

## 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-17	31-Jul-17	Change (%)	31-Mar-17	Change (%)
₹/\$	63.91	64.19	🚩 0.44%	64.85	🚩 1.45%
Forex Res.(Bn- 1 Wk Lag)	\$ 394.55	\$ 391.33	🚩 0.82%	\$ 367.93	🚩 7.23%
Oil Price (\$/Barrel)	\$ 51.06	\$ 52.46	🚩 -2.67%	\$ 53.53	🚩 -4.61%
Gold (₹/10 gm)	29,399	28,517	🚩 3.09%	28,527	🚩 3.06%
<b>FII inflows (Net) - Crs (₹)</b>					
Equity (monthly)	-12632	2509	🚩 -603.47%	29996	🚩 -142.11%
Debt (monthly)	12694	20312	🚩 -37.50%	27136	🚩 -53.22%

### Indices

Particulars	31-Aug-17	31-Jul-17	Change (%)	31-Mar-17	Change (%)
BSE Sensex	31,730.49	32,514.94	🚩 -2.41%	29,620.50	🚩 7.12%
S&P CNX Nifty	9,917.90	10,077.10	🚩 -1.58%	9,173.75	🚩 8.11%
Dow Jones Industrial Avg	21,948.10	21,891.12	🚩 0.26%	20,663.22	🚩 6.22%
FTSE 100	7,365.26	7,372.00	🚩 -0.09%	7,342.43	🚩 0.31%
Hang Seng Index	27,970.30	27,323.99	🚩 2.37%	24,111.59	🚩 16.00%
Nikkei 225	19,646.24	19,925.18	🚩 -1.40%	18,909.26	🚩 3.90%
B S E Oil & Gas Index	15,177.26	14,189.96	🚩 6.96%	13,563.63	🚩 11.90%
B S E Metal Index	13,284.05	12,425.99	🚩 6.91%	11,804.46	🚩 12.53%
B S E FMCG Index	10,174.12	10,093.85	🚩 0.80%	9,270.25	🚩 9.75%
B S E Realty Index	2,137.67	2,186.28	🚩 -2.22%	1,599.97	🚩 33.61%
B S E Power Index	2,261.46	2,323.61	🚩 -2.67%	2,274.42	🚩 -0.57%
B S E Auto Index	23,688.67	24,463.15	🚩 -3.17%	22,012.66	🚩 7.61%
B S E Bankex	27,440.82	28,386.54	🚩 -3.33%	24,420.77	🚩 12.37%
B S E Capital Goods Index	17,330.85	17,972.61	🚩 -3.57%	16,446.03	🚩 5.38%
B S E Information Technology Index	10,063.83	10,437.79	🚩 -3.58%	10,365.51	🚩 -2.91%
B S E Healthcare Index	13,149.26	14,195.40	🚩 -7.37%	15,312.40	🚩 -14.13%

### Primary Key Rates

Particulars	31-Aug-17	31-Jul-17	Change (%)	31-Mar-17	Change (%)
Repo Rate*	6.00%	6.25%	 -0.25%	6.25%	 -0.25%
Reverse Repo Rate**	5.75%	6.00%	 -0.25%	5.75%	 0.00%
CRR#	4.00%	4.00%	 0.00%	4.00%	 0.00%
SLR *#	20.00%	20.00%	 0.00%	20.50%	 -0.50%
Call money rate	5.75%	6.20%	 -0.45%	6.00%	 -0.25%
Current Inflation Rate (WPI)	1.88%	0.90%	 0.98%	6.55%	 -4.67%
Current Inflation Rate (CPI) (July)	2.36%	1.54%	 0.82%	3.65%	 -1.29%
IIP (WPI) % y-o-y (June)	-0.10%	1.70%	 -1.80%	2.70%	 -2.80%
AAA spread (bps)	65.00	68.00	 -4.41%	75.00	 -13.33%

	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	31-Aug-17	31-Jul-17	Change (%)	31-Mar-17	Change (%)
91 days T - Bill	6.09%	6.13%	 -0.04%	5.78%	 0.31%
364 days T - Bill	6.25%	6.24%	 0.00%	6.10%	 0.14%
5 Years G - Sec (Annualized)	6.50%	6.55%	 -0.05%	6.62%	 -0.13%
10 Years G - Sec (Annualized)	6.53%	6.47%	 0.06%	6.66%	 -0.13%
30 Years G - Sec (Annualized)	7.22%	7.18%	 0.05%	7.45%	 -0.23%

	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 June 24, 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

#### Bonds and Bombs

Performance in bonds and markets overall have been severely affected by an insane leader in North Korea and all his missile tests. Inflation also headed higher in the latest month and this also has pushed yields higher. Globally there has been some doubt about the suitability of the Fed to raise rates anytime soon and imminent threats of balance sheet reduction.

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

Instrument	Mar' 17	July' 17	Aug' 17	M-O-M Change	Change (YTD)
10 Yr G-sec	6.66%	6.47%	6.53%	0.06%	-0.13%
30 Yr G-sec	7.45%	7.18%	7.22%	0.04%	-0.23%
3 Yr AAA Bond	7.10%	7.05%	6.95%	-0.10%	-0.15%
5 Yr AAA Bond	7.45%	7.08%	7.10%	0.02%	-0.35%
10 Yr AAA Bond	7.66%	7.38%	7.40%	0.02%	-0.26%
364 Days T-bill	6.10%	6.24%	6.25%	0.01%	0.15%
91 Days T-bill	5.78%	6.13%	6.09%	-0.04%	0.31%
1Yr Certificate of Deposit	6.63%	6.55%	6.55%	0.00%	-0.08%
Credit spreads bps	75	68	65	- 3 bps	- 10 bps
Crude \$/barrel	53.53	52.46	51.06	\$ - 1.40	\$ - 2.47
USD / INR	64.85	64.19	63.91	₹ - 0.28	₹ - 0.94

### Macro Indicators:

CPI inflation rose to a higher-than-expected 2.4% year on year in July 2017, from 1.5% in June 2017 on higher vegetable prices and a pick-up in core inflation owing to GST (Goods & Services Tax). Food deflation eased owing to a sharp rise in vegetable prices, mainly tomatoes, which alone contributed 60bp to headline inflation. Excluding vegetable prices, food price inflation moderated. Core CPI inflation (CPI ex- food & beverage, fuel) rose to 4.1% year on year in July 2017 from 3.8% in June 2017.

Industrial production fell 0.1% year on year in June 2017 after 2.8% growth in May 2017, its first contraction in four years. The supply side was weak with mining output growing by a meagre 0.4% year on year (versus 0.2%

in May 2017) and electricity output growth slowing to 2.1% (from 8.3% in May 2017). Most disappointing was manufacturing output, which contracted 0.4% year on year which compared with a 2.6% rise in May 2017.

Export growth moderated to 3.9% year on year in July 2017 from 4.4% year on year in June 2017. Import growth also decelerated to 15.4% year on year in July 2017 from 19% in June 2017. The trade deficit narrowed to US \$ 11.4 billion in July 2017 from US \$ 13.0 billion in June 2017.

### **Around the World:**

On the global front, the US economy also continues to look healthy, with unemployment now lower and broader measures of unemployment have also been falling sharply. In the month of July 2017, unemployment had risen marginally to 4.4% though. Given the tight labor market, the Federal Reserve (FED) raised rates again in June 2017 and announced that it is likely to start reducing the size of its balance sheet “relatively soon”. However amidst growing tensions in the Korean Peninsula after ballistic missile launches by North Korea and verbal retaliation by US increased Risk-off sentiments have pushed US yields to lows not seen in many months. In the UK we have started seeing inflation and growth pick up and could soon see rate hikes by Bank of England.

Among the Emerging Markets, Chinese growth expectations continues to be slow, with rising interbank lending rates potentially leading to a slowdown in the housing market and construction. Satellite data also suggests that Chinese activity is already cooling down.

### **Debt Outlook:**

RBI cut interest rates by 25 bps in line with market expectations, and also no further hint of definite cuts, keeps 10 Year yield at around 50 bps above Repo rate. CPI reversed from its multi-year low of 1.5% to touch 2.4% in July 2017. Higher tomato and vegetable prices and vanishing base effect could keep pushing CPI marginally higher every month. MPC (Monetary Policy Committee) minutes also don't indicate further easing as members focus on higher inflation more than lower growth. Geopolitical tensions and surfeit G-sec and corporate bond FPI (Foreign Portfolio Investment) limits increase chances of capital exodus. The shortfall in RBI dividend of ₹ 35 k crs will have an impact on fiscal deficit to the tune of 20 bps. But the central govt. in charge doesn't seem to be losing focus on its fiscal deficit trajectory and hence the shortfall could be made up by other means like expenditure cutting or other windfalls from other sources. Either way the fiscal deficit target would be met with no excess market borrowings. This is a positive for bond markets, rather absence of a negative.



Even economists who have been asking for rate cuts have pushed expectations for the next one to December 2017. Most analysts now believe CPI to settle at 4.5% by 1<sup>st</sup> Half year 2018. Going by real rate estimates of even 1.5% and with CPI (one year ahead) at 4.5%, we end up with nominal rates at 6% which is exactly where the Repo rate is now. So expecting more rate cuts seems a far-fetched idea. Bond markets are slowly grinding up in yield terms. At 53 bps above Repo rate 10 year is trading at around the median spread over the last 10 years. The only reason this spread could narrow is if more rate cuts are priced in, else yields could keep moving sideways in the range of 6.45%-55%. The 2<sup>nd</sup> half of FY 18 has only more G-sec and SDL (State Development Loan) supply with no redemptions and all this could pressure on yields and act as a floor for yields.

## **Equity Outlook**

### **Equity Market Outlook for the Month of September, 2017**

Sensex lost 2.4% for the month of August, 2017 and ended at 31730. This was despite big flows into domestic mutual funds despite geopolitical concerns across the globe. Standoff between North Korea and US continued to weigh on international markets. All indices ended positive though. Markets took the risk on their stride and continued to show positive trends and felt that it would finally not lead to a full blown war.

The cut was deep. None of the sector indices showed positive trend in the last month.

For the month, the key events include Repo rate cut of 25 basis points by the Reserve Bank of India and a good progress of monsoon after a lull. For the country as a whole rainfall was 3% deficit of the LPA (Long Period Average).

GDP (Gross Domestic Product) for the quarter ending June, 2017 was disappointing 5.7%. IIP contracted 0.1% versus raise of 1.7% for May 2017. Government had a reshuffle of ministers preparing itself for the next leg of elections. CPI inflation accelerated to 2.36% rising more than what was expected for June 2017 and WPI inched up 1.9% from 0.9% during the same period.

On the liquidity side FPI sold stocks worth US \$ 1.8 billion while Domestic institutions bought stocks worth US \$ 2.5 billion.

With IPO (Initial Public Offering) markets quite vibrant during this month, we expect the indices to move sideways. This phase we expect to be temporary and the things to stabilize during October 2017.

### **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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