

## 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-Nov-17	31-Oct-17	Change (%)	31-Mar-17	Change (%)
₹/\$	64.46	64.75	 0.45%	64.85	 0.60%
Forex Res.(Bn- 1 Wk Lag)	\$ 400.74	\$ 399.92	 0.21%	\$ 367.93	 8.92%
Oil Price (\$/Barrel)	\$ 64.10	\$ 60.73	 5.55%	\$ 53.53	 19.75%
Gold (₹/10 gm)	29,260	29,347	 -0.30%	28,527	 2.57%
<b>FII inflows (Net) - Crs (₹)</b>					
Equity (monthly)	19180	1923	 897.40%	29996	 -36.06%
Debt (monthly)	-1361	17425	 -107.81%	27136	 -105.02%

### Indices

Particulars	30-Nov-17	31-Oct-17	Change (%)	31-Mar-17	Change (%)
BSE Sensex	33,149.35	33,213.13	 -0.19%	29,620.50	 11.91%
S&P CNX Nifty	10,226.55	10,335.30	 -1.05%	9,173.75	 11.48%
Dow Jones Industrial Avg	24,272.35	23,377.24	 3.83%	20,663.22	 17.47%
FTSE 100	7,326.67	7,493.08	 -2.22%	7,342.43	 -0.21%
Hang Seng Index	29,177.35	28,245.54	 3.30%	24,111.59	 21.01%
Nikkei 225	22,724.96	22,011.61	 3.24%	18,909.26	 20.18%
BSE Realty Index	2,419.24	2,301.28	 5.13%	1,599.97	 51.21%
BSE Information Technology Index	10,825.27	10,362.22	 4.47%	10,365.51	 4.44%
BSE Bankex	29,180.14	28,284.00	 3.17%	24,420.77	 19.49%
BSE FMCG Index	10,364.27	10,263.72	 0.98%	9,270.25	 11.80%
BSE Capital Goods Index	18,540.76	18,423.27	 0.64%	16,446.03	 12.74%
BSE Auto Index	25,455.60	25,414.76	 0.16%	22,012.66	 15.64%
BSE Power Index	2,340.07	2,349.20	-0.39%	2,274.42	2.89%
BSE Healthcare Index	14,065.54	14,281.60	-1.51%	15,312.40	-8.14%
BSE Oil & Gas Index	16,057.30	16,552.40	-2.99%	13,563.63	18.38%
BSE Metal Index	14,056.65	14,730.27	-4.57%	11,804.46	19.08%

### Primary Key Rates

Particulars	30-Nov-17	31-Oct-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	6.00%	5.90%	 0.10%	6.00%	 0.00%
Current Inflation Rate (WPI)	3.59%	2.60%	 0.99%	6.55%	 -2.96%
Current Inflation Rate (CPI) (Oct)	3.58%	3.28%	 0.30%	3.65%	 -0.07%
IIP (WPI) % y-o-y (Sept)	3.80%	4.30%	 -0.50%	2.70%	 1.10%
AAA spread (bps)	58.00	55.00	 5.45%	75.00	 -22.67%

	2014-15	2015-16	2016-17	Q4 FY17	Q1 FY18
Real GDP % (New Growth No. by CSO)	7.30%	7.60%	7.10%	6.10%	5.70%

### Interest Rates (FIMMDA)

Particulars	30-Nov-17	31-Oct-17	Change (%)	31-Mar-17	Change (%)
91 days T - Bill	6.12%	6.10%	 0.02%	5.78%	 0.35%
364 days T - Bill	6.27%	6.23%	 0.04%	6.10%	 0.17%
5 Years G - Sec (Annualized)	6.89%	6.75%	 0.14%	6.62%	 0.27%
10 Years G - Sec (Annualized)	7.06%	6.86%	 0.20%	6.66%	 0.40%
30 Years G - Sec (Annualized)	7.57%	7.41%	 0.16%	7.45%	 0.12%

-  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

#### Pressure here, pressure there!

Markets fell in the month of November 2017 as yields on the 10 Year bond rose by 6 bps despite a surprise sovereign ratings upgrade by Moodys Ratings. The continued rise of crude oil added pressure on bonds as OPEC (Organization of the Petroleum Exporting Countries) decided to keep cuts in production for an extended period. Pressure also was exerted by rise in yields in the US amidst heightened expectations of a rate hike by the Federal Reserve.

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

Instrument	Mar' 17	Oct' 17	Nov' 17	M-O-M Change	Change (YTD)
10 Yr G-sec	6.66%	6.86%	7.06%	0.20%	0.40%
30 Yr G-sec	7.45%	7.41%	7.57%	0.16%	0.12%
3 Yr AAA Bond	7.10%	7.00%	7.20%	0.20%	0.10%
5 Yr AAA Bond	7.45%	7.14%	7.45%	0.31%	0.00%
10 Yr AAA Bond	7.66%	7.50%	7.70%	0.20%	0.04%
364 Days T-bill	6.10%	6.23%	6.27%	0.04%	0.17%
91 Days T-bill	5.78%	6.10%	6.12%	0.02%	0.34%
1Yr Certificate of Deposit	6.63%	6.57%	6.65%	0.08%	0.02%
Credit spreads bps	75	55	58	3	-17
Crude \$/barrel	53.53	60.73	64.10	\$ 3.37	\$ 10.57
USD / INR	64.85	64.75	64.46	₹ -0.29	₹ -0.39

### Macro Indicators:

Consumer prices in India increased 3.58% year-on-year in October 2017, above 3.28% in September 2017 and market expectations of 3.46%. It is the highest inflation rate in seven months, mainly driven by rising cost of food and fuel. Wholesale prices in India rose 3.59% year-on-year in October 2017, following a 2.60% increase in the prior month and above market estimates of a 3.01% gain. It was the highest wholesale inflation since April 2017, due to a surge in cost of food and a faster rise in cost of fuel. On a monthly basis, wholesale prices rose by 1.0% after a 0.4% decline in a month earlier.

India's industrial production increased by 3.8% year-on-year in September 2017, following an upwardly revised 4.5% gain in the previous month and missing market expectations of 4.2%. Output rose at a softer pace for both mining (7.9% from 9.2% in August 2017) and electricity (3.4% from 8.3%), while manufacturing production



growth was unchanged at 3.4%. Considering April 2017 to September 2017, industrial production increased by 2.5%, compared with a 5.8% expansion in the same period of the previous fiscal year.

India's fiscal gap for the April 2017 - October 2017 period widened to ₹ 5.25 trillion from ₹ 4.24 trillion in the same period a year earlier. The shortfall was equivalent to 96.1% of the government's target for the whole financial year, compared with 79.3% in the same period last year. Total expenditure reached ₹ 12.93 trillion and revenues totaled ₹ 7.29 trillion. The government aims to reduce the fiscal deficit to 3.2% of the GDP (Gross Domestic Product) in the current fiscal year that ends in March 2017, compared with 3.5% in the previous year.

India's trade deficit in the month of October 2017 widened to US \$ 14 billion from around US \$ 9 billion owing to a dip in exports and rise in imports and higher crude oil prices.

### **Around the World:**

Data in the US was a mixed bag as industrial production took a hit while inflation and unemployment data was more promising. New orders for US manufactured durable goods shrank 1.2% month-over-month in October 2017, following a 2.2% increase in September 2017 and compared to market expectations of a 0.3% gain. Orders for transport equipment slumped 4.3% and those for non-defense aircraft and parts went down 18.6%, after jumping 4.4% and 33.9% respectively in September 2017 due to a rise in Boeing aircraft orders. Non-defense capital goods orders excluding aircraft, seen as a proxy for business spending plans went down 0.5%, the biggest drop since September 2016 and following an upwardly revised 2.1% gain in the previous month. Annual core inflation in the United States rose to 1.8% in October 2017, the highest in six months amid rising prices for food, transportation services and medical care. It compares with market expectations of 1.7%. PMI (Purchasing Manager Index) data in the Eurozone and UK also surprised markets positively.

### **MPC bi-monthly policy review**

The MPC (Monetary Policy Committee) kept Repo rate 6% in line with market expectations. The neutral stance was maintained and this meant that the MPC is keeping all options on the table depending on incoming data. The stance would be maintained for at least a quarter or two, to get more clarity on macroeconomic environment. Liquidity would become neutral in the 1st half of 2018, and RBI will be closely monitoring it so as to provide infusion or suck out liquidity. Inflation target pushed by 10 bps for FY 2018 end and GVA (Gross Value Added) maintained at 6.7%.



Upside risks to inflation like pending HRA, crude oil uptick remain, but could be countered by moderation in food prices owing to seasonality and lower GST rates (Goods & Services Tax) on certain items. Fiscal slippage risks also persist owing to Farm Loan Waivers, and roll back of excise and VAT (Value Added Tax) on petroleum products

### **Debt Outlook:**

RBI in its December 2017 policy sounded neutral without hinting at any imminent rate hikes. The mention of OMO (Open Market Operation) purchases and rate cuts as possibilities if incoming data warrants them were taken very positively by markets. Govt. has reached 96% of its FY 2018 fiscal deficit target in November 2017, but we have seen that the centre has the ability and powers to cut spending from even 117% of target to within budgeted figure in the past. We believe if CPI stays close to 4% in the coming months and then abstains from any excess borrowing, yields could head lower and stay in the 6.85% to 7% range. There are however upside risks like higher crude oil prices, elevated chances of faster rate hikes by the Fed and a poor electoral performance by BJP in Gujarat Assembly elections. Yields could cross over above the 7.1% mark if the above-mentioned risks become a reality.

### **Equity Outlook**

#### **Equity outlook for the month of December, 2017**

Benchmark Indices slid during the month of November despite many positives. Positives came in the form of -

- (a) India moving up the Ranking in terms of ease of doing business
- (b) Growth numbers were in line with expectations (GVA (Gross Value Added) was at 6.1% for the second quarter of FY 2017) &
- (c) Moody's upgraded country rating from Baa3 to Baa2.

Sensex closed at 33149 down 0.19%. Nifty was down 1.05% at 10227. S&P Mid cap and S&P small cap indices are up 1.99% and 3.6% during the month.

As against world markets are doing extremely well. Dow Jones was up 3.8%, Hong Kong 3.3% but FTSE was down 2.2%.



Markets were though concerned about the crude prices inching up and its impact on fiscal. Brent crude moved to US \$ 64 per barrel during the month. Trade deficit came at US \$ 14 billion for October 2017 as against US \$ 11.5 billion for September 2017. Markets also got concerned over GST collections as government reduced charge on 211 products. Gujarat state elections that are due in this month also added to pressure.

Profit booking was witnessed in Metals while investors cut positions in Pharmaceuticals and Oil and Gas.

Foreign Portfolio Investors bought stocks worth US \$ 3 billion and Domestic mutual funds US \$ 1.7 billion. This was first time after a long pause that FPI's have put in sizeable money.

CPI Inflation moved to 3.6% for the month of September 2017 compared to 3.2% for October 2017 as predicted. WPI too came at 3.6% from 2.6%. We go into December 2017 with less hopes in terms of rates easing as CPI has inched up Growth has come in to be good and world economy is recovering.

As has been mentioned in our earlier notes, we are neutral on the markets as signs of overheating are visible. IPO's have absorbed lot of cash and the same has moved into earlier investors rather than the companies. In most of the IPO's the quotes are below the issue prices. QIP's of many companies have been happening and are in the pipeline. Supply side is clearly concerning.

Tax cuts to be imposed in US would be aiding dollar to strengthen. This is also not positive for metals and emerging markets. Tax cuts will also result in big growth in profitability for US companies. Growth in profitability due to tax cuts, dollars moving into the country (US) on account of lower repatriation tax and rate hike will only aid dollar index. Emerging markets are subject to risk here.

### **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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