

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-20	31-Dec-19	Change (%)	31-Mar-19	Change (%)
₹/\$	71.35	71.38	▶ 0.04%	69.16	▶ -3.17%
Forex Res.(Bn- 1 Wk Lag)	\$ 466.69	\$ 454.95	▶ 2.58%	\$ 406.67	▶ 14.76%
Oil Price (\$/Barrel)	\$ 58.16	\$ 66.65	▶ -12.74%	\$ 68.39	▶ -14.96%
Gold (₹/10 gm)	40,694	39,076	▶ 4.14%	31,854	▶ 27.75%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	14580	6415	▶ 127.28%	33189	▶ -56.07%
Debt (monthly)	-11456	-8537	▶ -34.19%	14408	▶ -179.51%

Indices

Particulars	31-Jan-20	31-Dec-19	Change (%)	31-Mar-19	Change (%)
BSE Sensex	40,723.49	41,253.74	▶ -1.29%	38,672.91	▶ 5.30%
S&P CNX Nifty	11,962.10	12,168.45	▶ -1.70%	11,623.90	▶ 2.91%
Dow Jones Industrial Avg	28,256.03	28,538.44	▶ -0.99%	25,928.68	▶ 8.98%
FTSE 100	7,286.00	7,542.40	▶ -3.40%	7,279.20	▶ 0.09%
Hang Seng Index	26,312.63	28,189.75	▶ -6.66%	29,051.36	▶ -9.43%
Nikkei 225	23,205.18	23,656.62	▶ -1.91%	21,205.81	▶ 9.43%
B S E Realty Index	2,526.17	2,280.54	▶ 10.77%	2,077.09	▶ 21.62%
B S E Healthcare Index	13,957.01	13,429.11	▶ 3.93%	14,407.89	▶ -3.13%
B S E Capital Goods Index	17,462.11	16,943.93	▶ 3.06%	18,471.99	▶ -5.47%
B S E Information Technology Index	15,871.46	15,475.81	▶ 2.56%	15,280.30	▶ 3.87%
B S E FMCG Index	11,641.54	11,405.88	▶ 2.07%	11,741.51	▶ -0.85%
B S E Power Index	1,899.25	1,926.25	▶ -1.40%	2,034.41	▶ -6.64%
B S E Auto Index	18,161.18	18,485.00	▶ -1.75%	18,824.89	▶ -3.53%
B S E Bankex	35,289.35	36,671.50	▶ -3.77%	34,141.94	▶ 3.36%
B S E Oil & Gas Index	13,923.67	14,744.76	▶ -5.57%	15,269.70	▶ -8.82%
B S E Metal Index	9,494.10	10,428.20	▶ -8.96%	11,355.12	▶ -16.39%




Primary Key Rates

Particulars	31-Jan-20	31-Dec-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 *#	18.25%	18.50%	▶ -0.25%	19.25%	▶ -1.00%
Call money rate	4.90%	5.20%	▶ -0.30%	6.35%	▶ -1.45%
Current Inflation Rate (WPI)	2.59%	0.58%	▶ 2.01%	2.93%	▶ -0.34%
Current Inflation Rate (CPI) (Dec 19)	7.35%	5.54%	▶ 1.81%	2.57%	▶ 4.78%
IIP (WPI) % y-o-y (Nov 19)	1.80%	-3.80%	▶ 5.60%	1.70%	▶ 0.10%
AAA spread (bps)	84.00	83.00	▶ 1.20%	61.00	▶ 37.70%

	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-Jan-20	31-Dec-19	Change (%)	31-Mar-19	Change (%)
91 days T - Bill	5.13%	5.05%	▶ 0.08%	6.12%	▶ -0.99%
364 days T - Bill	5.44%	5.20%	▶ 0.24%	6.43%	▶ -0.99%
5 Years G - Sec (Annualized)	6.21%	6.35%	▶ -0.15%	6.85%	▶ -0.64%
10 Years G - Sec (Annualized)	6.60%	6.56%	▶ 0.04%	7.35%	▶ -0.75%
30 Years G - Sec (Annualized)	7.07%	7.09%	▶ -0.02%	7.60%	▶ -0.53%

-  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 Jan 04, 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 2020 – New year, and fresh ideas!

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

Instrument	Mar' 19	Dec' 19	Jan'20	M-O-M Change	YTD Change
10 Yr G-sec	7.35%	6.56%	6.60%	0.04%	-0.75%
30 Yr G-sec	7.60%	7.09%	7.07%	-0.02%	-0.53%
3 Yr AAA Bond	7.85%	6.70%	6.70%	0.00%	-1.15%
5 Yr AAA Bond	7.95%	7.40%	7.50%	0.10%	-0.45%
10 Yr AAA Bond	8.25%	7.50%	7.49%	-0.01%	-0.76%
364 Days T-bill	6.43%	5.20%	5.44%	0.24%	-0.99%
91 Days T-bill	6.12%	5.05%	5.13%	0.08%	-0.99%
1Yr Certificate of Deposit	7.00%	5.30%	5.50%	0.20%	-1.50%
Credit spreads bps	61	83	84	1	23
Crude \$/barrel	68.39	66.65	58	\$ -8.65	\$ -10.39
USD / INR	69.16	71.38	71.35	₹ -0.03	₹ 2.19

Macro Indicators:

Headline CPI rose to 7.35% year on year in December 2019 (versus 5.54% in November 2019) and came above consensus estimates (6.7%). This was the highest inflation print in more than 5 years. The increase was largely on the back of high food inflation. Meanwhile, the core-core inflation remained relatively muted. Core-core prices rose 0.5% month on month (largely on account of telecom operators increasing tariffs after years of price cuts). Ex-telecom, the increase in core-core inflation was more muted at 0.2% month on month.

IP rose +1.8% year on year in November 2019 after 3 consecutive months of declining prints and came better than consensus (+0.3%) and JPM (JP Morgan Chase & Co.) estimates (-1.1%). Sequentially IP increased 4.1% month on month, seasonally adjusted – the highest in 2 years, on the back of 2.4% sequential gain in October 2019. On the use-based front, both consumer durables and non-durables production saw noticeable sequential increases (+10.7% and +3.3% month on month, seasonally adjusted respectively) after three successive declines.

India's monthly trade deficit at US \$ 11.3 billion decreased in December 2019 versus prior month (US \$ 12.1 billion) and came below consensus expectations (US \$ 11.6 billion). Merchandise exports were down -1.8% year on year while Imports were down -8.8% year on year in December 2019. Gold imports fell -3.9% year on year -

in December 2019 (versus 6.6% year on year increase in November 2019). Imports ex Oil and Gold declined - 12.2% year on year in December 2019 (versus -12% decline in November 2019), the 12th consecutive month of year on year decline.

Budget Snippets:

The FY 2021E Union Budget was presented in parliament on February 01, 2020 (Saturday). It included initiatives to boost growth: 1) A cut in personal income tax rates at the low-to-middle levels of about 500bps, estimated to cost the government about US \$ 5.6 billion. But investors can avail themselves of the lower tax rate only if they do not use various exemptions currently available, particularly linked to savings and investments. 2) A 13% increase in government expenditure budgeted. In order to improve the investment climate, the Union Budget had certain initiatives: 1) Abolishing the Dividend Distribution Tax (DDT), estimated to cost the government about US \$ 3.5 billion. 2) Easing investment norms for sovereign wealth funds in the Infrastructure sector. 3) Easing the foreign ownership limit in Corporate Bonds to 15% of the outstanding stock (versus 9% earlier). The government will also consider opening up some sovereign bonds to full foreign ownership.

In order to incentivize investments by Sovereign Wealth Funds of foreign governments in the priority sectors, the Budget proposed to grant a 100% tax exemption to their interest, dividend and capital gains income in respect of investments made in infrastructure before March 31, 2024 and with a minimum lock-in period of three years.

Government is targeting almost US \$ 30 billion from the divestment program in FY 2021E, versus about US \$ 10 billion in FY 2020E (versus US \$ 15 billion targeted earlier). Our Economists highlight, if the asset sale target is achieved, the underlying fiscal deficit (ex-asset sales) would widen meaningfully in FY 2021E to 4.5% of GDP from 4.1% of GDP this year – constituting a support to growth and thereby taking some pressure off monetary policy – even as the headline deficit is narrowing from 3.8% of GDP in 2019-20 to 3.5% in 2020-21.

Around the World:

Global equities witnessed a strong start to the year continuing the strong momentum from December, 2019 Quarter. Rising geopolitical tensions between US-Iran were overshadowed by positive news on the US-China trade saga with the signing of Phase One trade deal. However, gains in first half were pared in the second half

post concerns on global growth from coronavirus. The WHO (World Health Organization) has called the outbreak a global health emergency and stepped up efforts to combat the virus. Indian equities were resilient despite the coronavirus outbreak and were down only 1% in local currency in January 2020, albeit a volatile month with India Volatility index up 50%.

Debt Outlook:

RBI has shown that it is willing to walk alongside the govt. in boosting economic activity Central bank has openly conveyed that there is still room for monetary easing when CPI eases to 3% beyond September 2020. The stance of the RBI will remain accommodative till economic activity remains subdued. LTRO - From February 15, 2020 RBI shall conduct term repos of 1Year and 3Years for up to a total amount of ₹ 1 lac crores at the current policy repo rate. This helps banks avail a cheap fixed rate loan for up to 3Year and then use the proceeds for credit disbursal. All SCBs (Scheduled Commercial Banks) will be allowed to deduct incremental credit (from fortnight ending January 31, 2020) disbursed as retail loans for Auto, residential Housing, and MSME from their NDTL (Net Demand and Time Liabilities) for maintenance of CRR (Cash Reserve ratio) - exemption available till July 31, 2020. This measure will incentivize banks to disburse more loans to these sectors and probably prevent lazy banking phenomenon where banks just place money in Govt. bonds. The Finance Minister announced the revised fiscal deficit for FY 2020 at 3.8% of GDP and in line with expectations. The funding of this revised deficit is happening through borrowing from National Small Savings Fund (NSSF). So no extra supply of Government securities in this Financial Year. However, we believe that, things are not very rosy and optimistic for bond markets beyond March 2020 as the heavy net borrowing of ₹ 5.36 lac crores and gross borrowing of ₹ 7.8 lac crores. RBI has been trying to contain the uptick in yields on the long end of the curve by engaging in "Operation Twists" which can continue. The assumptions of the govt. while forecasting FY 2021 budget estimates seem achievable on the tax collections. It remains to be seen how the massive ₹ 2.1 Lac crores of disinvestments would be achieved. This year's budget has announced that government will allow NRI's to invest in government securities. They also are planning to issue an ETF based on Government securities to channelize retail investors money in government securities.

Equity Outlook

Equity Outlook for the Month of February, 2020

Risk appetite was back in the month of January 2020. BSE Mid Cap index was up 3.3% (15462 closing) BSE Small Cap index was up 7% (13699 closing). Broader indices were subdued. Sensex closed at 40723 and Nifty closed at 11962 down 1.3% and 1.7% respectively. Real estate stocks showed a 10% rally in anticipation of big relief and possible pickup in demand.

Indian equities fared well against the peers. Philippine was down 7.2%, Hong Kong 6.7% and UK 3%.

In terms of price to earnings multiple India is one of the most expensive. It is now running at 14.9 for 2021. Despite this a rally was seen and institutions did invest which shows the vulnerability of peers and places that people want to hide.

Resilience was despite Corona Virus, verdict against telecom companies (AGR dues), downward revision in GDP (6.1% against 6.9% earlier for FY 2019), Global tensions between Iran and US on killing of a military commander & bad results from IT majors. De-escalation of US China trade dispute and a first phase of agreement was the only positive news that came in during the month.

Both Domestic Institutional Investors and FPI's (Foreign Portfolio Investors) were buyers to the extent of US \$ 311 million and US \$ 1.9 billion (with inclusion of Bharti Airtel QIP).

Very high CPI of 7.35% in December 2019 as against 5.5% for November 2019 was a big negative surprise. This was led by higher than expected food inflation. November 2019 IIP was at 1.8% and December 2019 WPI was at 2.6%.

We are positive on the markets given the fact that interest rate revision will play out during this year, the low base of last year starting from December 2019 and BS VI issues going off post March 2020 this year. Globally interest rates are coming down, there is extra liquidity which is getting into the markets to pump prime the economy's (as against what was thought a year back) and a hope that dust will settle down in terms of China US trade.

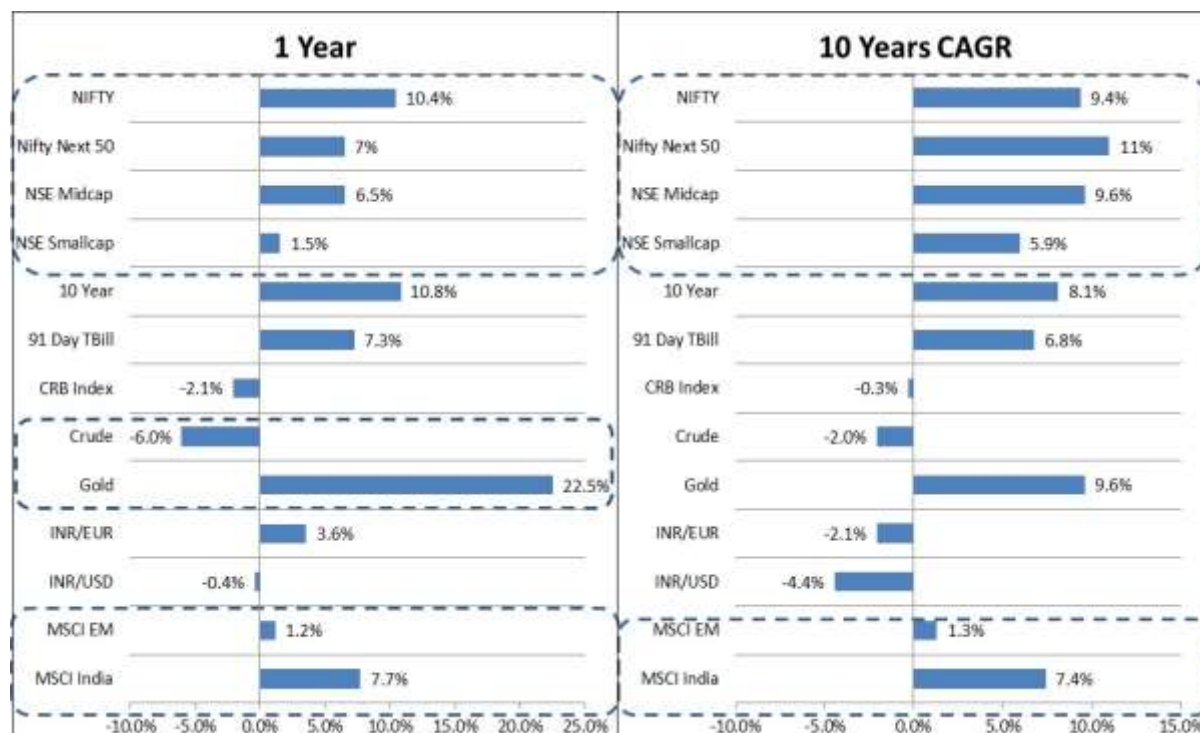
Risk to our view includes spreading of epidemic Corona Virus and its impact on global trade and metal prices.

We include some valuation parameters for Indian Equities against other markets, various asset class returns over one month, base year impact and historical returns in the indices in below Charts -

Contry	Earnings growth			P/E (X)			P/B (X)		
	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E
India	11%	3%	20%	23.2	22.0	17.4	3.0	2.8	2.5
ASIA									
Shanghai	5.9%	18.1%	12.0%	14.5	10.3	9.2	1.5	1.2	1.1
Hong Kong	0.1%	2.4%	8.3%	11.0	10.2	9.5	1.2	1.1	1.0
Japan	-11.1%	4.4%	7.3%	19.1	17.9	16.6	1.8	1.7	1.6
Indonesia	4.9%	10.6%	15.0%	19.7	14.1	12.2	2.1	2.0	1.9
Korea	-29.9%	35.4%	4.8%	19.0	10.1	9.5	0.9	0.9	0.8
Singapore	2.9%	-5.9%	6.0%	12.1	12.7	12.0	1.1	1.1	1.0
Taiwan	-8.7%	12.3%	9.3%	19.0	15.6	14.2	1.8	1.8	1.8
Europe									
UK	-9.3%	25.6%	6.1%	19.2	13.5	12.7	1.8	1.7	1.6
France	-8.6%	40.1%	8.6%	21.3	14.9	13.7	1.8	1.6	1.5
Germany	-10.0%	32.0%	12.4%	25.2	14.6	13.0	1.6	1.6	1.5
America									
USA	1.3%	13.8%	10.9%	21.4	18.9	17.0	3.6	3.4	3.2
Brazil	4.7%	23.4%	7.7%	18.1	13.7	12.6	2.3	2.0	1.8
Mexico	-5.2%	19.7%	17.2%	17.0	14.7	12.9	2.1	1.9	1.8

Source: Bloomberg

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.



Source: Bloomberg



Probability of Index Returns January: 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.

			2019			
			1983			
			1990			
			1999			
			2014			
			2017			
			2011			
		1996	1984			2007
		2001	2020			2015
		2016	1985			1991
		1995	2005			1994
		1998	2013			1982
		1987	1993			1989
		2003	1981	2008		2006
2009	1988	2003	1997	2018	2000	2010
-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						

Source: Morgan Stanley Research

BSE Sensex (since 1980): Yearly performance +ve in January (+ve 29 out of 40 years) returns in between 0% to 20%, 15 times

On the funds side we prefer Bond Optimiser fund and Corporate Bond fund against Bond Fund for investors with little risk appetite and the Mid Cap fund for policy holders who would prefer to take equity risk.

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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