

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-Aug-18	31-Jul-18	Change (%)	31-Mar-18	Change (%)
₹/\$	71.00	68.55	▶ -3.57%	65.18	▶ -8.93%
Forex Res.(Bn- 1 Wk Lag)	\$ 401.29	\$ 404.19	▶ -0.72%	\$ 422.53	▶ -5.03%
Oil Price (\$/Barrel)	\$ 77.42	\$ 74.88	▶ 3.39%	\$ 69.53	▶ 11.35%
Gold (₹/10 gm)	30,226	29,726	▶ 1.68%	30,630	▶ -1.32%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	-2029	1429	▶ -241.99%	13114	▶ -115.47%
Debt (monthly)	4090	176	▶ 2223.86%	-2410	▶ -269.71%

Indices

Particulars	31-Aug-18	31-Jul-18	Change (%)	31-Mar-18	Change (%)
BSE Sensex	38,645.07	37,606.58	▶ 2.76%	32,968.68	▶ 17.22%
S&P CNX Nifty	11,680.50	11,356.50	▶ 2.85%	10,113.70	▶ 15.49%
Dow Jones Industrial Avg	25,964.82	25,415.19	▶ 2.16%	24,103.11	▶ 7.72%
FTSE 100	7,432.42	7,748.80	▶ -4.08%	7,056.61	▶ 5.33%
Hang Seng Index	27,888.55	28,583.01	▶ -2.43%	30,093.38	▶ -7.33%
Nikkei 225	22,865.15	22,553.72	▶ 1.38%	21,454.30	▶ 6.58%
BSE Healthcare Index	15,945.17	14,205.73	▶ 12.24%	13,157.62	▶ 21.19%
BSE Metal Index	13,821.31	12,659.62	▶ 9.18%	13,322.03	▶ 3.75%
BSE Power Index	2,140.72	1,975.25	▶ 8.38%	2,125.83	▶ 0.70%
BSE Information Technology Index	15,548.52	14,527.23	▶ 7.03%	12,100.55	▶ 28.49%
BSE FMCG Index	12,771.69	12,012.67	▶ 6.32%	10,290.14	▶ 24.12%
BSE Capital Goods Index	18,996.76	18,295.56	▶ 3.83%	18,476.73	▶ 2.81%
BSE Bankex	31,741.91	31,005.96	▶ 2.37%	27,197.88	▶ 16.71%
BSE Realty Index	2,141.43	2,094.86	▶ 2.22%	2,229.92	▶ -3.97%
BSE Auto Index	24,716.48	24,496.98	▶ 0.90%	24,057.25	▶ 2.74%
BSE Oil & Gas Index	15,079.04	15,023.57	▶ 0.37%	14,614.42	▶ 3.18%

Primary Key Rates

Particulars	31-Aug-18	31-Jul-18	Change (%)	31-Mar-18	Change (%)
Repo Rate*	6.50%	6.25%	▶ 0.25%	6.00%	▶ 0.50%
Reverse Repo Rate**	6.25%	6.00%	▶ 0.25%	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	6.40%	6.25%	▶ 0.15%	5.90%	▶ 0.50%
Current Inflation Rate (WPI)	5.09%	5.77%	▶ -0.68%	2.48%	▶ 2.61%
Current Inflation Rate (CPI) (July)	4.17%	5.00%	▶ -0.83%	4.44%	▶ -0.27%
IIP (WPI) % y-o-y (June)	7.00%	3.20%	▶ 3.80%	7.50%	▶ -0.50%
AAA spread (bps)	54.00	61.00	▶ -11.48%	50.00	▶ 8.00%

	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-Aug-18	31-Jul-18	Change (%)	31-Mar-18	Change (%)
91 days T - Bill	6.81%	6.71%	▶ 0.10%	6.11%	▶ 0.70%
364 days T - Bill	7.34%	7.25%	▶ 0.09%	6.42%	▶ 0.92%
5 Years G - Sec (Annualized)	8.03%	7.90%	▶ 0.13%	7.32%	▶ 0.71%
10 Years G - Sec (Annualized)	7.95%	7.77%	▶ 0.18%	7.40%	▶ 0.55%
30 Years G - Sec (Annualized)	8.25%	8.12%	▶ 0.13%	7.65%	▶ 0.60%

-  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 Pressure is ON, catch EM early!

Yields hardened and currency weakened as the twin deficit fears start looming once again. India's CAD for FY 19 is now estimated to be close to 2.7% which is higher than RBI's comfortable and sustainable level. The emerging crisis in Argentina and Turkey has been spilling over to other EM countries and as long as our macro fundamentals are not strengthened we would continue to face further pressure.

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

Instrument	Mar' 18	July' 18	Aug' 18	M-O-M Change	YTD Change
10 Yr G-sec	7.40%	7.77%	7.95%	0.18%	0.55%
30 Yr G-sec	7.65%	8.12%	8.25%	0.13%	0.60%
3 Yr AAA Bond	7.55%	8.57%	8.55%	-0.02%	1.00%
5 Yr AAA Bond	7.88%	8.60%	8.70%	0.10%	0.82%
10 Yr AAA Bond	8.00%	8.54%	8.65%	0.11%	0.65%
364 Days T-bill	6.42%	7.25%	7.34%	0.09%	0.92%
91 Days T-bill	6.11%	6.71%	6.81%	0.10%	0.70%
1Yr Certificate of Deposit	7.35%	8.00%	8.10%	0.10%	0.75%
Credit spreads bps	50	61	54	- 7	4
Crude \$/barrel	69.53	74.88	77.42	\$ 2.54	\$ 7.89
USD / INR	65.18	68.55	71.00	₹ 2.45	₹ 5.82

Macro Indicators:

India' annual inflation rate eased to 4.17% in July 2018 from a downwardly revised 4.92% in the previous month, and below market expectations of 4.51%. Still, inflation remained above the central bank's medium-term target of 4 percent for nine consecutive months.

Wholesale prices in India rose by 5.09% year-on-year in July 2018, after a 5.77% increase in the prior month. Figure came in below market estimates of 5.24%, as prices of food fell sharply while cost of manufactured products and fuel increased faster. On a monthly basis, wholesale prices increased by 0.4%, compared to a 1.1% rise in June 2018.

India's industrial production jumped by 7% from a year earlier in June 2018, following an upwardly revised 3.9% growth in the previous month and easily beating market expectations of a 5.2% advance. Output growth accelerated for all sectors: manufacturing (6.9% versus 3.7% in May 2018); mining (6.6% versus 5.8%); and electricity (8.5% versus 4.2%).

India's trade deficit widened to US \$ 18.02 billion in July 2018 from US \$ 11.45 billion in the same month a year earlier. It was the largest trade gap since May 2013, as imports jumped 28.81% to US \$ 43.79 billion, boosted by higher purchases of petroleum, crude & products (57.41%), gold (40.94%), machinery, electrical & non-electrical (30.59%), electronic goods (26.42%), and pearls, precious & semi-precious stones (11.35%). Exports rose at a softer 14.32% to US \$ 25.77 billion, due to strong sales of petroleum products (30.08%), gems & jewellery (24.62%), organic & inorganic chemicals (19.89%), engineering goods (9.09%), and drugs & pharmaceuticals (2.20%).

Around the World:

US annual core inflation rate, which excludes volatile items such as food and energy, rose to 2.4% in July 2018 from 2.3% in the previous month, and above market expectations of 2.3%. It was the highest rate since September 2008. Non-farm payrolls in the United States increased by 157 thousand in July 2018, following an upwardly revised 248 thousand in June 2018 and below market expectations of 190 thousand. Job gains occurred in professional and business services, in manufacturing, and in health care and social assistance. The Federal Reserve looks set to increase Fed Funds Rate by 25 bps each at the September 2018 and December 2018 meetings. Argentina's apex bank has been fighting the Peso which has been continuously depreciating and in August 2018 raised policy rates by 15% points from 45% to 60% in a single shot. Turkish Lira, Brazilian Real, South African Rand are all equally suffering.

Debt Outlook:

FPIs (foreign Portfolio Investors) originally started buying in the month of August 2018, but all that changed in the second half, as pressure on INR started building from the EM (Emerging Market) contagion of sorts. CPI for the month of July 2018 surprised on the downside by 20 bps and this was good for markets, but even then the sequential uptick in inflation is as high as 0.9% which is quite high. Core CPI continues to hover close to 6.3% and this also will be a worry going forward. The coming months would see CPI take a dip below 4% but that would be from a favorable base effect. The recent fall in INR is also bound to see a pass through to CPI and this has been embittered from a recent rise in crude oil prices. RBI and MPC (Monetary Policy Committee) would be keenly watching these developments and markets are now pricing a rate hike on 5th October 2018. With an imminent rate hike by Fed in September 2018 and INR crossing US \$ 70 comfortably, markets would be feeling the brunt of all these with yields continuing to trade near 8% on the 10 year benchmark stock.

Equity Outlook

Equity Market Outlook for the Month of September, 2018

Nifty index moved 2.85% to end at 11680 during the month of August 2018 after the big rise of 6% during the month of July 2018. Generally buoyant mood prevailed across the markets. Dow Jones index was up 2%, Nasdaq was up 5.5%.

Huge inflows into the funds made the industry look for value stocks. Pharmaceuticals (Index up 12%) and IT (Index up 8%) was the choice due to strong USD. Other than this, market participants placed bets on banks having more corporate exposures. Axis Bank and ICICI Bank led the rally.

Key highlight of the month was crude moving 4.5% to 78 \$ per barrel and rupee depreciating by 3.8% to move to 71 per \$. Liquidity slowed down. FPI's invested US \$ 131 million (US \$ 208 million last month) and domestic institutions US \$ 403 million (US \$ 613 million in the previous month) and mutual funds US \$ 546 million (US \$ 571 million last month).

Base effect helped GDP growth to accelerate. For 1q FY 2019 GDP growth was at 8.2% compared to 7.7% for 4q FY 2018. IIP was at 7% for May 2018 against 3.9% for April 2018. CPI & WPI inflation eased to 4.2% (5%) and 5.1% (5.8%) for June 2018.

Depreciation in rupee and increase in oil prices will impact the macro part of the economy. Emerging currencies are roiled because of trade war revoking of Nafta (North American Free Trade Agreement). India though will stand tall amongst the emerging currencies; it will always be susceptible to the vagaries. GST collections of ₹ 96483 crore do not comfort us while hardening interest rate scenario is around. Markets will be volatile going forward. We prefer to be neutral.

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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