, it needs to be noted that Nifty earnings are likely to grow at a strong CAGR of 20%+ over FY21-23. So, we advise investors to continue to invest in Equities for long-term gains.

Budget review

The FM certainly deserved credit for being practical. We think of this budget as "Spend, grow and be realistic".

Main highlights:

- A. The FY 21 numbers mostly were in line except for expenditure which was ₹ 34 lac crs against ₹ 30 lac crs expected
- B. This means that deficit was higher at ₹ 18.4 lac crs instead of ₹ 14 lac crs and this on a base of ₹ 194 lac crs of nominal GDP, means close to 2% wider fiscal deficit than expected at 9.5%.
- C. This is good in our view as this means that government will look to spend ₹ 11 lac crs in January-March 2021 (total expenditure is ₹ 23 lac crs till December 2020)
- D. This is roughly ₹ 4 lac crs a month of spending against ₹ 2.5 lac crs on average done in first 9 months
- E. This would mean a good impact on growth (using spending multiplier effect)

The assumption on disinvestments is also reasonable at ₹ 1.75 lac crs rather than ₹ 2.5 lac crs or more which markets were expecting.

This was probably an ideal year for raising debt and spending to improve growth with a pardon from rating agencies due to Covid crisis. But government had taken a firm stand. For growth we need to borrow and spend. Thus the deficit target, set as per FRBM had been pushed. Growth should take care.

This is where FM has excelled as the FY 21 deficit is 9.5%, almost 200 bps higher than market expectations thanks to a total expenditure target which is ₹ 4 lac crores more than surveys and estimates.

Bond Markets will find it hard to see yields coming down anytime soon especially since RBI will not be in a position to sound dovish at the back of a massive spending program left in FY 21. Higher spending will have an inflationary impact. MPC (Monetary Policy Committee) could provide accommodative stance. Yields could rise towards the end of second quarter. But as long as stance is maintained and no talks of liquidity withdrawal is mentioned, we see yields staying stable with RBI intervention through OMOs.

Better than expected growth, revenue collections and maybe talks of index inclusion in bond indices could all act like positive surprises and bring yields down. We expect 10 yr yield to range between 6.15% and 5.9% in the rest of FY 21. FY 22 could see yields have a floor of 6% and range between 6-6.25%, because growth could improve in the coming quarters.

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.



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- 1) This newsletter only gives an overview of economy and should not be construed as financial advice
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