

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-Dec-17	30-Nov-17	Change (%)	31-Mar-17	Change (%)
₹/\$	63.87	64.46	🟩 0.92%	64.85	🟩 1.51%
Forex Res.(Bn- 1 Wk Lag)	\$ 404.92	\$ 400.74	🟩 1.04%	\$ 367.93	🟩 10.05%
Oil Price (\$/Barrel)	\$ 66.87	\$ 64.10	🟩 4.32%	\$ 53.53	🟩 24.92%
Gold (₹/10 gm)	29,260	29,260	🟨 0.00%	28,527	🟩 2.57%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	-4747	19180	🔴 -124.75%	29996	🔴 -115.83%
Debt (monthly)	3369	-1361	🟩 347.54%	27136	🔴 -87.58%

Indices











Particulars	31-Dec-17	30-Nov-17	Change (%)	31-Mar-17	Change (%)
BSE Sensex	34,056.83	33,149.35	🟩 2.74%	29,620.50	🟩 14.98%
S&P CNX Nifty	10,530.70	10,226.55	🟩 2.97%	9,173.75	🟩 14.79%
Dow Jones Industrial Avg	24,719.22	24,272.35	🟩 1.84%	20,663.22	🟩 19.63%
FTSE 100	7,687.77	7,326.67	🟩 4.93%	7,342.43	🟩 4.70%
Hang Seng Index	29,919.15	29,177.35	🟩 2.54%	24,111.59	🟩 24.09%
Nikkei 225	22,764.94	22,724.96	🟩 0.18%	18,909.26	🟩 20.39%
B S E Realty Index	2,608.25	2,419.24	🟩 7.81%	1,599.97	🟩 63.02%
B S E Metal Index	14,939.28	14,056.65	🟩 6.28%	11,804.46	🟩 26.56%
B S E Healthcare Index	14,799.42	14,065.54	🟩 5.22%	15,312.40	🔴 -3.35%
B S E Auto Index	26,751.20	25,455.60	🟩 5.09%	22,012.66	🟩 21.53%
B S E Information Technology Index	11,277.81	10,825.27	🟩 4.18%	10,365.51	🟩 8.80%
B S E Capital Goods Index	19,133.76	18,540.76	🟩 3.20%	16,446.03	🟩 16.34%
B S E FMCG Index	10,695.18	10,364.27	🟩 3.19%	9,270.25	🟩 15.37%
B S E Power Index	2,381.69	2,340.07	🟩 1.78%	2,274.42	🟩 4.72%
B S E Oil & Gas Index	16,283.26	16,057.30	🟩 1.41%	13,563.63	🟩 20.05%
B S E Bankex	28,856.77	29,180.14	🔴 -1.11%	24,420.77	🟩 18.16%




Primary Key Rates

Particulars	31-Dec-17	30-Nov-17	Change (%)	31-Mar-17	Change (%)
Repo Rate*	6.00%	6.00%	 0.00%	6.25%	 -0.25%
Reverse Repo Rate**	5.75%	5.75%	 0.00%	5.75%	 0.00%
CRR#	4.00%	4.00%	 0.00%	4.00%	 0.00%
SLR *#	19.50%	19.50%	 0.00%	20.50%	 -1.00%
Call money rate	6.10%	6.00%	 0.10%	6.00%	 0.10%
Current Inflation Rate (WPI)	3.93%	3.59%	 0.34%	6.55%	 -2.62%
Current Inflation Rate (CPI) (Nov)	4.88%	3.58%	 1.30%	3.65%	 1.23%
IIP (WPI) % y-o-y (Oct)	2.20%	3.80%	 -1.60%	2.70%	 -0.50%
AAA spread (bps)	38.00	58.00	 -34.48%	75.00	 -49.33%

	2014-15	2015-16	2016-17	Q1 FY18	Q2 FY18
Real GDP % (New Growth No. by CSO)	7.30%	7.60%	7.10%	5.70%	6.30%

Interest Rates (FIMMDA)

Particulars	31-Dec-17	30-Nov-17	Change (%)	31-Mar-17	Change (%)
91 days T - Bill	6.20%	6.12%	 0.08%	5.78%	 0.42%
364 days T - Bill	6.40%	6.27%	 0.13%	6.10%	 0.30%
5 Years G - Sec (Annualized)	7.11%	6.89%	 0.22%	6.62%	 0.48%
10 Years G - Sec (Annualized)	7.33%	7.06%	 0.27%	6.66%	 0.67%
30 Years G - Sec (Annualized)	7.71%	7.57%	 0.14%	7.45%	 0.26%

	No change
	Negative change
	Positive change

* w.e.f Aug 02, 2017

** w.e.f Aug 02, 2017

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 fiscal cat is finally out of the bag !

Markets fell in the month of December 2017 as yields on the 10 Yr bond rose by 27 bps. The 30 Yr yield also rose by 14 bps. The main reasons for this hardening of yields have been the higher crude oil prices and the breach of the fiscal deficit target by the Government. There will be an additional issuance of ₹ 50k crs by the centre to fund its deficit. The market level of traded instruments and Brent crude and INR.

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

Instrument	Mar' 17	Nov' 17	Dec' 17	M-O-M Change	Change (YTD)
10 Yr G-sec	6.66%	7.06%	7.33%	0.27%	0.67%
30 Yr G-sec	7.45%	7.57%	7.71%	0.14%	0.26%
3 Yr AAA Bond	7.10%	7.20%	7.55%	0.35%	0.45%
5 Yr AAA Bond	7.45%	7.45%	7.60%	0.15%	0.15%
10 Yr AAA Bond	7.66%	7.70%	7.85%	0.15%	0.19%
364 Days T-bill	6.10%	6.27%	6.40%	0.13%	0.30%
91 Days T-bill	5.78%	6.12%	6.20%	0.08%	0.42%
1Yr Certificate of Deposit	6.63%	6.65%	6.75%	0.10%	0.12%
Credit spreads bps	75	58	38	-20	-37
Crude \$/barrel	53.53	64.10	66.87	\$ 2.77	\$ 13.34
USD / INR	64.85	64.46	63.87	₹ -0.59	₹ -0.98

Macro Indicators:

Consumer prices in India increased 4.88% year-on-year in November 2017, higher than 3.58% in October 2017 and well above market expectations of 4.2%. It is the highest inflation rate since August 2016, mainly due to rises in cost of vegetables and fuel. Wholesale prices in India rose by 3.93% year-on-year in November 2017, following a 3.59% increase in the prior month and above market estimates of a 3.78% gain. It was the highest wholesale inflation since March 2017, mainly due to a faster rise in cost of food and a further increase in cost of fuel.

India's industrial production increased by 2.2% year-on-year in October 2017, easing from an upwardly revised 4.1% gain in the previous month and missing market expectations of 3%. Output growth slowed for manufacturing (2.5% from 3.8% in September 2017), electricity (3.2% from 3.4%) and mining (0.2% from 7.8%).



India's fiscal gap for the April - November 2017 period widened to ₹ 6.121 trillion from ₹ 4.58 trillion in the same period a year earlier. The shortfall was equivalent to 112% of the government's target for the whole financial year, compared with 85.8% in the same period last year. Total expenditure reached ₹ 14.79 trillion and revenues totaled ₹ 8.05 trillion. India's trade deficit in the month of November 2017 narrowed to US \$ 13.83 billion from around US \$ 14.02 billion. Exports jumped 30% to US \$ 26.2 billion, while imports jumped 19.6% to US \$ 40 billion. Exports were boosted up by engineering goods, petroleum products, gems and Jewellery.

Banking sector loan growth touched 9.6% against last month's growth rate of 8.6%. However deposit growth rate tumbled to 3.5% against 8.1%.

Around the World:

US NFP (Non Farm Payroll) data was very strong with job additions coming at 228000 against consensus expectations of 200000. Unemployment rate was however steady at 4.1% unchanged from the previous month. US inflation also surprises positively with a 2.2% rise against last month's. The Federal Reserve raised rates in December 2017 at the FOMC (Federal Open Market Committee) meeting in line with expectations and the next rate hike could come now in March 2018. The ECB (European Central Bank) still maintained a dovish stance at its latest meetings despite a strong set of data in terms of manufacturing growth. UK saw inflation at 3.1% which ended up higher than last month's figures as well as consensus estimates and this only raised expectations of rate hike by BoE (Bank of England) in 2018.

Debt Outlook:

RBI in its December 2017 policy sounded neutral without hinting at any imminent rate hikes. The mention of OMO (Open Market Operations) purchases and rate cuts as possibilities if incoming data warrants them were taken very positively by markets. However when the minutes of the same meeting were released the tone was quite hawkish. This led to an eventual hardening of yields. It did not help that Brent crude prices shot up by more than US \$ 3-4 bbl and started making people wonder about its impact on fiscal deficit and CPI which were already heading higher. Govt. had reached 112% of its FY 2018 fiscal deficit target in November 2017, but whatever little hope of the govt. meeting its target was there also got quashed as GST (Goods & Services Tax) collections for the month of November 2017 were released only to disappoint. Finally yields crossed 7.4% after the government announced a calendar to borrow ₹ 50000 crs more than the budgeted program from the markets. We feel the 10 Yr could trade in the range of 7.25% to 7.4% in the coming month with CPI trajectory, FY 2019 budget and February 2018 MPC (Monetary Policy committee) being the key events to determine of the yields could breach this range on either side.



Equity Outlook

Equity Market Outlook for the Month of Jan 2018

It was an eventful year for equity markets. Despite three interest rate hikes in US, crude price going up 18% and, in general raise in prices of commodities for the calendar year the Nifty gave a return of 28%.

Sensex and Nifty gave a return of 2.74% and 2.97% for the month of December ending at 34057 and 10531. BSE Midcap and Small cap index gave a return of 48% and 59% for the year.

International markets too did very well. Dow Jones industrial index gave a return of 25.6% for the year while Dollex lost 9% (first time in this decade).

All this means good economic growth ahead for us from the international markets and in the domestic markets too. Nomura expects World economy to grow at 3.9%, emerging economies to grow at 5.1% & India to grow at 7.5% for CY 2018.

Towards the end of the year we saw bond yields spike badly. Since the beginning of last quarter or October, 2017 markets had inclination of inflation heading north, crude and commodity prices too. Signs of interest rates going up are not so good for equities as well unless growth kicks in.

One key reason for the markets going up has been huge flow into equities by local mutual funds as a result of financialization of savings. FPI's (Foreign Portfolio Investors) and the Mutual funds invested US \$ 7.7 billion and US \$ 13.5 billion into equities this year. MF investment was against US \$ 7 billion investments by them in the last 3 years.

Economic indicator released for the month of December 2017 included November 2017 WPI inching up to 3.9%, CPI @ 4.8% and IIP in October 2017 coming to 2.2%. But the best possible outcome for the markets was the BJP, the lead in NDA winning Gujarat and Himachal elections.

We continue our cautious stands on the markets with selective sector weightage in our portfolio. After 28% rise in benchmark (which also indicates a far bigger rise in select stocks) we cannot ask for more. Earnings growth of 15% expected need to catch up in the next one year for the index to sustain. Capex growth too has to pick up.

We think markets will consolidate in the coming year & keep a close eye on earnings growth, state election results and governments policy action ahead of general elections in April 2019.

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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