

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-Oct-18	30-Sep-18	Change (%)	31-Mar-18	Change (%)
₹/\$	73.96	72.49	▶ -2.03%	65.18	▶ -13.47%
Forex Res.(Bn- 1 Wk Lag)	\$ 392.08	\$ 401.79	▶ -2.42%	\$ 422.53	▶ -7.21%
Oil Price (\$/Barrel)	\$ 76.23	\$ 82.72	▶ -7.85%	\$ 69.53	▶ 9.64%
Gold (₹/10 gm)	31,735	30,296	▶ 4.75%	30,630	▶ 3.61%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	-27623	-9623	▶ -187.05%	13114	▶ -310.64%
Debt (monthly)	-8443	-11524	▶ 26.74%	-2410	▶ 250.33%

Indices

Particulars	31-Oct-18	30-Sep-18	Change (%)	31-Mar-18	Change (%)
BSE Sensex	34,442.05	36,227.14	▶ -4.93%	32,968.68	▶ 4.47%
S&P CNX Nifty	10,386.60	10,930.45	▶ -4.98%	10,113.70	▶ 2.70%
Dow Jones Industrial Avg	25,115.76	26,458.31	▶ -5.07%	24,103.11	▶ 4.20%
FTSE 100	7,135.19	7,510.20	▶ -4.99%	7,056.61	▶ 1.11%
Hang Seng Index	24,979.69	27,788.52	▶ -10.11%	30,093.38	▶ -16.99%
Nikkei 225	21,920.46	24,120.04	▶ -9.12%	21,454.30	▶ 2.17%
B S E Capital Goods Index	17,488.58	17,108.89	▶ 2.22%	18,476.73	▶ -5.35%
B S E Power Index	1,958.13	1,929.43	▶ 1.49%	2,125.83	▶ -7.89%
B S E Bankex	28,359.59	27,992.18	▶ 1.31%	27,197.88	▶ 4.27%
B S E Realty Index	1,679.80	1,702.94	▶ -1.36%	2,229.92	▶ -24.67%
B S E Healthcare Index	14,726.58	15,025.34	▶ -1.99%	13,157.62	▶ 11.92%
B S E FMCG Index	11,127.84	11,502.75	▶ -3.26%	10,290.14	▶ 8.14%
B S E Metal Index	12,524.55	13,278.79	▶ -5.68%	13,322.03	▶ -5.99%
B S E Information Technology Index	14,531.60	15,628.94	▶ -7.02%	12,100.55	▶ 20.09%
B S E Auto Index	19,881.08	21,476.52	▶ -7.43%	24,057.25	▶ -17.36%
B S E Oil & Gas Index	13,246.92	14,855.41	▶ -10.83%	14,614.42	▶ -9.36%

Primary Key Rates

Particulars	31-Oct-18	30-Sep-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 *#	19.50%	19.50%	▶ 0.00%	19.50%	▶ 0.00%
Call money rate	6.35%	6.50%	▶ -0.15%	5.90%	▶ 0.45%
Current Inflation Rate (WPI)	5.13%	4.53%	▶ 0.60%	2.48%	▶ 2.65%
Current Inflation Rate (CPI) (Sept)	3.77%	3.69%	▶ 0.08%	4.44%	▶ -0.67%
IIP (WPI) % y-o-y (Aug)	4.30%	6.61%	▶ -2.31%	7.50%	▶ -3.20%
AAA spread (bps)	86.00	63.00	▶ 36.51%	50.00	▶ 72.00%

	2014-15	2015-16	2016-17	2017-18	Q1 FY19
Real GDP % (New Growth No. by CSO)	7.30%	7.60%	7.10%	6.70%	8.20%

Interest Rates (FIMMDA)

Particulars	31-Oct-18	30-Sep-18	Change (%)	31-Mar-18	Change (%)
91 days T - Bill	6.96%	6.97%	▶ -0.01%	6.11%	▶ 0.85%
364 days T - Bill	7.38%	7.75%	▶ -0.37%	6.42%	▶ 0.96%
5 Years G - Sec (Annualized)	7.84%	8.09%	▶ -0.26%	7.32%	▶ 0.52%
10 Years G - Sec (Annualized)	7.85%	8.02%	▶ -0.17%	7.40%	▶ 0.46%
30 Years G - Sec (Annualized)	8.21%	8.22%	▶ -0.01%	7.65%	▶ 0.56%

-  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 Oct 14, 2017

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

Global & local factors take yields down!

The month of October 2018 was a benign period for bonds with yields easing across the curve. OMO (Open Market Operations) purchases at a more regular frequency and lower global crude oil prices helped markets by giving some respite after a torrid September. CPI came in lower than expectations and this was the 3rd consecutive month of downward surprise. Some slack in growth indicators along with lower inflation have pushed rate hike indicators forward.

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

Instrument	Mar' 18	Sept' 18	Oct' 18	M-O-M Change	YTD Change
10 Yr G-sec	7.40%	8.02%	7.85%	-0.17%	0.45%
30 Yr G-sec	7.65%	8.22%	8.21%	-0.01%	0.56%
3 Yr AAA Bond	7.55%	8.75%	8.65%	-0.10%	1.10%
5 Yr AAA Bond	7.88%	8.77%	8.80%	0.03%	0.92%
10 Yr AAA Bond	8.00%	8.85%	9.00%	0.15%	1.00%
364 Days T-bill	6.42%	7.75%	7.38%	-0.37%	0.96%
91 Days T-bill	6.11%	6.97%	6.96%	-0.01%	0.85%
1Yr Certificate of Deposit	7.35%	8.20%	8.35%	0.15%	1.00%
Credit spreads bps	50	63	86	23	36
Crude \$/barrel	69.53	82.72	76.23	\$ 6.49	\$ 6.70
USD / INR	65.18	72.49	73.96	₹ 1.47	₹ 8.78

Macro Indicators:

September 2018 headline CPI at 3.8% on yearly basis came better than expectations mainly on account of unusually benign food prices. Food prices have not yet reacted to sharp increases in MSPs (Minimum Support Price). The core inflation eased to 5.0% year on year in September 2018 from 5.2% in August 2018, helped by a favorable base effect.

WPI rose to 5.1% year on year in September 2018 from 4.5% year on year in August 2018, posting its first uptick in last four months. This was led by rebound in primary articles prices which rose by 3.0% year on year in September 2018.

Industrial Production rose 0.6% month on month, and IIP growth at 4.3% year on year also beat market expectations. The growth was supported by 4.8% month on month rise in capital goods (versus -3.3% in July 2018) which are generally lumpy and volatile. Composite PMI (Purchasing Manager Index) moved a tad lower

to 51.6 in September 2018 versus 51.9 in August 2018. India's manufacturing PMI inched up higher to 52.2 in September 2018 from 51.7 in July 2018 after witnessing de-growth for the last two months.

Trade deficit for September 2018 at US \$ 14.0 billion (versus US \$ 17.4 billion in August 2018) fell to a 5-month low and came below expectations. The undershot was driven by fall in oil and capital goods imports. Net oil imports declined to US \$ 6.5 billion in September 2018 from US \$ 8.0 billion in August 2018.

Fiscal deficit at the end of September 2018 stood at 95.3% of the budgeted annual deficit. GST (Goods & Services Tax) collections for 1H FY 2019 fell short of the target by over ₹ 220 billion.

Around the World:

GDP (Gross Domestic Product) growth outside the US is tracking softer than expectations, raising questions about the underlying health of the expansion. 3Q 2018 GDP growth for US at 3.5% was ahead of consensus expectations at 3.3%, on the back of strong consumer spending (+4.0%) and Government outlays (+3.3%). China growth slowed down to 6% in 3Q 2018. Euro area flash GDP estimate of just 0.6% annualized rate for 3Q 2018 suggests Germany very well may have contracted 1.5%. By region, downside risk is concentrated in the Euro area where a sharp decline in October 2018 PMI points to much slower growth than in the forecasts.

Debt Outlook:

In its last MPC (Monetary Policy Committee) meeting on 5 October 2018, the RBI kept the policy rate unchanged at 6.5% versus consensus expectations of a 25bp hike. However, RBI tightened its policy stance from "neutral" to "calibrated tightening", suggesting that the rate hiking cycle is not yet over. RBI marked down its inflation forecasts by 60bps for 2H FY 2019 with October 2018 - March 2019 now pegged at 3.9% - 4.5% and by 20bps for April 2019 - June 2019 now pegged at 4.8%. The change in stance did not affect bonds much as the Governor said that "calibrated tightening" did not mean rate hike at every policy. This meant that Repo rate can be kept at 6.5% at least till end of the 2018 as the trajectory of CPI would be heading lower and it has been surprising on the downside by 20 bps or more in the last 3 months. Crude oil has eased by as much as US \$ 13/bbl from its peak and if this sustains, we should see RBI's estimates of CPI coming true. FY 2019 will see no further rate hikes if this comes true. The recent GST collections marginally crossed ₹ 1 lac crores and if the ruling party wins handsomely in the state elections in December 2018, it is possible that the Govt reduces expenditure to keep its fiscal deficit and borrowing targets under check. The vast amount of OMOs (Open Market Operations) (1.26 lac crores to be exact) have helped yields head lower. We could see 10 Year yield hovering in the 7.7% to 7.9% range in the subsequent months.

Equity Outlook

Equity Outlook for the Month of November, 2018

Markets gave up another 4.93% during the month of October 2018 after a 6.2% fall in September 2018 and this was carnage all along. Sensex ended at 34442. Nifty ended at 10387. This is showing a bearish trend now. However, the fall in broader indices has taken a turn in the last month. Nifty next, NSE Midcap 100 and NSE Midcap 50 fell lesser than NSE Nifty during the last month indicating that the Midcap Small cap fall was done in September 2018. While Nifty fell 4.98%, Nifty Next fell 2.6%, Nifty Midcap 50 was up 2.3% and Nifty Midcap 100 was up 0.2%.

Sector returns are gyrating like shifting sands. Oil fell last month 8.7% to US \$ 75 a barrel in Brent. Rupee however depreciated 2% to US \$ 74. Despite rupee depreciation, IT index (7/9 companies beat estimates in their quarterly results) fell 6% during the last month.

Nifty is today off the peak by around 14%.

During the month of September 2018 and October 2018, markets fell largely on continuing concern on trade war, probable liquidity crunch (aftermath the ILFS default and HFC market cap erosion) & geo political concern. November 2018 would be the key month to watch for liquidity issues, though we believe it's more of structural long term issue for the subject HFC's (Housing Finance Companies) in the muddle rather than a short term liquidity crisis.

This was one of the worst months for India from the FPI (Foreign Portfolio Investment) side. FPI's sold stocks in the month of October 2018 worth US \$ 3.7 billion and Domestic institutions led by Mutual funds were buyers to the tune of US \$ 3.5 billion (mutual funds within the same are at US \$ 2.9 billion).

During September 2018 CPI inflation came at 3.8% versus 3.7% in August 2018. While for the same period WPI was at 5.1% versus 4.5%.

We do not think that all is over yet. Oil prices fall is a welcome development. Trade wars, interest rate hike in US, election risk still remain. We will remain cautious but constructive. We think that equity and debt both are at a point of cusp where investing here is interesting and rewarding. It may not give returns for till next May 2019. It may also fall before that from the current levels. But all these falls will give a good opportunity to build a portfolio and this should not be foregone.

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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SBI Life Insurance Co. Ltd.

Registered Office and Corporate Office: "Natraj", M.V Road & Western Express Highway Junction, Andheri (E),
Mumbai-400069

Email: info@sbilife.co.in

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