

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-19	31-Dec-18	Change (%)	31-Mar-18	Change (%)
₹/\$	71.08	69.77	▶ -1.88%	65.18	▶ -9.05%
Forex Res.(Bn- 1 Wk Lag)	\$ 398.18	\$ 393.29	▶ 1.24%	\$ 422.53	▶ -5.76%
Oil Price (\$/Barrel)	\$ 61.91	\$ 53.96	▶ 14.73%	\$ 69.53	▶ -10.96%
Gold (₹/10 gm)	33,082	31,504	▶ 5.01%	30,630	▶ 8.01%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	-505	2975	▶ -116.97%	13114	▶ -103.85%
Debt (monthly)	-5703	7219	▶ -179.00%	-2410	▶ 136.64%

Indices

Particulars	31-Jan-19	31-Dec-18	Change (%)	31-Mar-18	Change (%)
BSE Sensex	36,256.69	36,068.33	▶ 0.52%	32,968.68	▶ 9.97%
S&P CNX Nifty	10,830.95	10,862.55	▶ -0.29%	10,113.70	▶ 7.09%
Dow Jones Industrial Avg	24,999.67	23,327.46	▶ 7.17%	24,103.11	▶ 3.72%
FTSE 100	6,968.90	6,728.10	▶ 3.58%	7,056.61	▶ -1.24%
Hang Seng Index	27,942.47	25,845.70	▶ 8.11%	30,093.38	▶ -7.15%
Nikkei 225	20,773.49	20,014.77	▶ 3.79%	21,454.30	▶ -3.17%
B S E Information Technology Index	15,264.10	14,089.56	▶ 8.34%	12,100.55	▶ 26.14%
B S E Bankex	30,731.37	30,376.68	▶ 1.17%	27,197.88	▶ 12.99%
B S E Healthcare Index	13,881.35	13,923.37	▶ -0.30%	13,157.62	▶ 5.50%
B S E Oil & Gas Index	13,612.32	13,748.57	▶ -0.99%	14,614.42	▶ -6.86%
B S E Realty Index	1,774.09	1,797.83	▶ -1.32%	2,229.92	▶ -20.44%
B S E FMCG Index	11,615.86	11,829.07	▶ -1.80%	10,290.14	▶ 12.88%
B S E Power Index	1,880.88	1,999.18	▶ -5.92%	2,125.83	▶ -11.52%
B S E Metal Index	10,958.60	11,839.59	▶ -7.44%	13,322.03	▶ -17.74%
B S E Capital Goods Index	17,311.11	18,821.04	▶ -8.02%	18,476.73	▶ -6.31%
B S E Auto Index	18,494.59	20,833.73	▶ -11.23%	24,057.25	▶ -23.12%

Primary Key Rates

Particulars	31-Jan-19	31-Dec-18	Change (%)	31-Mar-18	Change (%)
Repo Rate*	6.50%	6.50%	▶ 0.00%	6.00%	▶ 0.50%
Reverse Repo Rate**	6.25%	6.25%	▶ 0.00%	5.75%	▶ 0.50%
CRR#	4.00%	4.00%	▶ 0.00%	4.00%	▶ 0.00%
SLR *#	19.25%	19.50%	▶ -0.25%	19.50%	▶ -0.25%
Call money rate	6.30%	6.35%	▶ -0.05%	5.90%	▶ 0.40%
Current Inflation Rate (WPI)	3.80%	4.64%	▶ -0.84%	2.48%	▶ 1.32%
Current Inflation Rate (CPI) (Dec 18)	2.20%	2.33%	▶ -0.13%	4.44%	▶ -2.24%
IIP (WPI) % y-o-y (Nov 18)	0.50%	8.10%	▶ -7.60%	7.50%	▶ -7.00%
AAA spread (bps)	104.00	94.00	▶ 10.64%	50.00	▶ 108.00%

	2015-16	2016-17	2017-18	Q1 FY19	Q2 FY19
Real GDP % (New Growth No. by CSO)	7.60%	7.10%	6.70%	8.20%	7.10%

Interest Rates (FIMMDA)

Particulars	31-Jan-19	31-Dec-18	Change (%)	31-Mar-18	Change (%)
91 days T - Bill	6.58%	6.67%	▶ -0.09%	6.11%	▶ 0.47%
364 days T - Bill	6.74%	6.81%	▶ -0.07%	6.42%	▶ 0.32%
5 Years G - Sec (Annualized)	7.18%	7.19%	▶ -0.01%	7.32%	▶ -0.14%
10 Years G - Sec (Annualized)	7.48%	7.37%	▶ 0.11%	7.40%	▶ 0.09%
30 Years G - Sec (Annualized)	7.66%	7.60%	▶ 0.06%	7.65%	▶ 0.01%

-  No change
-  Negative change
-  Positive change

* w.e.f Aug 01, 2018

** w.e.f Aug 01, 2018

w.e.f Feb 09, 2013

*# w.e.f Jan 01, 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

A new year arrives!

The month of January 2019 saw a reversal of the rally seen over the last two months as budget 2019 was nearing. There was a lot of noise on farm packages, universal basic income scheme etc, and this flustered bond markets and INR. Rupee was the worst Asian currency in January 2019 and the weakness of dollar wasn't good enough to boost the currency and markets.

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

Instrument	Mar' 18	Dec' 18	Jan' 19	M-O-M Change	YTD Change
10 Yr G-sec	7.40%	7.37%	7.48%	0.11%	0.08%
30 Yr G-sec	7.65%	7.60%	7.66%	0.06%	0.01%
3 Yr AAA Bond	7.55%	8.35%	8.20%	-0.15%	0.65%
5 Yr AAA Bond	7.88%	8.40%	8.28%	-0.12%	0.40%
10 Yr AAA Bond	8.00%	8.40%	8.36%	-0.04%	0.36%
364 Days T-bill	6.42%	6.81%	6.74%	-0.07%	0.32%
91 Days T-bill	6.11%	6.67%	6.58%	-0.09%	0.47%
1Yr Certificate of Deposit	7.35%	7.50%	7.25%	-0.25%	-0.10%
Credit spreads bps	50	94	104	10	54
Crude \$/barrel	69.53	53.96	61.91	\$ 7.95	\$ -7.62
USD / INR	65.18	69.77	71.08	₹ 1.31	₹ 5.90

Macro Indicators:

Annual consumer inflation in India declined to 2.19% in December 2018 from 2.33% in November 2018, matching market expectations of 2.2%. It is the lowest inflation rate since June 2017 as food prices continued to decline and inflation eased for clothing, housing and fuel.

India's industrial production growth slowed sharply to 0.5% year-on-year in November 2018 from an upwardly revised 11-month high of 8.4% in the previous month and missing market expectations of a 4.1%. It was the smallest gain in industrial activity since a contraction recorded in June 2017.

India trade deficit fell to US \$ 13.08 billion in December 2018 from US \$ 14.2 billion a year earlier. Exports rose a meager 0.3% to US \$ 27.93 billion, mainly driven by sales of electronic goods (50.81%); plastic and linoleum (20.18%); petroleum products (13.18%); chemicals (5.5%); and textiles (2.77%). Imports went down 2.44% to US \$ 41.01 billion, the biggest fall since August 2016, mainly dragged down by a 24.33% drop in gold purchases.

Around the World:

At the last US Fed (Federal Reserve) meeting, the Fed changed its DOTS when it met in December 2018. The median expectation for hikes in 2019 came down from three to two, with a similar move in the mean expectation. Markets now expect the Fed to take a more cautious approach and depart from its quarterly rate hike tempo. The FED also changed its tone and tenor when it met in January 2019 and this has led markets to now believe the whole of 2019 could not see even a single rate hike against 3 expected a few months ago. The dovish tone has also been expressed by other major developed market central banks like Australia, England. Data in Asia like exports also have been weakening in China, Korea etc.

Debt Outlook:

The Monetary Policy Committee met from 5th-7th of February 2019 and announced its final decision as MPC decided on the basis of a 4-2 majority to cut Repo rate by 25 bps. As of February 2019 1st week, the bond markets and OIS (Overnight Index Swaps) markets were apportioning only a 25% chance of a rate cut but it was widely understood that a change in stance from “calibrated tightening” to “neutral” would be effected today. Mr. Shaktikanta Das took over the reins in December 2018 after the MPC meet in the first week, when Mr. Urjit Patel resigned and the former in a few brief interactions with the media over the last month or so came out as a relatively dovish central banker. The MPC had enough reasons to cut rates as headline CPI had come down all the way to 2.2% in the latest readings. We believe MPC has provided a much needed rejuvenation to equity and bond markets. The stance and language sounded very dovish in our understanding and we clearly see a high likelihood of one more rate cut at least and it could be as early as April 2019 when the MPC meets again. The noticeable change in the Federal Reserve’s language in January 2019 gives us hope that 2019 could very well be a year of no rate hikes in the US. A natural reaction to this would be lower US bond yields and weaker Dollar and this could help Indian capital markets in the coming months. The fact that the MPC decided to overlook any upward pressure from fiscal excesses by the centre as well as the stickiness of Core CPI offers further proof of their favorable outlook on inflation in the economy over the next 6 months. The pressure of a heavy borrowing program will start reflecting on markets in the first week of April 2019 and this could be the dampener to any positive sentiments in the markets. We have a bearish view on bonds beyond March 2019 and yields could trade between 7.25% and 7.5% on the 10 Yr segment.

Equity Outlook

Equity Outlook for the Month of February, 2019

Nifty ended almost flat at 10,831 for the second consecutive month. Indices showed some initial weakness on weak auto numbers, global weakness led by muted Chinese data and IMF (International Monetary Fund) revising its global growth projections downwards. However, emerging markets found some solace as the US Fed kept its policy rate unchanged and made dovish remarks on the future rate trajectory.

MSCI India (Morgan Stanley Capital International) underperformed its emerging market peers for the month. The smaller Indices underperformed its larger peers as the Nifty Next 50, Nifty Midcap and BSE S&P Small Cap gave negative return of 6%, 5.4% and 4.9% respectively. NBFC (Non-Banking Finance Companies) crisis along with funding issues for some promoter entities kept the market on tenterhooks. Oil prices were up by 15% for the month.

Information Technology was the best performing sector as Infosys declared a decent set of results and dovish statements by US Fed meant that US growth may be supported. Automobiles saw the worst month as a slowdown in sales and rise in commodity costs meant weak earnings for most of the companies.

During the month, FPI's (Foreign Portfolio Investors) sold stocks worth US \$ 463 million while DII (Direct Institutional Investors) bought stocks worth US \$ 1159 million. CPI number for the month came at 2.19%.

The Interim Budget presented on February 01, 2019 was aimed at boosting middle income and farm household incomes. The fiscal deficit for FY2019 was increased to 3.4% and the same was pegged at 3.4% for FY2020 too.

The earnings for the quarter have been weak led by weak consumer sentiments and margin pressures. Election in the next few months is the key event and the market will continue to be volatile ahead of it. We have a cautious outlook and would like to take advantage of the volatility to build on to our portfolio.

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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