Participating Fund Update for 2021

In this annual Participating Fund ("Par Fund") update, you will find key information on the Par Fund performance for the year ending 31 December 2021. We will also inform you of our asset allocation strategy and the future outlook of the Par Fund based on our latest actuarial investigation of policy liabilities carried under section 37(1) of the Insurance Act and any potential changes in future non–guaranteed benefits.

Par Fund Performance

For Our Participating Fund, the past investment rates of return (after deducting investment expenses only) are shown in the table below:

	2019	2020	2021	Average of last 3 years	Average of last 5 years	Average of last 10 years
Investment Returns[1]	11.09%	15.11%	5.64%	10.54%	5.95%	N.A.

[1] Investment return is derived after deducting investment expenses only.

Non-investment Factors

Other factors may affect the performance of the Par Fund, such as insurance benefit claims, operating expenses and surrender payouts. The overall experience for these factors is broadly in line with our expectations, except for its operating expenses. The operating expenses of the Par Fund are higher than expected, as the Par Fund is still in its initial years of set-up.

Economic Review

2021 turned out to be an exceptionally strong year for global economies, with a growth rate of 5.9% forecasted by the International Monetary Fund (IMF). This figure is the highest rate ever seen since entering the 21st century. The strong rebound following the pandemic was mainly driven by Developed Markets, where central banks offered immense support through ultra-loose monetary policy. Being the first country hit by the virus in 2020, China seemingly recovered the quickest but growth momentum was soon clouded by a combination of regulatory changes and real estate sector turmoil in 2021, as policymakers aimed for 'higher quality' growth ("common prosperity"). Developing Asia's efforts to contain the pandemic and support spending, boosted growth prospects early in the year, but the Delta variant in the third quarter and then Omicron introduced more uncertainty.

Many countries saw decades-high inflation rates in 2021. This was due to the disruption of the global supply chain amid the Covid-19 pandemic and significant fiscal stimulus by many countries.

The majority of asset classes (stocks, commodities, and high yield bonds) generated positive returns as the world reopened.

Equities

Unprecedented fiscal and monetary support, together with the rollout of vaccines, buoyed stock markets in 2021. The S&P 500 Index notched 70 record highs over the year, with a return of 27%. Most European countries also realized double-digit gains, with the FTSE 100 Index adding 14%. While Developed Markets benefitted from strong corporate profits, performance from Emerging Markets was relatively muted. The MSCI Emerging Markets Index ended the year down 2.5%, underperforming Developed Markets (MSCI World Index) by about 24%. This was largely due to the headwinds from policy reforms in China, the largest index constituent, and the pandemic-wrought shutdowns in many emerging economies.

Fixed Income

The performance of bonds varied across different sub-categories. High-quality bonds underperformed in 2021, with the Bloomberg Barclays Global Aggregate index decreasing 4.7%, caused by the rise of interest rates from a historical low base. On the other hand, the high yield market delivered a positive return. The US high yield market, which constitutes the bulk of the global high yield bonds market, increased 5.3%, as shown by the Bloomberg US Corporate High Yield Index.

Alternatives

Commodity prices surged in 2021, with nearly all sectors providing positive returns. The energy complex, including crude oil, natural gas and coal, was among the best performers. The S&P GSCI index increased 37.5%.

Asset Mix of the Par Fund

The strategic asset allocation and the asset mix of the Par Fund as at 31 December 2021 are summarised below.

Asset Class	Strategic Asset allocation	Actual Asset Mix
Equities	15%	16%
Fixed Income	80%	66%
Alternatives	5%	9%
Cash and Equivalents	0%	9%

Market Outlook

2021 witnessed especially and uncommonly high inflation in many countries which is likely to persist over the medium term. Central banks have turned to a more hawkish stance and begun to withdraw support, but the sources of inflation have broadened out. The reintroduction of restrictions due to the Omicron variant has further disrupted the global supply chain, while the geopolitical conflict in Ukraine has also heightened uncertainties. Amidst such unknowns, commodities and manufactured goods prices could remain elevated, further driving up inflation levels. This could in turn dampen economic growth prospects and lend weight to stagflationary risks.

The US Federal Reserve's rate hikes remain on the agenda while the European Central Bank is increasingly expected to stay their hand on monetary policy tightening in light of the spiralling Ukraine conflict and its impact on the broader European economy. China on the other hand is diverging towards a more accommodative policy stance, in the face of relatively low domestic inflation as well as growth challenges from weakening exports and the housing sector downturn. We expect the People's Bank of China to continue policy easing with an eye to achieving stability and economic progress.

The Russia-Ukraine war is casting a shadow on corporate growth prospects, introducing volatility in equities. While current geopolitical tension may soften the US Federal Reserve's hawkishness, it is unlikely to hinder policy normalization, which supports the case to remain defensive in government bonds. In the near term, we continue to be cautious as the situation in Ukraine could further exacerbate stagflationary risks. Commodities would serve as a hedge over the ongoing inflation risk and provide upside capture opportunities amplified by the Ukrainian tension.

All in all, we maintain a more conservative and diversified stance relative to last year as the economic cycle matures, inflation persists, and given the intensification of stagflationary risks caused by the Russian invasion. Equally, we remain vigilant to emerging opportunities that may present themselves during this period of market dislocation.

In 2022, we will continue to be prudent while seeking to generate risk-managed returns to meet your financial goals.

Frequently Asked Questions

1. What is a participating policy?

Participating policies are life insurance policies which aim to provide stable medium to long-term returns by providing non-guaranteed benefits in the form of bonuses.

2. What is a Participating Fund?

A Participating Fund ("Par Fund") is a fund which combines premiums pooled from all participating policies to invest in a range of assets, such as bonds and equities, to generate an investment return. The Par Fund aims to achieve the illustrated investment rate of return while controlling risks by actively managing a mix of asset classes. Profits from the Par Fund are used to determine the non-guaranteed bonuses on your participating policy.

3. What does the Par Fund invest in?

The Par Fund invests in a diversified portfolio comprising the following asset classes:

- Fixed income securities and convertible bonds;
- Equities;
- Alternatives (Gold, Commodities, Global REITs), and
- Cash

The portfolio is managed in a conservative manner and overweights high quality investment grade bonds at all times to protect capital value and then seek higher returns with a risk-managed approach.

4. How are bonuses determined and when will bonuses become guaranteed?

In determining the bonuses that we can pay, we consider the actual experience and the future outlook of key factors affecting the performance of the Par Fund. These key factors include investment performance, expenses and payments of benefits.

As the performance as well as the future outlook for the Par Fund may vary from year to year, bonuses may be smoothed to ensure stable medium- to long-term return. As a result, bonuses may be retained in good years to support the bonuses in years when experience is less favourable.

Our bonus allocation policy is to keep the bonuses at a level that we expect that they can be supported over the medium- to long-term. Thus, while we review the bonus rates yearly, we do not expect them to rise and fall much from year to year. Nevertheless, there may be significant adjustments under exceptional circumstances.

Bonus rates are determined and declared yearly as approved by our board of directors based on the written recommendation of our Appointed Actuary. Once bonuses are declared and allocated, they will form part of the guaranteed benefits of your policy.

5. What items and expenses are charged to the Par Fund?

There are different types of expenses and charges relating to the operation and management of the Par Fund, including distribution-related expenses.

Examples of these expenses include:

- Commission and distribution cost
- Investment fees paid to external fund managers
- Management expenses such as policy issuance, underwriting and claims related expenses
- Overhead expenses

6. What are the risks affecting the performance of the Par Fund?

The key risks affecting the performance of the Par Fund include:

- Investment risk
- Expenses incurred in managing the Par Fund being higher than expected. The types of expenses include investment, management, distribution and other expenses.
- Mortality and morbidity risks which affect the amount of claims paid out for policies in the Par Fund
- Persistency experience, which is the number of lapsed or surrendered policies in the Par Fund

7. How are risks shared?

All policies written within the participating fund will share in the overall experience and performance of the participating fund, which enables risks to be pooled and diversified.

The key risks that the Participating Fund are subject to investment risks, expense risks, mortality and morbidity risks as well as lapse and surrender risks.

8. What are the key factors affecting the level of Cash bonus?

There are four key factors:

- Performance: The Par Fund's historical investment performance and future outlook.
- Expenses: Amounts paid such as claims and the expenses incurred by the Par Fund. The types of expenses include investment, management, distribution and other expenses.
- Bonus allocation policy: Our intent is to keep the bonus at the level that we expect that it can be supported over the medium to long term. Thus, while we may review the bonus rate yearly, we do not expect it to rise and fall much year to year. Nevertheless, there may be significant adjustments under exceptional circumstances.
- Smoothing of Bonuses: As the performance as well as the future outlook for the Participating Fund may vary from year to year, bonuses may be smoothed to ensure stable medium- to long-term return. As a result, bonuses may be retained in good years to support the bonuses in years when experience is less favourable. The effect of smoothing is intended to be neutral across generations of policy owners over the long-term.

9. Will bonuses / dividends be revised?

Future bonuses are not guaranteed, dependent in particular on the past and the future outlook of investment returns, expenses and payments of benefits affecting the performance of the Par Fund.

Revisions to the bonus rates will only be made after a thorough review, in consideration of the Par Fund performance over a period longer than one year to minimize any short-term fluctuations.

10. In the “Illustrated Values” section, why is maturity value shown for some policies, while surrender value shown for others?

Illustrated maturity value is shown for Endowment policies. Illustrated surrender value is shown for Annuity/Whole Life policies, based on the Life Insured’s age today as below:

- If Life Insured’s current age is below 45 – the illustrated values are based on the year that the Life Insured turns 65.
- If Life Insured’s current age is between 45 to 79 – the illustrated values are based on the year 2041 (20 years later).
- If Life Insured’s current age is above 79 – the illustrated values are based on the year that the Life Insured turns 99.

Please note that Illustration Values exclude yearly income and cash bonus, if any.

11. Who manages the Par Fund?

The Par Fund is managed by us and Schroder Investment Management (Singapore) Ltd. which is part of Schroders plc (“Schroders”). As at 31 December 2021, Schroders, a global investment manager with a long history of over 200 years, had USD990.9 billion of assets under management and administration and operates from 37 locations across Europe, the Americas, Asia, the Middle East and Africa.

12. Who should I contact to find out more on my policy matters?

Should you have any queries, please feel free to contact your insurance intermediary or our Customer Care Hotline at (65) 67274800 or email us at CustomerCare@chinalife.com.sg. Our operating hours are from Mondays to Fridays, 9:00am to 5:30pm, excluding Public Holidays.

About Us

Established in 2015, China Life Insurance (Singapore) Pte. Ltd. is a licensed life insurer which is regulated by the Monetary Authority of Singapore. As part of China Life Insurance (Group) Company ("China Life") which is the largest state-owned financial insurance corporation in China, we are backed by its financial strength and established heritage^. China Life is a Fortune Global 500 company, ranked 32 in 2021, for 19 consecutive years. It is an influential global brand with a brand value of over RMB 436.672 billion*.

Our parent company, China Life Insurance (Overseas) Company Limited ("China Life (Overseas)") is a wholly-owned subsidiary of China Life. It has grown to become one of the largest financial institutions in Hong Kong with an asset value of more than HKD 456.3 billion (December 2020) and its premium income exceeded HKD68.9 billion in 2020. China Life (Overseas) has extended its footprint in Southeast Asia region in recent years, and established subsidiaries in Singapore and Indonesia in 2015 and 2018 respectively. Its financial rating by Moody's was "A1" (insurance financial strength rating in December 2021) and by Standard & Poor's was "A" (long-term local currency issuer credit rating and insurer financial strength rating in December 2021).

As a socially responsible company, we are committed to offer value-added financial solutions to customers to fulfil their risk protection, retirement, wealth management, and legacy planning needs. We believe in giving back to society through our corporate social responsibility activities to make a positive impact on the community and our customers. We have a network of at least 15 branches formed by strategic partnership of 2 banks, and more than 23 strategic partners formed by local and international brokerages, private banks and wealth management companies. We have officially launched our Agency Channel. It aims to penetrate the local insurance industry and built a trusted and experienced team, equipped to provide utmost services to local clients and high net worth clients.

^ Note: The Fortune Global 500 ranking was accorded to our strong ultimate parent company, China Life Insurance (Group) Company. The Moody’s and Standard & Poor’s credit ratings were accorded to China Life Insurance (Overseas) Company Limited, our parent company.

* Source: Top 500 Most Valuable Chinese Brands 2021 by World Brand Lab