

## Lifelong Promise: Ensuring a Prosperous Future

Dear Valued Customer,

On behalf of China Life Insurance (Singapore) Pte. Ltd. ("China Life Singapore"), I would like to express our heartfelt gratitude for your long-standing trust and support. We extend our sincere wishes for your continued health and well-being, as well as that of your loved ones.

In the aftermath of the COVID-19 pandemic, we are witnessing a renewed sense of vigor and dynamism. Reflecting on the year 2022, we can discern the notable presence of market volatility. Nevertheless, we tenaciously persevered, facing numerous obstacles with unwavering resolution and steadfastness.

Over the past year, China Life Singapore has maintained its commitment to high-quality development, with a focus on establishing itself as a boutique life insurance company. As a result of the exploration of new business model, we have successfully constructed and enhanced a sales distribution system that centers around individual agents as the principal channel, with supplementary distribution through bancassurance and financial advisers. This has resulted in a remarkable 70% year-over-year increase in premium income and an 80% year-over-year increase in new business value, while significantly augmenting the proportion of high-value products sold. Additionally, we have achieved a solvency adequacy ratio that is well above the minimum requirement prescribed by the regulators and have effectively hedged against the absolute downturn trend in the capital market. Our resilient performance has earned us the distinguished A3 Insurance Financial Strength Rating (IFSR) with a stable outlook from Moody's. Such recognition is a testament to our efforts and unwavering dedication that we have put towards our business goals.

In the year 2023, we recognize the heightened volatility that pervades the global economy. In this ever-changing environment, it is imperative that we adopt a proactive approach to our business operations. Our strategic objective is to implement a business strategy that utilizes advanced actuarial techniques and leverages our advanced corporate governance structure to make informed decisions in key areas such as market positioning, asset-liability management, product development, channel marketing, investment management, customer service, business operations, financial control, risk management, compliance, technological innovation, administrative operations, and brand management throughout the entire value chain. With targeted investments and optimization of capital, expenses, human resources, data, technology, systems, processes, and mechanisms, we aim to establish ourselves as a boutique life insurance company that consistently delivers exceptional performance.

We are honored to announce that our Participating Fund has remained resilient, and we are maintaining the bonus rates for your policy this year. Our commitment to providing customers with superior insurance services continues to be unwavering, as we remain true to our corporate vision of Lifelong Promise and Lifelong Partner.

Over the years, we have placed significant emphasis on leveraging information technology to enhance customer service, and design distinctive products. We have continued to expand our brand's strength and creating greater value for our customers by continually innovating and exploring new opportunities.

In the year 2023, China Life Singapore is poised to accelerate the expansion of "insurance +" ecosystem by scaling up our localized agent team. We aim to provide our customers with tailored and comprehensive financial planning and wealth management solutions. We will continue to prioritize our digitalization initiatives and optimization of core systems to enhance the overall efficiency to better serve our customers. As part of our commitment to customer satisfaction, we will launch a series of promotional activities to commemorate the "6·16" customer festival and our 8th anniversary. Furthermore, in line with our corporate social responsibility, we are proud to host the 3rd China Life Kids Art Competition, inspiring children to express their artistic talents and imagination while depicting the beauty and wonders of Singapore.

Looking ahead to the future and standing at the forefront of China Life's international expansion, China Life Singapore upholds the corporate culture of "Success for you, Success by you" and sincerely provides clients with comprehensive insurance solutions and professional services. With a firm gaze and full confidence, we will accelerate the development of new products with stronger market competitiveness, strengthen service innovation and optimization, and strive to create "convenient, high-quality, and warm" customer service. Our commitment to you as your lifelong partner is to accompany you on your journey to ensure a prosperous future.

Lin Xiangyang

Chief Executive

China Life Insurance (Singapore) Pte. Ltd.

## Participating Fund Update for 2022

### Par Fund Performance

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

	2020	2021	2022	Average of last 3 years	Average of last 5 years	Average of last 10 years
Investment Returns <sup>1</sup>	15.11%	5.64%	-8.85%	3.49%	3.48%	N.A.

<sup>1</sup> Investment return is derived after deducting investment expenses only.

	2020	2021	2022	Average of last 3 years	Average of last 5 years	Average of last 10 years
Total Expense Ratio	30.00%	6.93%	3.86%	9.91%	N.A.	N.A.

### Total Expense Ratio

Our Participating Fund was set up in March 2017. Typically, the Total Expense Ratio (“TER”) for the initial three years of a new Participating Fund is not reflective of its expected long-term TER. This is because significant expenses are incurred in the initial set-up of a Participating Fund and its asset bases are still being built up. TER, which is expressed as a percentage of assets in the Participating Fund, is expected to reduce over time to a level closer to that of the industry average when the assets in the Participating Fund grow in the coming years.

Please note that past expense ratios may not be indicative of actual expenses that may be incurred in the future.

### 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 the operating expenses. As the Par Fund is still in its initial years of set-up, the operating expenses of the Par Fund are higher than expected. Nonetheless, over the last two years, the expense ratio has been trending downwards and closer to our expectation.

### Economic Review

2022 was a difficult year for global financial markets as the conflict in Ukraine, alongside rising inflation, a hawkish Fed and recessionary fears, caused economic weakness across the globe. The MSCI AC World Index fell -18.9% during the year while in global bond markets, yields were volatile and credit spreads widened.

### Equities

US equities wrapped up its worst year since 2008 as S&P 500 tumbled -18.6% with energy being one of the few positive sectors for the year. Sticky inflation and aggressive rate hikes from the Federal Reserve battered growth and weighed on investor sentiment throughout the year. Geopolitical concerns and volatile economic data also kept markets on edge. European stocks logged one of its worst years as the Ukraine conflict rattled markets early in 2022. The region has a significant reliance on Russian energy, especially gas, and the conflict saw energy prices spike higher. MSCI Europe declined -15.4% for the year. MSCI AC Asia Pacific equities declined -19.9% while the MSCI Emerging Market Index fell -20.6% in 2022.

## **Fixed Income**

In fixed income markets, bond yields came under pressure as worsening inflation saw the Fed hike rates by 425 bps in total over the year. The US 10-year Treasury yield significantly increased by 237 bps from 1.51% as of end-December 2021 to 3.88% by end-December 2022. China's property crisis, which included several high-profile bond defaults by well-known developers, also affected investors' sentiment. From a credit rating perspective, high yield significantly underperformed investment grade bonds.

## **Alternatives**

Commodity markets registered a strong +8.1% (as measured by the S&P GSCI Index) in 2022. The conflict in Ukraine brought on a major global energy crisis and prices rocketed as Russian supply came under sanctions. Gold declined -0.9%. In currencies, the USD rose +8.2% (as measured by the DXY Index), while the SGD appreciated +0.7% against the greenback over the year.

All returns above are quoted in SGD terms.

## **Asset Mix of the Par Fund**

The strategic asset allocation and the asset mix of the Par Fund as at 31 December 2022 are summarised below.

<b>Asset Class</b>	<b>Strategic Asset Allocation</b>	<b>Actual Asset Mix</b>
Equities	15%	13%
Fixed Income	80%	51%
Alternatives	5%	0%
Cash and Equivalents	0%	36%

## **Market Outlook**

After a difficult year, global equity markets have started 2023 strong. Bond prices fell sharply last year, leaving valuations at their most attractive in over a decade. US inflation appears to be cooling with the Federal Reserve slowing the pace of tightening in February. However, leading indicators still suggest that a recession is likely in the US this year. Key questions remain on when this recession will start, how long it will last, and how deep it will be.

With the recent US payroll report strong, and the Federal Reserve continuing to focus on inflation, we are positive on bonds as higher rates are starting to bite. On credits, after significant tightening of spreads, we are now turning neutral with selective exposure to our favoured areas such as higher quality European bonds. Asia and emerging market local currency bonds also offer enticing yields with some of these central banks further down the path of rate hikes than in the developed world. Within currencies, we continue to prefer Japanese yen against the US Dollar.

Meanwhile, we decided to retain our neutral stance on equities. Peaking interest rates take some pressure off valuations but there is still the risk of a hard landing or persistent service sector inflation. Within equities, we continue to have a preference for Asia/Emerging Market and Europe over the US given better growth trends outside the US and lower valuations.

Overall, we believe many of the concerns from 2022 have now peaked, but we are not out of the woods yet. Much of what has worked in the past decade will need to be reappraised for a new environment with higher interest rates, higher inflation and higher geopolitical tensions. In 2023, we will continue to take prudent multi-asset approach 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. 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 2022, Schroders, a global investment manager with a long history of over 200 years, had USD887.2 billion of assets under management and administration and operates from 38 locations across Europe, the Americas, Asia, the Middle East and Africa.

#### **11. Who should I contact to find out more on my policy matters?**

Should you have any queries, please contact your Sales Representative, or call our Customer Care Hotline at 6727 4800, or email us at [CustomerCare@chinalife.com.sg](mailto: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<sup>^</sup>. For 20 consecutive years, China Life is a Fortune Global 500 company, ranking 40 in 2022. It is an influential global brand with a brand value of RMB 452.539 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 a total asset value of HKD 463.1 billion (December 2022) and a total premium income of HKD 49.2 billion in 2022. 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 October 2022) and by Standard & Poor's was "A" (long-term local currency issuer credit rating and insurer financial strength rating in December 2022).

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. Moody's has assigned insurance financial strength ratings (IFSR) of A3 to our company in November 2022. The outlook is stable. We have a network of 19 branches formed by strategic partnership of 2 banks, and 24 strategic partners formed by local and international brokerages, 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.

<sup>^</sup> Note: The Fortune Global 500 ranking was accorded to our strong ultimate parent company, China Life Insurance (Group) Company. The Standard & Poor's credit ratings was accorded to China Life Insurance (Overseas) Company Limited, our parent company.

\* Source: Top 500 Most Valuable Chinese Brands 2022 by World Brand Lab