

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 IRDA 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	28-Feb-14	31-Jan-14	Change (%)	31-Mar-13	Change (%)
₹/\$	61.75	62.60	1.36%	54.30	-13.72%
Forex Res.(Bn- 1 Wk Lag)	\$ 293.41	\$ 292.24	0.40%	\$ 293.37	0.01%
Oil Price (\$/Barrel)	\$ 109.07	\$ 106.27	2.63%	\$ 109.36	-0.27%
Gold(₹ /10gm)	30,461	29,462	3.39%	29,605	2.89%

Indices

Particulars	28-Feb-14	31-Jan-14	Change (%)	31-Mar-13	Change (%)
BSE Sensex	21,120.12	20,513.85	2.96%	18,835.77	12.13%
S&P CNX Nifty	6,276.95	6,089.50	3.08%	5,682.55	10.46%
Dow Jones Industrial Avg	16,321.71	15,698.85	3.97%	14,578.54	11.96%
FTSE 100	6,809.70	6,510.40	4.60%	6,411.70	6.21%
Hang Seng Index	22,836.96	22,035.42	3.64%	22,299.63	2.41%
Nikkei 225	14,841.07	14,914.53	-0.49%	12,397.91	19.71%
B S E Capital Goods Index	10,375.60	9,486.63	9.37%	9,017.59	15.06%
B S E Auto Index	12,598.73	11,568.87	8.90%	9,994.23	26.06%
B S E Healthcare Index	10,839.95	10,109.76	7.22%	8,008.09	35.36%
B S E Bankex	12,284.27	11,712.31	4.88%	13,033.35	-5.75%
B S E Information Technology Index	9,792.25	9,476.62	3.33%	6,885.46	42.22%
B S E Power Index	1,528.54	1,525.34	0.21%	1,646.50	-7.16%
B S E Oil & Gas Index	8,425.99	8,453.06	-0.32%	8,326.60	1.19%
B S E FMCG Index	6,483.96	6,517.93	-0.52%	5,919.19	9.54%
B S E Realty Index	1,203.50	1,211.60	-0.67%	1,780.09	-32.39%
B S E Metal Index	8,660.83	9,151.17	-5.36%	8,758.32	-1.11%

Primary Key Rates

Particulars	28-Feb-14	31-Jan-14	Change (%)	31-Mar-13	Change (%)
Repo Rate*	8.00%	8.00%	 0.00%	7.50%	 6.67%
Reverse Repo Rate*	7.00%	7.00%	 0.00%	6.50%	 7.69%
CRR#	4.00%	4.00%	 0.00%	4.00%	 0.00%
SLR	23.00%	23.00%	 0.00%	23.00%	 0.00%
Call money rate	8.00%	8.05%	 -0.62%	14.66%	 -45.43%
Current Inflation Rate (Dec)	5.05%	6.16%	 -18.02%	6.84%	 -26.17%
IIP % y-o-y (Nov)	-0.60%	-2.10%	 71.43%	2.40%	 -125.00%
AAA spread (bps)	65.00	55.00	 18.18%	75.00	 -13.33%

	2011-12	2012-13	Q1 FY14	Q2 FY14	Q3 FY14
Real GDP %	6.20%	5.00%	4.40%	4.80%	4.70%

Interest Rates (FIMMDA)

Particulars	28-Feb-14	31-Jan-14	Change (%)	31-Mar-13	Change (%)
90 days T - Bill	9.09%	8.82%	 3.11%	8.02%	 13.32%
364 days T - Bill	8.99%	8.90%	 0.96%	7.79%	 15.28%
5 Years G - Sec (Annualized)	9.17%	9.06%	 1.28%	8.12%	 12.92%
10 Years G - Sec (Annualized)	9.06%	8.96%	 1.08%	8.11%	 11.70%
30 Years G - Sec (Annualized)	9.44%	9.46%	 -0.26%	8.34%	 13.17%

-  No change
 Negative change
 Positive change

* w e f Oct 29, 2013

w e f Feb 09, 2013

Data Sources

NSE
 BSE
 RBI
 FIMMDA
 Bloomberg & Reuters

DEBT MARKET REVIEW AND OUTLOOK

MARKET REVIEW

The Finance Minister announced the vote on account, an intermediate approval from Parliament, to undertake the normal Government payments until the new Government formed presents the budget in June/July 2014. The Key highlight of the vote on account was bettering the red line of 4.8% of fiscal deficit as to end the FY14 deficit at 4.6%. The vote on account projected a target of 4.1% fiscal deficit target. The Current account deficit (CAD) for FY14 is also projected to come down to \$45 billion vs the \$ 88 billion in FY13. The reduction in fiscal deficit and CAD did not bring cheer to the Government Securities markets as the yields still hover around the 8.80% Mark. The loss of cheer could be because of the net borrowing for next year, to meet the fiscal deficit, is projected to be INR 4,57,000 crs. Little less than this year's net borrowing of INR 4,67,000 crs. which means almost 18,000 crs. Worth of fresh weekly G-Sec issuance.

The Q3FY14 GDP data came in at lower than expected 4.7%. This GDP data was slightly better than the Q2FY14 GDP of 4.4% but a 4.7% figure means that the Q4FY14 GDP has to be close to 5.5% for full year GDP to come in at the targeted 4.9%. The election dates are announced and the 9 phase elections will begin from April. The results will be declared on May 16th.

Key rate movements during the month are as under:

Instrument	Feb '14	Jan '13	Mar '13	Mar '12	Change MOM	Change (YTD)
10 Yr G-sec	8.86%	8.77%	7.95%	8.57%	0.09 %	0.91%
30 Yr G-sec	9.22%	9.24%	8.17%	8.74%	-0.02%	1.05%
3 Yr AAA Bond	9.70%	9.70%	8.80%	9.60%	-	0.90%
5 Yr AAA Bond	9.85%	9.60%	8.85%	9.50%	0.15%	1.00%
10 Yr AAA Bond	9.70%	9.60%	8.85%	9.45%	0.10%	0.85%
364 Days T-bill	9.02%	8.90%	7.80%	8.48%	0.12%	1.22%
91 Days T-bill	9.09%	8.90%	8.10%	9.02%	0.19%	0.99%
1 Yr Certificate of Deposit	9.75%	9.65%	9.25%	10.35%	0.10%	0.50%
Credit spreads	65	64	75	69	1	-10
Crude USD/barrel	108	108	110	103	-	-2

(Source: Bloomberg, Reuters & RBI)

Macro Indicators

The IIP contracted by 0.6% in Dec 2013, little less than the 2.1% contraction seen in Nov 2013. Mining saw a moderate growth of 0.4% in Dec Vs a 1.7% in November. Manufacturing saw a decline of 1.6% against a decline of -2.7% in November and Electricity continued to shine with 7.5% growth in Dec 2013 against 6.3% seen in November.

The Jan 2014 CPI came in lower at 8.8% Vs the Dec 2013 CPI of 9.9% and October print of 11.2%. The core CPI inflation remained almost flat at 8.20%. The Jan WPI was lower at 5% and core WPI remained flat at 3%. Within the WPI there was a drop seen in primary inflation on back of a further drop in food inflation (8.8% in Jan 2014 vs 13.7% in Dec 2013). The fuel and manufacturing inflation remained almost flat at 10% and 2.8% in Jan 2014 vs the 11% and 2.6% growth seen in Dec 2013 respectively.

Highlights of the Budget:

1. The fiscal deficit for FY14 will be 4.6%
2. The CAD for FY14 will be \$ 45 billion vs the FY 13 CAD of \$ 88 billion
3. Forex reserves to grow by \$ 15 billion this year
4. Savings rate has reduced to 30.1% vs 34.8% n FY13
5. The FY14 GDP growth is anticipated at 4.9%
6. The total subsidy targeted under 2% of GDP

The summary of the Budget finances is as under.

	2012-2013	2013-2014 (RE)	2014-2015(BE)
Revenues	877,613	1,029,252	1,167,131
<i>% over prev year</i>		17.28	13.40
Tax Revenue	740,256	836,026	986,417
<i>% over prev year</i>		12.94	17.99
Non Tax Revenue	137,357	193,226	180,714
<i>% over prev year</i>		40.67	(6.48)
Non Debt Capital Receipts	42,157	36,643	67,452
<i>% over prev year</i>		(13.08)	84.08
Total Receipts	919,770	1,065,895	1,234,583
<i>% over prev year</i>		15.89	15.83
Non Plan Expenditure	996,742	1,114,902	1,207,892
<i>% over prev year</i>		11.85	8.34
On revenue account	914,301	1,027,688	1,107,781
<i>% over prev year</i>		12.40	7.79
Of which Interest Payment	313,169	380,066	427,011
On Capital Account	82,441	87,214	100,111
<i>% over prev year</i>		5.79	14.79
Plan Expenditure	413,625	475,532	555,322
<i>% over prev year</i>		14.97	16.78
Total Expenditure	1,410,367	1,590,434	1,763,214
<i>% over prev year</i>		12.77	10.86
Fiscal Deficit (Expense - Receipt)	490,597	524,539	528,631
Nominal GDP	10,148,756	11,300,000	12,814,200
Fiscal Deficit %	4.83%	4.64%	4.13%
Borrowing to meet fiscal deficit		467,385	457,266
Redemptions		90,616	140,000
Gross Borrowing		558,001	597,266

BE = Budget Estimates, RE = Revised Estimates

While there has been a fiscal consolidation to achieve the fiscal target of 4.6% in FY14. As seen from the above table, the entire reduction is from cutting of the planned expenditure and a reduction in the non-planned capital expenditure. The assumptions on the tax revenue growth of 18% are also optimistic considering the GDP growth of 5.5% in FY15.

The Gross borrowing for FY15 will be INR 5.97 trillion. This includes the refinancing of the 1,4 trillion worth of security maturity in 2014-15. The net borrowing from the market will be INR 4.57 trillion, which will account for a Government security auction of INR 18,000 crs. per week.



Global News:

The February Job data for US showed employment growth at 175k against the expectation of 149k. The unemployment was 6.7% against the 6.6% expected. This meant that the slow down seen earlier was temporary due to extreme weather conditions. Janet Yellen, the new Fed Chairman, in her congressional testimony also mentioned that tapering should continue in measured step as long as FOMC targets are met.

China reported a trade deficit of \$23 billion vs expectation of surplus of \$ 14.5 billion. The exports dropped by 18.1% vs positive 6.8% expectations while imports grew by 10%. Shanghai Chaori Solar Energy Science and Technology reported the first default in China since 1997 when it failed to meet the interest payment due on 7th March.

A geopolitical tension emerged when Russia tried to gain control over Crimea after there were protest from pro Russian and pro Ukraine groups in Crimea. The law makers in autonomous Ukrainian region of Crimea voted to join Russia and they are to hold a referendum on March 16th to validate this decision.

DEBT OUTLOOK

The stated objective of RBI is to control inflation for growth to come back. The RBI's target for CPI inflation by Jan 2015 is 8%. Thus until there is a sharper reduction than the projected trajectory of CPI we do not expect RBI to cut rates in hurry. A rate hike in April can also be ruled out if there is no sudden spike in inflation and based on the RBI Governor statements.

The growth rebound on the domestic consumption and investment demand also seems unlikely until the election results are favorable for the industry. The uptick in exports is the only silver lining as of now. The rupee has remained steady and outperformed other developing nation economies on the back of FII inflows, who have poured in money on the opinion polls showing single majority for NDA.

The vote on account (interim budget) hopes for a very optimistic growth numbers for revenue, while it presents the 4.1% fiscal deficit target for FY15. For this to be achieved the GDP growth will have to pickup in a perceptible way. Also, the confidence on fiscal math builds after the full budget is presented by the new Government in June/July. Until then the market will only look at fresh supply which begins April.

The G-sec yields do not look likely to rally given the short term supply overdose and uncertainty over the election. The uptick in yields should be capped as at these absolute levels there can be buying from end investors like Provident Funds and also because market participants would not want to remain completely out of positions on the possibility of favorable election outcome. We would like to position Linked portfolios with Cash entering into April supply and for traditional funds we will look to add duration on every yield uptick at the absolute levels of 9.15/20%.



EQUITY OUTLOOK

After having absorbed most of the bad news that came in during the beginning of this year major indices started moving up in the month of February, 2014 as expected. Positives emerged from reform measures that the Government initiated and a hope that there may be change of guard at the centre as depicted by the opinion polls. Results that came in for 3Q also surprised the market participants.

Top line for Sensex companies for the 3rd quarter of this year grew 15%, their EBIDTA 22% &, Net Profit 24%. There is a marginal beat to expectations on the bottom line.

Sensex gave a return of 2.9% to end at 21,120. Returns were better than the emerging market peers but underperformed the developed market indices. INR was quite steady at around 62 to a dollar during the month (improving CAD and forex reserves helped) but crude oil prices especially brent spiked 2.5%. Market holding on and giving positive return despite crude inching does show some benefits emerging from reforms.

Redemptions forced Foreign Institutional Investors turn sellers for the month. Foreign Institutional Investors sold stocks worth 229 million \$ during the month followed by large scale redemptions that took place internationally by the investors. Redemptions were a fall out of tapering.

GDP numbers released for the 3Q was a negative surprise. Indian Economy grew 4.7% compared to our expectations of 4.9%.

Trade deficit numbers at 9.9 billion \$ for January and declining trend of CPI inflation was a relief. CPI inflation came at 8.79%.

Government managed to garner INR 18,000 crore from telecom spectrum auction for this year during the month. This is a part of total sale proceeds of INR 61,000 crore. Interim budget pegged the fiscal deficit number to 4.6% for the year which on the face of it looks impressive.

We expect markets to further strengthen in the absence of any major event and ahead of end of this fiscal. Momentum should strengthen with expectation of NDA coming back to power. An international disruption like the one in Ukraine where there is unrest is a risk.



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