

## 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-May-20	30-Apr-20	Change (%)	31-Mar-20	Change (%)
₹/\$	75.62	75.10	 -0.69%	75.63	 0.01%
Forex Res.(Bn- 1 Wk Lag)	\$ 490.04	\$ 479.46	 2.21%	\$ 475.56	 3.05%
Oil Price (\$/Barrel)	\$ 37.84	\$ 25.28	 49.68%	\$ 23.55	 60.68%
Gold (₹/10 gm)	40,989	40,989	 0.00%	40,989	 0.00%
<b>FII inflows (Net) - Crs (₹)</b>					
Equity (monthly)	13001	-309	 4307.44%	-62026	 -120.96%
Debt (monthly)	-18988	-12483	 -52.11%	-58579	 -67.59%

### Indices

Particulars	31-May-20	30-Apr-20	Change (%)	31-Mar-20	Change (%)
BSE Sensex	32,424.10	33,717.62	 -3.84%	29,468.49	 10.03%
S&P CNX Nifty	9,580.30	9,859.90	 -2.84%	8,597.75	 11.43%
Dow Jones Industrial Avg	25,383.11	24,345.72	 4.26%	21,917.16	 15.81%
FTSE 100	6,076.60	5,901.20	 2.97%	5,672.00	 7.13%
Hang Seng Index	22,961.47	24,643.59	 -6.83%	23,603.48	 -2.72%
Nikkei 225	21,877.89	20,193.69	 8.34%	18,917.01	 15.65%
B S E Auto Index	14,094.69	13,349.86	 5.58%	10,746.15	 31.16%
B S E Healthcare Index	15,646.40	15,332.39	 2.05%	12,148.57	 28.79%
B S E Capital Goods Index	12,333.98	12,186.72	 1.21%	10,979.45	 12.34%
B S E FMCG Index	10,897.67	10,770.70	 1.18%	10,254.89	 6.27%
B S E Metal Index	6,805.26	6,745.97	 0.88%	5,713.28	 19.11%
B S E Power Index	1,481.53	1,490.51	 -0.60%	1,377.95	 7.52%
B S E Information Technology Index	14,067.30	14,235.04	 -1.18%	12,842.72	 9.54%
B S E Oil & Gas Index	11,835.97	12,066.36	 -1.91%	10,020.85	 18.11%
B S E Realty Index	1,411.46	1,450.37	 -2.68%	1,353.65	 4.27%
B S E Bankex	22,135.67	24,724.52	 -10.47%	22,050.02	 0.39%

### Primary Key Rates

Particulars	31-May-20	30-Apr-20	Change (%)	31-Mar-20	Change (%)
Repo Rate*	4.00%	4.40%	 -0.40%	4.40%	 -0.40%
Reverse Repo Rate**	3.35%	3.75%	 -0.40%	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	3.70%	3.75%	 -0.05%	4.30%	 -0.60%
Current Inflation Rate (WPI)	1.00%	1.00%	 0.00%	2.26%	 -1.26%
Current Inflation Rate (CPI) (Mar 20)	5.91%	5.91%	 0.00%	6.58%	 -0.67%
IIP (WPI) % y-o-y (Mar 20)	-16.70%	4.50%	 -21.20%	2.00%	 -18.70%
AAA spread (bps)	68.00	95.00	 -28.42%	90.00	 -24.44%

	2016-17	2017-18	2018-19	2019-20	Q4 FY20
Real GDP % (New Growth No. by CSO)	7.10%	6.70%	6.80%	4.20%	3.10%

### Interest Rates (FIMMDA)

Particulars	31-May-20	30-Apr-20	Change (%)	31-Mar-20	Change (%)
91 days T - Bill	3.25%	3.59%	 -0.34%	4.20%	 -0.95%
364 days T - Bill	3.40%	3.68%	 -0.28%	4.50%	 -1.10%
5 Years G - Sec (Annualized)	4.58%	4.73%	 -0.15%	5.40%	 -0.82%
10 Years G - Sec (Annualized)	6.01%	6.11%	 -0.10%	6.14%	 -0.13%
30 Years G - Sec (Annualized)	6.60%	6.66%	 -0.06%	6.79%	 -0.19%

-  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

## WPI & CPI data not available, so taken same as of Mar 20

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

#### May 2020 – More lock-downs but markets optimistic

The month of May 2020 saw yields remain stable mostly with 10-year yield falling by a marginal 10 bps and a new 10 year Benchmark was also introduced. May 2020 was another month with worse economic data RBI rate cuts, however, Rupee stabilized and flows were seen into equity markets and debt outflows continued.

### India Macro movers

4Q FY 2020 GDP (Gross Domestic Product) growth at 3.1% surprised to the upside (consensus: 1.6%). However, the Central Statistical Organization (CSO) noted that due to the lockdown data collection was a challenge and revisions are to be expected. Economists expect significant downward revisions as they believe that GDP growth is deviating from other macro indicators. 4Q GDP growth was boosted by strong agricultural (5.9%) and government spending (10.1%) growth.

India reported the weakest PMI (Purchasing Managers Index) among all the countries for which the survey was conducted in April 2020. April 2020 Composite PMI for India fell to all time low of 7.2. The Manufacturing PMI fell to its all-time low of 27.4. The print was significantly below the print that was seen during the GFC was 44.4 (December 2008). Output collapsed to 11.1 in April 2020 from 53.5 in March 2020. Forward looking components also declined sharply, with new orders declining to 12.4 (from 52.5 in March 2020) and new export orders declining to 10.2 (from 46.9 in March 2020 and 54.2 in February 2020). The Services PMI came in at an all-time low of 5.4 (versus 49.3 in March 2020). This compares to the previous lows of 40.3 in February 2009 reached during the GFC.

March 2020 IP contracted sequentially by 19.1%, translating into a Year on year contraction of 16.5%. India's monthly trade deficit for April 2020 came at US \$ 6.8 billion and declined by US \$ 3 billion month on month, but came in above consensus expectations (US \$ 6.1 billion). Merchandise exports and imports were down 60% in April 2020. Gold imports declined 99.9% in April 2020 to US \$ 2.8 million. Imports ex Oil and Gold declined 52% (versus 30% declined in March 2020), the 15th consecutive month of Year on year declines.

### Global news

Global equities continued the strong positive momentum with MSCI (Morgan Stanley Capital International) AC World index up 4.2% in May 2020, after posting the highest monthly gain in April 2020 (+10.6%) since GFC.

Despite US-China tensions escalating post China's introduction of the National Security Law in Hong Kong SAR and the US certifying that Hong Kong is no longer politically autonomous from China, coupled with weak 1Q 2020 earnings particularly across the US and Europe with EPS surprising negatively versus already heavily reduced consensus estimates by -1% and -3% respectively, equity markets continued to move higher as countries begin to ease lockdown restrictions, positive developments on drug/vaccine development for COVID-19 and a slowdown in global infection growth to <2% daily growth rate. Quantitative easing is now happening across the 4 major central banks in US, Euro area, UK and Japan. Rate cuts and fiscal stimuli are also simultaneously being employed.

## **Outlook**

RBI cut policy rates by 40 bps on May 22, 2020 taking the repo rate to 4% and the reverse repo rate (the effective policy rate at the moment) to 3.35%, two weeks before the scheduled policy review. The MPC (Monetary Policy Committee) noted that "... the macroeconomic impact of the pandemic is turning out to be more severe than initially anticipated, and various sectors of the economy are experiencing acute stress." Economists now expect the RBI to cut one final time at or before the August 2020 review. They forecast a 25 bps cut for the repo rate (which would take it to 3.75%) and a 35 bps cut in the reverse repo (which would take it to 3%), taking the effective policy rate below the 3.25%, the lows witnessed in the GFC. RBI Governor noted that "... if the inflation trajectory evolves as expected, more space will open up to address the risks to growth." Without giving an explicit forecast, the Governor noted that it was expected that FY 2021 GDP growth would remain in negative territory (consensus estimates are for -5% FY 2021 real GDP growth).

To offset the economic damage due to the COVID-19 led lockdown, the Indian govt. announced a special economic package of ₹ 21 trillion (10.1% of GDP) which included liquidity injected by the RBI and credit guarantees. As part of the package, the govt. has put a blanket 100% credit guarantee on bank lending to small business up to 20% of their outstanding credit as of end February 2020. Government estimates this could generate ₹ 3 trillion (1.5% of GDP) of fresh lending to small businesses. Our economists estimate the fiscal impact to be modest in the range of 1-1.2% of GDP.

The government announced a revised borrowing calendar for FY 2021, pegging total borrowing at ₹12 trillion (₹4.2 trillion higher versus ₹7.8 trillion originally). This is consistent with a central government fiscal deficit of 5.5% of GDP compared to a budgeted estimate of 3.5% of GDP. Looking at this and all the Aatmanirbhar India measures by the center it does feel like the fiscal deficit will rise to much higher levels close to 7% against the 3.5% targeted for FY 2021 and this would be a worry for bond markets. This will remain the push factor that sends yields higher. However, with falling inflation and growth and RBI ready to do provide more monetary stimulus and liquidity infusion through OMOs (Open Market Operations) and switches, we do expect a cap on

yields and 10-year yield could make frequent attempts to breach the 6% mark. This will remain the pull factor and thus 10-year yield will be range bound between 5.75% and 6.25% in the coming weeks.

## **Equity Outlook**

### **Equity Outlook for the month of June, 2020**

Month of April 2020 took a pause on upsurge in indices.

Results season starts in April 2020. Good corporate results generally come early. Month of May 2020 saw some cautionary statement from the managements that declared results. Feedback from corporate India Inc has been more of lack of clarity in terms of growth and its timing.

India had its share of sharp rise in number of Covid cases, deaths after the start of May 2020 contrary to what was anticipated, given the early start of the lockdown. There was dark cloud over US and China relations.

Markets reacted. BSE 30 index and Nifty fell by 3.8% and 2.8% to end at 33718 and 9860. BSE500 came down 2.4% indicating strength to the broader markets. Automobile saw a smart bounce. On an annual basis we have a return of 19% in Nifty. Returns provided by Sensex over various years is enclosed in the annexure.

While many other EM's like Russia and Brazil gave returns in excess of 8%, our markets fell short in May 2020. Key reason is likely to be Covid case curve that was moving up vertically. Growing Indian Covid cases versus other countries is provided in the annexure.

Liquidity was adequate. FPI's (Foreign Portfolio Investors) domestic bought shares on a net basis worth US \$ 1.56 billion. The figure for Domestic Institutional Investors was worth US \$ 1.5 billion and for Mutual funds US \$ 375 million. Reliance Jio announced it had tied up with various companies and funds for raising more than US \$ 20 billion by selling stake in Jio platform and raising money through rights issuance.

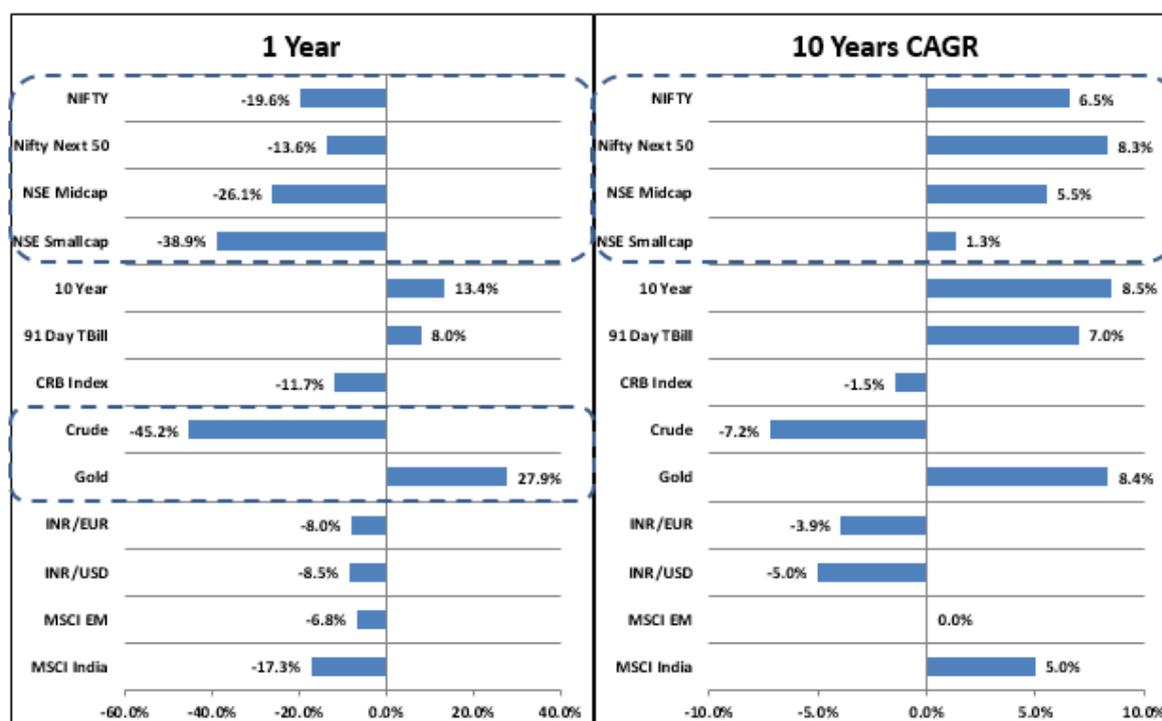
Action from the Central Banks side and from the Government of India to shore up the economy had its impact on the markets. Government announced an overall ₹20 lakh crore package to boost growth. This included the existing facilities that the government had provided earlier. Other than the grants given earlier additional amount that came in as a booster included a sum of around ₹1.86 lakh crore. RBI cut repo rate by 40 basis to 4% thus bringing the real rates into negative territory to boost consumption than savings.

Real GDP for the quarter ending March 2020 came in at 3.1% below expectations aided mostly by Government Spending that increased 13%. The numbers though surprised the market, as expectations were that economy would grow less than 2% for the quarter.

Markets have shown strength during the month with not much of reaction. Volatility is likely to return as more corporates give their feedback about how they will approach this unique situation. Markets will focus on Monsoon, Opening of lock down, Progress in Covid cases and deaths. Investors are hungry for returns. Debt as a asset class has given security but returns are had to come by. We will continue to invest on sharp corrections in strong businesses.

We continue to like Balance Fund with 50% Equity, Bond Optimizer fund with 25% Equity, Corporate Bond fund with high accrual and Equity fund in this order.

## Asset Return- LT rtn will move towards mean



As on 29<sup>th</sup> May 2020



### **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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