

## 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-Mar-16	29-Feb-16	Change (%)	31-Mar-15	Change (%)
₹/\$	66.25	68.42	↑ 3.17%	62.50	↓ -6.00%
Forex Res.(Bn- 1 Wk Lag)	\$ 355.95	\$ 350.37	↑ 1.59%	\$ 339.99	↑ 4.69%
Oil Price (\$/Barrel)	\$ 39.60	\$ 35.72	↑ 10.86%	\$ 55.80	↓ -29.03%
Gold (₹/10 gm)	28,340	29,150	↓ -2.78%	26,245	↑ 7.98%
<b>FII inflows (Net) - Crs (₹)</b>					
Equity (monthly)	27,358	- 7,987	↑ 442.53%	8,401	↑ 225.65%
Debt (monthly)	2,189	- 16,779	↑ 113.05%	12,458	↓ -82.43%

### Indices











Particulars	31-Mar-16	29-Feb-16	Change (%)	31-Mar-15	Change (%)
BSE Sensex	25,341.86	23,002.00	↑ 10.17%	27,957.49	↓ -9.36%
S&P CNX Nifty	7,738.40	6,987.05	↑ 10.75%	8,491.00	↓ -8.86%
Dow Jones Industrial Avg	17,685.09	16,516.50	↑ 7.08%	17,776.12	↓ -0.51%
FTSE 100	6,174.90	6,097.10	↑ 1.28%	6,773.00	↓ -8.83%
Hang Seng Index	20,776.70	19,111.93	↑ 8.71%	24,900.89	↓ -16.56%
Nikkei 225	16,758.67	16,026.76	↑ 4.57%	19,206.99	↓ -12.75%
B S E Metal Index	7,540.75	6,759.24	↑ 11.56%	9,465.65	↓ -20.34%
B S E Power Index	1,775.73	1,582.48	↑ 12.21%	2,127.41	↓ -16.53%
B S E Capital Goods Index	12,861.33	11,239.38	↑ 14.43%	17,293.00	↓ -25.63%
B S E Oil & Gas Index	9,161.61	8,214.24	↑ 11.53%	9,311.95	↓ -1.61%
B S E Realty Index	1,228.35	1,051.08	↑ 16.87%	1,664.51	↓ -26.20%
B S E Bankex	18,391.96	15,814.82	↑ 16.30%	20,865.31	↓ -11.85%
B S E Auto Index	18,001.76	15,851.55	↑ 13.56%	19,258.66	↓ -6.53%
B S E FMCG Index	7,692.32	7,114.45	↑ 8.12%	7,773.44	↓ -1.04%
B S E Information Technology Index	11,387.95	10,229.49	↑ 11.32%	11,404.12	↓ -0.14%
B S E Healthcare Index	15,149.25	15,207.69	↓ -0.38%	17,284.94	↓ -12.36%




### Primary Key Rates

Particulars	31-Mar-16	29-Feb-16	Change (%)	31-Mar-15	Change (%)
Repo Rate*	6.75%	6.75%	 0.00%	7.50%	 -10.00%
Reverse Repo Rate*	5.75%	5.75%	 0.00%	6.50%	 -11.54%
CRR#	4.00%	4.00%	 0.00%	4.00%	 0.00%
SLR *#	21.50%	21.50%	 0.00%	21.50%	 0.00%
Call money rate	6.75%	6.80%	 -0.74%	11.00%	 -38.64%
Current Inflation Rate (WPI)	-0.91%	-0.90%	 -1.11%	-2.06%	 -55.83%
Current Inflation Rate (CPI)	5.18%	5.70%	 -9.12%	5.37%	 -3.54%
IIP (WPI) % y-o-y (January)	-1.50%	-1.30%	 -15.38%	2.60%	 -157.69%
AAA spread (bps)	66.00	67.00	 -1.49%	41.00	 60.98%

	2013-14	2014-15	Q1 FY16	Q2 FY16	Q3 FY16
Real GDP % (New Growth No. by CSO)	6.90%	7.30%	7.60%	7.70%	7.30%

### Interest Rates (FIMMDA)

Particulars	31-Mar-16	29-Feb-16	Change (%)	31-Mar-15	Change (%)
91 days T - Bill	7.13%	7.26%	 -1.89%	7.94%	 -10.28%
364 days T - Bill	7.06%	7.25%	 -2.58%	7.72%	 -8.51%
5 Years G - Sec (Annualized)	7.60%	7.78%	 -2.26%	7.75%	 -1.92%
10 Years G - Sec (Annualized)	7.46%	7.62%	 -2.16%	7.84%	 -4.85%
30 Years G - Sec (Annualized)	7.91%	8.24%	 -3.95%	7.78%	 1.67%

-  No change  
 Negative change  
 Positive change

\* w e f Sept 29, 2015

# w e f Feb 09, 2013

\*# w e f Feb 07, 2015

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

#### Bond Markets Cheers RBI move to do OMO's

The sharp correction in the 10 year yields post budget from record highs of 7.90%, continued in March 2016 as RBI purchased close to ₹ 40,000 crores of Gsecs from the market to provide liquidity to the system. In a month which began with short covering by traders (who has taken short policy before February 29, 2016 Budget), OMO by RBI and no Gsec auctions, yield continued its downward trajectory and closed at 7.46%. Although market was aware of huge supply in April 2016, expectations of rate cut by RBI post the fiscal prudence demonstrated in the budget kept markets interested and well bid.

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

Instrument	Mar' 15	Feb' 16	Mar' 16	M-O-M Change	Change (YTD)
10 Yr G-sec	7.84%	7.62%	7.46%	-0.16%	-0.38%
30 Yr G-sec	7.78%	8.24%	7.91%	-0.33%	0.13%
3 Yr AAA Bond	8.22%	8.35%	8.15%	-0.20%	-0.07%
5 Yr AAA Bond	8.30%	8.55%	8.23%	-0.32%	-0.07%
10 Yr AAA Bond	8.27%	8.61%	8.30%	-0.31%	0.03%
364 Days T-bill	7.72%	7.25%	7.06%	-0.19%	-0.66%
91 Days T-bill	7.94%	7.26%	7.13%	-0.13%	-0.81%
1Yr Certificate of Deposit	8.35%	8.16%	7.96%	-0.20%	-0.39%
Credit spreads bps	41	67	66	-1.00	25.00
Crude \$/barrel	55.80	35.72	39.60	\$ 3.88	\$ -16.20
USD / INR	62.50	68.42	66.25	₹ -2.17	₹ 3.75

## **Macro Indicators:**

Retail price inflation fell to 5.2% in February 2016 from 5.7% in the previous month. This brought the average inflation during April 2015 - February 2016 to 4.9%, as against 5.9% during the same period last year.

India's merchandise trade deficit narrowed to a two and a half year low of US \$ 6.5 billion in February 2016 as the drop in exports slowed while gold imports tanked. Exports fell by 5.7% to US \$ 20.7 billion during the month. While this marked the 15th consecutive month of a contraction in exports, the magnitude of the fall was the lowest since December 2014, when exports fell by 0.9%.

India's imports dropped for the 15th straight month in February 2016, declining by 5% to US \$ 27.3 billion. This was on top of a 14.7% fall recorded in the year-ago month.

Industrial output, as measured by the Index of Industrial Production (IIP), rose by 2% in February 2016 on a year-on-year basis. This was the first instance of a rise in industrial production in four months. The IIP had contracted by 2% during November 2015 - January 2016.

Outstanding total credit of SCBs (Scheduled Commercial Banks) rose by 9.7% by end of February 2016, higher than the 9.3% growth recorded by end of February 2015. This was on the back of an uptick in non-food credit. Non-food credit growth accelerated to 9.9% by end of February 2016 as compared to the increase of 9.4% in the year-ago period. Food credit rose marginally by 0.1% as compared to 5.1%.

### **RBI Policy:**

As widely expected, RBI in its First Bi-monthly Monetary Policy Review 2016 - 2017, reduced Repo rate by 25 bps to 6.50%. RBI also moved to a new policy corridor from 100 bps to 50 bps whereby the difference between Repo and Reverse repo rate will be at 50 bps versus 100 bps. MSF (Marginal Standing Facility) rates also reduced 75 bps to 7.0.

Liquidity measures of RBI -

1. The RBI announced the movement towards a neutral interbank liquidity balance from the current policy of maintaining liquidity deficit of 1% net demand and time liabilities (NDTL). The central bank aims to achieve this over the next 12 months through liquidity infusion over and above required levels.
2. Smooth the supply of durable liquidity (structural liquidity) over the year using asset purchases and sales.
3. Narrow the policy rate corridor from +/- 100 bps to +/- 50 bps with the aim of making the weighted call rate more closely aligned with the repo rate and reducing volatility in call rate.

4. The governor also mentioned during the press conference that this would make the system friendlier for banks by reducing costs and would improve the transmission of rate cuts.
5. To reduce the corridor, MSF was reduced 75 bps to 7.0%, and the reverse repo was increased 25 bps, to 6.0%.
6. Reducing minimum daily maintenance for Cash Reserve Ratio (CRR) to 90% of requirement from 95%, effective from the fortnight beginning April 16, 2016. This measure aims to ease liquidity management for banks. CRR remains unchanged at 4.0% of NDTL.
7. Allow substitution of securities in market repo transactions with the aim of developing the term repo market.
8. Holding consultations with the government on how to moderate the buildup of government cash.

The outcome of these measures in brief is that it will provide liquidity easily and the cost of borrowing money from the interbank market should come down in next 12 months. As a consequence short term maturity instruments yields will fall sharply as the cost of liquidity comes down. This also marks a paradigm shift in the liquidity management of RBI. It was a belief of past RBI governors and the current Governor that in a inflationary environment, liquidity in the system should be in a negative zone (Scarce liquidity in the system so that bank borrow from RBI). Keeping liquidity in negative territory RBI was controlling the money supply in the economy.

Now it seems the RBI is more comfortable on its inflation targets and feels that now liquidity should be made easy which will help transmission of past rates cuts to other rates in the economy and hence the policy will be more supportive to growth.

### **Around the World:**

The month of March 2016 saw very strong jobs data in the US. Non-farm payrolls saw 215000 jobs added against expectations of just about 205000. Unemployment moved up marginally from 4.9% to 5%. The Fed (Central Bank USA) Chair, Janet Yellen spoke at the New York Economic Club where she was quite dovish and indicated that the Fed is in no hurry to hike rates. Ever since that event, the US \$ has weakened. Globally the impending 'Brexit' (British Exit from the European Union) risk is also rising and affecting the British Pound despite strong inflation data in the UK.

### **Debt Outlook:**

The budget took markets by surprise after the government adhered to its fiscal deficit target of 3.5% of GDP and also laying down framework for fiscal consolidation. The RBI gave a 'thumbs up' to the budget numbers and delivered 25 bps rate cut and a commitment to provide easy liquidity in the system. It is very clear from the actions that RBI is getting more confident on its inflation management and hence the accommodative policy.

We believe that this will lead to a structural shift in the interest rates in the economy. First the small savings rate cut, then the RBI rate cut and neutral liquidity stance by RBI. This should anchor 10 year Gsec to 100 bps over the overnight rate. 10 year Gsec to trade within 7.25% to 7.50% till September 2016. Once market gets more confident on monsoons and Fiscal deficit targets, the range can shift lower to 7.0% to 7.25% in the second half.

Key risk to markets will come from lower monsoons and government slipping on fiscal deficit targets.

## Equity Outlook

### Equity Market Outlook for April, 2016

Led by risk on rally across the globe, Sensex took a big leap in March, 2016. Sensex was up 10.17% on the back of global rally and Union Budget. Rally in Asian markets was led by Shanghai Composite which moved 11.75%, Nikkei that moved 4.6% and Hang Seng Index that moved 8.7%. Rally was broad based; Midcap Nifty 50 index moved 17.6%.

In terms of liquidity there was a sharp turn in Foreign Portfolio inflows which saw buying to the tune of \$ 3.2 billion as against domestic Mutual funds who sold \$ 1.2 billion worth of stocks. Mutual Funds inflows for the first time were negative.

Budget went in for consolidation & macro stability against growth. Fiscal Deficit of 3.5% higher allocations for Railways and Road were the highlights. There was focus on marginal and small tax payers by taxing the rich. Incremental tax spread across various industries like Automobile & Jewelers, dividends above ₹ 10 lakhs being taxed additionally are to name a few. Incremental allocation was given to Agriculture and Rural areas. Ease of doing business by reducing the stress of compliance especially for small and marginal businesses also would go a long way in recognizing this as an important budget.

Core sector growth accelerated to 5.7% in February 2016. IIP surprisingly contracted to 1.5% in the month of January 2016. CAD (Current Account Deficit) narrowed to 1.3% during the 3rd quarter of this Fiscal.

Markets welcome the Central Government's move to reduce Small Savings rate as a gesture towards lower rate regime.

With rate cuts expected as CPI was well below RBI's projection for March, 2016 and the above measures that Government has taken, we expect markets to be in a buoyant mood. Reactions may attract buyers as Global liquidity calls for risk on rally. Domestically markets are aware of subdued results. However as metal and oil prices stabilize there is a case for stability in earnings. This coupled with good liquidity and consolidation in Government finance should augur well for a positive trend.

### **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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