Participating Fund Update for 2018

Our participating fund consists of two sub-funds: a US dollar participating sub-fund (the "USD Fund") and a Singapore dollar participating sub-fund (the "SGD Fund").

i) Historical performance

The USD Fund was incepted on 15 March 2017 and the SGD Fund was incepted on 2 January 2018. The table below shows the historical annual performance of the USD and SGD Funds. Past performance is not indicative of future performance.

Year	2016	2017	2018
Investment Return[1] of the USD Fund	Not applicable	6.50%[2]	-4.17%
Investment Return[1] of the SGD Fund	Not applicable	Not applicable	-5.05%

[1] Investment return is derived after deducting investment expenses only.
[2] This is for the period between 15 March 2017 and 31 December 2017.

ii) Non-investment factors

Other factors may affect the participating fund's performance, 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 operating expenses. Operating expenses are higher than the long-term level of expenses expected, as the participating fund is still in the initial years of set-up.

iii) Economic review and outlook – applicable to both USD and SGD Funds

Economic review

World economy continued its growth in 2018, with the US and China achieving a Gross Domestic Product ("GDP") growth rate of 2.9% and 6.6% respectively. However, it was a challenging year for investors as trade wars broke out, Europe endured a mini debt crisis and emerging markets were hit by tighter liquidity caused by capital outflows. All asset classes underperformed cash in this environment.

Monetary policy continued to be tightened over the year as US Federal Reserve Board ("Fed") raised interest rate 4 times. The European Central Bank decided to taper its quantitative easing programme though interest rate was unchanged. The People's Bank of China, however, went against the global trend and eased its monetary policy by reducing its reserve requirement ratio for banks to support growth.

Equities

The US stock market corrected sharply in February. This decline quickly impacted other parts of the world. The market gradually recovered in the following 10 months until another massive sell-off in December which left the MSCI World Index down 8.2% for the year.

Fears of valuation drop due to tightened monetary policy had been growing since the first US interest rate hike in 2015 with the Fed's action of reducing its balance sheet being the last straw.

Fixed Income

Just like in previous market downturns, government bonds had protected investors in 2018 with US Treasuries being the best non-cash asset class. However, volatilities were elevated and made risk-adjusted returns unattractive.

Investors lost confidence in corporate bonds because tightened monetary policy usually adds refinancing pressures to corporates and drives financing cost up. In 2018, investment grade bonds lost 3.5%.

Alternatives

The worst performing asset class was commodities, which went down 11.2%. Gold also declined despite its safe-haven appeal due to the strengthening US dollar.

Our participating fund had tactical allocation in alternative investments, which provided downside protection during the market turmoil.

iv) Asset mix of the participating fund

The strategic asset allocation and the asset mix of the USD Fund as at 31 December 2018 is summarised below.

Asset class	Strategic asset allocation	Actual asset mix
Equities	25%	21%
Fixed Income	65%	62%
Alternative	9%	9.2%
Cash and Equivalents	1%	7.8%

The strategic asset allocation and the asset mix of the SGD Fund as at 31 December 2018 is summarised below.

Asset class	Strategic asset allocation	Actual asset mix
Equities	30%	24.6%
Fixed Income	61%	57.7%
Alternative	9%	9.2%
Cash and Equivalents	0%	8.5%

Future Outlook

Many evidences suggest that the world economy has passed its peak and is slowing down. Historically, late cycles saw tighter monetary and credit conditions as well as narrower profit margins. Concerns over economic activities will likely persist in 2019. Against this backdrop, investors may favour securities which have higher quality and better liquidity across asset classes, such as large cap equities and high grade bonds issued by defensive industries. Alternative investment is likely to act as an effective portfolio diversifier in this environment.

In this ever-changing economic landscape, we will continue to adopt a disciplined investment approach to balance both risks and returns to deliver stable returns over the long term to help 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 guaranteed benefits and 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 participating fund is used to determine the non-guaranteed bonuses on your participating policy.

3. How are bonuses determined and are they guaranteed?

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.

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 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.

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.

4. 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 2018, Schroders, a global investment manager with a long history of over 200 years, had USD536.7 billion of assets under management and administration and 5,000 people across 6 continents.

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

Please email our Customer Care team at CustomerCare@chinalife.com.sg or call us at 6727 4800.

About Us

Established in 2015, China Life Insurance (Singapore) Pte. Ltd. (“we”, “us”, “our”) is a licensed life insurer which is regulated by the Monetary Authority of Singapore (“MAS”).

As part of China Life Insurance (Group) Company ("China Life") which is the largest financial insurance corporation in China, we are backed by its financial strength and established heritage. China Life is a Fortune Global 500 company for 16 consecutive years and was ranked 42nd in 2018. It is an influential global brand with a brand value of over USD48.25 billion*.

Our parent company, China Life Insurance (Overseas) Company Limited ("China Life (Overseas)") is a wholly-owned subsidiary of China Life. It is a leading life insurance company in Hong Kong and Macau with an asset value of more than USD43.34 billion (December 2018) and its premium income exceeded USD6.24 billion in 2018. Its credit rating by Moody's was "A 1" (insurance financial strength rating in August 2018) and by Standard & Poor's was "A" (long-term local currency issuer credit rating and insurer financial strength rating in November 2018). China Life (Overseas) has extended its footprint in Southeast Asia in recent years, and established subsidiaries in Singapore and Indonesia in 2015 and 2018 respectively.

We are a socially responsible company committed to offering value-added financial solutions to customers to fulfil their protection, savings, retirement and legacy planning needs. We also believe in giving back to society through our corporate social responsibility activities to make a positive impact on the community and our customers. This resonates with the Belt and Road Initiative to increasingly engage our socio-business influence here.

* Source: Top 500 Most Valuable Chinese Brands 2018 by World Brand Lab

中国人寿保险(新加坡)有限公司
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