

## 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	30-Sep-18	31-Aug-18	Change (%)	31-Mar-18	Change (%)
₹/\$	72.49	71.00	▶ -2.10%	65.18	▶ -11.22%
Forex Res.(Bn- 1 Wk Lag)	\$ 401.79	\$ 401.29	▶ 0.12%	\$ 422.53	▶ -4.91%
Oil Price (\$/Barrel)	\$ 82.72	\$ 77.42	▶ 6.85%	\$ 69.53	▶ 18.97%
Gold (₹/10 gm)	30,296	30,226	▶ 0.23%	30,630	▶ -1.09%
<b>FII inflows (Net) - Crs (₹)</b>					
Equity (monthly)	-9623	-2029	▶ -374.27%	13114	▶ -173.38%
Debt (monthly)	-11524	4090	▶ -381.76%	-2410	▶ 378.17%

### Indices

Particulars	30-Sep-18	31-Aug-18	Change (%)	31-Mar-18	Change (%)
BSE Sensex	36,227.14	38,645.07	▶ -6.26%	32,968.68	▶ 9.88%
S&P CNX Nifty	10,930.45	11,680.50	▶ -6.42%	10,113.70	▶ 8.08%
Dow Jones Industrial Avg	26,458.31	25,964.82	▶ 1.90%	24,103.11	▶ 9.77%
FTSE 100	7,510.20	7,432.42	▶ 1.05%	7,056.61	▶ 6.43%
Hang Seng Index	27,788.52	27,888.55	▶ -0.36%	30,093.38	▶ -7.66%
Nikkei 225	24,120.04	22,865.15	▶ 5.49%	21,454.30	▶ 12.43%
B S E Information Technology Index	15,628.94	15,548.52	▶ 0.52%	12,100.55	▶ 29.16%
B S E Oil & Gas Index	14,855.41	15,079.04	▶ -1.48%	14,614.42	▶ 1.65%
B S E Metal Index	13,278.79	13,821.31	▶ -3.93%	13,322.03	▶ -0.32%
B S E Healthcare Index	15,025.34	15,945.17	▶ -5.77%	13,157.62	▶ 14.19%
B S E Power Index	1,929.43	2,140.72	▶ -9.87%	2,125.83	▶ -9.24%
B S E FMCG Index	11,502.75	12,771.69	▶ -9.94%	10,290.14	▶ 11.78%
B S E Capital Goods Index	17,108.89	18,996.76	▶ -9.94%	18,476.73	▶ -7.40%
B S E Bankex	27,992.18	31,741.91	▶ -11.81%	27,197.88	▶ 2.92%
B S E Auto Index	21,476.52	24,716.48	▶ -13.11%	24,057.25	▶ -10.73%
B S E Realty Index	1,702.94	2,141.43	▶ -20.48%	2,229.92	▶ -23.63%

### Primary Key Rates

Particulars	30-Sep-18	31-Aug-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	6.50%	6.40%	▶ 0.10%	5.90%	▶ 0.60%
Current Inflation Rate (WPI)	4.53%	5.09%	▶ -0.56%	2.48%	▶ 2.05%
Current Inflation Rate (CPI) (Aug)	3.69%	4.17%	▶ -0.48%	4.44%	▶ -0.75%
IIP (WPI) % y-o-y (July)	6.61%	7.00%	▶ -0.39%	7.50%	▶ -0.89%
AAA spread (bps)	63.00	54.00	▶ 16.67%	50.00	▶ 26.00%

	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	30-Sep-18	31-Aug-18	Change (%)	31-Mar-18	Change (%)
91 days T - Bill	6.97%	6.81%	▶ 0.16%	6.11%	▶ 0.86%
364 days T - Bill	7.75%	7.34%	▶ 0.41%	6.42%	▶ 1.33%
5 Years G - Sec (Annualized)	8.09%	8.03%	▶ 0.07%	7.32%	▶ 0.78%
10 Years G - Sec (Annualized)	8.02%	7.95%	▶ 0.07%	7.40%	▶ 0.63%
30 Years G - Sec (Annualized)	8.22%	8.25%	▶ -0.03%	7.65%	▶ 0.57%

-  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

#### The second half begins, but need not be the better half!

The month of September 2018 was extremely volatile for bond markets. As INR touched life-high levels against the USD, the benchmark 10 year hardened to 8.23%. A few measures from the government to cut imports of non-essential commodities and RBI's OMO (Open Market Operations) purchases did provide some support to the INR from time to time and played a role in bringing down bond yields. CPI came in lower in than expectations in both the months of July 2018 and August 2018 by as much as 20 bps and this lower trajectory could continue till the end of November 2018. High frequency indicators of growth still point to a well-balanced recovery and instill confidence to the RBI when it comes to monetary policy tightening.

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

Instrument	Mar' 18	Aug' 18	Sept' 18	M-O-M Change	YTD Change
10 Yr G-sec	7.40%	7.95%	8.02%	0.07%	0.62%
30 Yr G-sec	7.65%	8.25%	8.22%	-0.03%	0.57%
3 Yr AAA Bond	7.55%	8.55%	8.75%	0.20%	1.20%
5 Yr AAA Bond	7.88%	8.70%	8.77%	0.07%	0.89%
10 Yr AAA Bond	8.00%	8.65%	8.85%	0.20%	0.85%
364 Days T-bill	6.42%	7.34%	7.75%	0.41%	1.33%
91 Days T-bill	6.11%	6.81%	6.97%	0.16%	0.86%
1Yr Certificate of Deposit	7.35%	8.10%	8.20%	0.10%	0.85%
Credit spreads bps	50	54	63	9	13
Crude \$/barrel	69.53	77.42	82.72	\$ 5.30	\$ 13.19
USD / INR	65.18	71.00	72.49	₹ 1.49	₹ 7.31

### Macro Indicators:

Headline CPI inflation slowed down from 4.2% in July 2018 to 3.7% in August 2018 on account of favorable base effects and softening food prices which continue to surprise to the downside. WPI softened to 4.5% year on year in August 2018 from 5.1% in July 2018, easing to a four month low. Primary articles led the fall in headline inflation recording a deflation of 0.2% (versus. 1.7% in July 2018). Inflation in fuel & power group fell to 17.7% from 18.1%, while manufactured products rose marginally to 4.4% from 4.3%.

Industrial Production at 6.6% in July 2018 softened from the revised June 2018 print of 6.9%. On a sequential basis, IP decreased by -0.5% month on month, seasonally adjusted in July 2018 (versus 1.1% month on month, seasonally adjusted in June 2018). Composite PMI (Purchasing Manager Index) declined sharply in August 2018 to print at 51.9 (versus 54.1 for July 2018), suggesting that India's economy is losing some amount of momentum after posting strong growth in 2Q 2018 (8.2% on year on year GDP growth). The services PMI dipped 2.7pts to 51.5, while the manufacturing PMI declined a modest 0.5pt to 51.7.

Trade deficit moderating from its 62-month high of US \$ 18.0 billion in July 2018 to US \$ 17.4 billion in August 2018, but still remained at elevated levels. With these prints, CAD (Current Account Deficit) is on track to be near 3% of GDP (Gross Domestic Product) or US \$ 80 billion in FY 2019 widening from 2.0% in FY 2018 and 0.7% of GDP in FY 2017.

India's FX (Forex) reserves rose by US \$ 1.7 billion in the first 3 weeks of September 2018 (latest data as of September 21, 2018). FX Reserves at US \$ 401.8 billion are down by US \$ 24 billion though from the peak in mid-April 2018.

Fiscal deficit at the end of September 2018 stood at 95% of the budgeted annual deficit. 25 states and union territories (UT) have reported a shortfall in GST (Goods & Services Tax) collections during April-August 2018 with the national average shortfall narrowing down to 13% (based on projected growth rate of 14% in FY 2019) versus 16% during July 2017-March 2018.

### **Around the World:**

The Fed (Federal Reserve) hiked the funds rate target range by 25bp to 2.0% - 2.25% in line with consensus expectation. Fed officials also dropped the reference to "accommodative" policy. Fed chair Powell judged that the stance of policy is likely still accommodative, but that now it was an opportune time to remove a phrase which has ceased to serve a useful purpose. In its policy report, the ECB (European Central Bank) confirmed that the net QE purchase pace will be halved from October 2018 to € 15 billion/month with purchases set to end in December 2018. However, the most interesting aspect of the policy meeting was the ECB's positive assessment of growth. It has taken the slowdown in GDP growth from 2.7% last year to a 1.5% pace (reported) so far this year. The ECB also sounded confident on inflation front, despite reducing its core inflation projections by 0.1% to 1.5% for 2019 and 1.7% for 2020.

### **Debt Outlook:**

RBI hiked policy rates once again in the month of August by 25 bps after hiking in the earlier quarter when they met in June 2018. The MPC (Monetary Policy Committee) maintained a "neutral" stance and would continue to be in a wait-and-watch mode. CPI is expected to head lower this quarter and would rise once again and cross the 5% levels closer to March 2019. The INR depreciation would add as much 24 bps to the headline inflation according to RBI's own study. The impact of Crude oil prices would be another 20 bps on inflation. The Government has announced a ₹ 20,000 crores cut in market borrowings in H2. GST revenues continue to be lower than the target. We feel the 10 Year G-sec could trade in the range of 8% to 8.25% in the coming

months. The key factors to watch for would be RBI rate hikes, degree of INR weakness, fiscal situation of the centre and crude oil prices. The intermittent supply of durable liquidity by RBI through OMO purchases would act as a stop-gap measure rather than permanent solution to prevent yields from hardening.

## **Equity Outlook**

### **Equity Market Outlook for the Month of October, 2018**

Markets moved down in the month of September 2018 on the back of concerns over trade wars escalating, Oil moving up and Rupee weakening. Nifty was down 6.4% to end at 10930. Broader market was worse. Nifty next was down 12.7%, Nifty Midcap 50 down 13.5% and Nifty Midcap100 by similar % points indicating the broader market weakness.

Market sentiments were spiked by INR that moved down 2% to 72 versus USD and Oil that moved 6.85%, Nifty gave up during the month of September 2018. US imposing tariff's further on goods imported from China (worth US \$ 267 billion) made situation worse.

There was contagion impact on equities due to two events, one in equities and one in debt.

Yes Bank Chairman and CEO was given a notice that he would continue only till 31st January, 2019. ILFS, a premier infrastructure financing company defaulted on its obligations and was, as a result rated to "default" or "D" within a gap of 16 days from "AAA".

These events had big bearing on the sentiments and as a result broader markets gave way.

A sharp drop in INR led by rally in Oil and \$ strengthening has hurt our CAD which is at a 6 year high.

FPI's (Foreign Portfolio Investors) have been sellers to the tune of US \$ 1.08 billion during the month. For the calendar year we have FPI's selling to the extent of US \$ 1.8 billion in total. Domestic mutual funds have bought stocks to the tune of US \$ 1.7 billion during the month. While activities slowed on that side too, we saw some strong buying emerging last month on account of sharp drop. Subscription to mutual funds are showing declining trend.

CPI inflation has eased to 3.7% (4.2% for July 2018) for August 2018 and WPI to 4.5% (5.1% for July 2018).



Fed increased rate to 2.25%, third time this year. Though Mr. Powell made a statement about “no pressure of inflation due to unemployment at the lowest” interest rates are likely to move up in US. Bloomberg probability of one more rate hike in CY 2018 is 76% and 4 rate hikes in CY 2019 is 50%.

Equity markets will face headwinds of rising oil prices and the same going ahead of time. Oil prices have moved much beyond expectations (when we started this year) and spare capacities to bridge the gap that Iran sanctions have laid behind, goes out. \$ strengthening has increased the current account deficit and RBI actions are showing in declining forex reserves (US \$ 402 billion as of September 2018). Increase in interest rate due to imported inflation (Oil) may probably hurt growth.

This may in turn increase the overall cost structure for the economy. Though banking sector that contributes 50% of the incremental profits for Nifty companies would benefit due to increase in interest, the slowing growth that impacts the will finally hurt. Increasing interest rate, crude oil prices and commodity prices will hurt the input costs denting profitability.

Election uncertainty and impact on mark to market in FPI portfolio will be other factor that will drive the sentiments.

We remain cautious on the Equity side.

### **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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