

# Your Participating Fund Update for 2013



In this commentary you will find key information on the performance of the AIA Participating Fund ('Par Fund') plus the bonuses and dividends allocated to participating policies for the accounting period ending 31 December 2013; our asset allocation strategy and achieved investment returns; and our view on the future outlook for bonuses and dividends. We hope that this update will give you a better understanding of the factors that impact bonuses and dividends for your participating policies.

As The Real Life Company, AIA Singapore will continuously help ensure the security and solvency of the Par Fund and seek to maximise returns on the Par Fund's investments to provide stable benefits to policyholders and shareholders. We are committed to managing our policyholders' investments prudently over the long term.

## Review of 2013

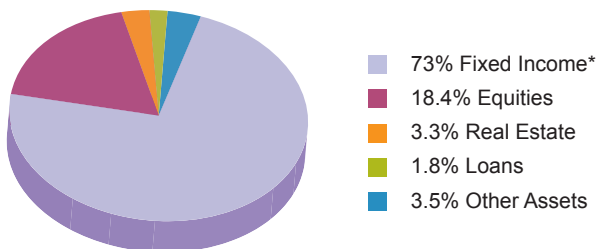
As at 31 December 2013 the Par Fund held total assets at market value amounting to approximately S\$16.3 billion. The assets are represented by our Singapore Dollar (S\$), US Dollar (US\$) and Australian Dollar (A\$) plans.

<b>Key Statistics of the Par Fund at a glance (as at 31 December 2013)</b>	
Total amount of benefits paid in 2013	S\$1,130 million
Market Value of Total Assets as at 31 December 2013	S\$16,313 million
Value of Bonuses and Dividends declared	S\$446 million
Fixed Income Holdings as % of Total Assets	73.0%
Equities Holdings as % of Total Assets	18.4%
Net Investment Return S\$ Plans	1.0%
Net Investment Return US\$ Plans	-5.2%
Net Investment Return A\$ Plans	3.6%

## Asset Allocation as at 31 December 2013

### How the AIA Par Fund assets are invested:

Fixed income securities represent the largest component at 73.0% while equities represent 18.4% and real estate 3.3%. Loans and other assets represent approximately 5.3%.



\* Includes Preference Shares

Existing participating plans are denominated in one of three currencies: S\$, US\$ or A\$. AIA adopts a different asset allocation strategy for different policy types. The overall asset allocation by currency type is shown below.

#### How Par Fund assets are allocated by currency type:

**S\$ participating plans:** 71.9% fixed income, 5.8% loans and others and 22.3% equities, mutual funds, direct investments and real estate.

**US\$ participating plans:** 84.9% fixed income, 15.1% in equities and mutual funds.

**A\$ participating plans:** 100% fixed income.

#### Performance

2013 was a year of volatility for financial markets. There was a general sell off in bond markets driven by fears of interest rate hikes, Federal Reserve tapering talks and a shifting of asset allocations out of bonds into equities. Emerging market bonds were down 6% as market technicals were weak arising from fund outflows. As global growth outlook picked up towards the end of the year, the 10yr US Treasuries yield ended 2013 at the year's high of 3.028%. Hence, fixed income performance was relatively subdued in 2013.

Global equities however, outperformed most other asset classes. Developed market equities significantly outperformed emerging market equities which recorded its worst relative performance against developed markets since the Asian Financial Crisis. Improving economic outlook in the US and Europe, the massive monetary stimulus in Japan, coupled with concerns over slowing growth in China led to an outflow of equities funds from emerging markets to developed markets.

Against this backdrop, overall the Par Fund achieved an investment return of 0.7% in 2013. The investment returns

achieved over the past 3 years are as shown in the following table:

### Product Group

#### Historical Investment Returns

	S\$ Group 1	S\$ Group 2	S\$ Group 3	S\$ Group 4	S\$ Group 5	S\$ Group 6	S\$ Group 7	S\$ Overall
2011	0.9%	1.6%	3.0%	3.0%	-	-	-	2.5%
2012	11.7%	10.9%	9.2%	9.2%	3.7%	-	-	9.8%
2013	1.3%	1.3%	1.0%	0.8%	0.5%	1.5%	1.3%	1.0%

	US\$ Group 1	US\$ Group 2	US\$ Group 3	US\$ Overall	A\$
2011	9.0%	-	-	9.0%	12.0%
2012	16.1%	-	-	16.1%	12.2%
2013	-5.0%	-11.1%	-3.4%	-5.2%	3.6%

#### Note:

- These figures are derived from net investment income, divided by the average market value of the total assets. Net investment income includes amongst others, rental income from land and buildings, less expenses. Past performance is not necessarily indicative of future performance.
- **Singapore Dollar participating plans by plan type:**

Group 1	Group 2	Group 5
<ul style="list-style-type: none"> <li>• AIA Life Plus series</li> <li>• AIA Smart Growth series</li> <li>• AIA Guaranteed 10 / 15 for Life series</li> <li>• AIA Growth Special</li> <li>• AIA Gen3 series</li> <li>• AIA Smart Rewards Saver 21 / 25 series</li> <li>• AIA Guaranteed Protect 15 / 20 series</li> <li>• AIA Retirement Saver (II)</li> <li>• AIA Smart Pro Saver</li> </ul>	<ul style="list-style-type: none"> <li>• AIA Prime Life offered in 1991-1999</li> <li>• AIA EAS 2-year and 3-year limited pay savings at age 60 offered in 1997-1999</li> </ul>	<ul style="list-style-type: none"> <li>• AIA Endowment Select</li> </ul>
	Group 3	Group 6
	<ul style="list-style-type: none"> <li>• All other S\$ Whole Life plans</li> </ul>	<ul style="list-style-type: none"> <li>• AIA Retirement Saver (I)</li> </ul>
	Group 4	Group 7
	<ul style="list-style-type: none"> <li>• All other S\$ Endowment plans ^</li> </ul>	<ul style="list-style-type: none"> <li>• AIA Retirement Saver (II) (SP)</li> </ul>

^ Excluding AIA Endowment Select, AIA Retirement Saver (I) and AIA Retirement Saver (II) (SP).

- **US Dollar participating plans by plan type:**

Group 1	Group 2	Group 3
<ul style="list-style-type: none"> <li>• US\$ Other plans ^</li> </ul>	<ul style="list-style-type: none"> <li>• US\$ Platinum Heritage plans</li> </ul>	<ul style="list-style-type: none"> <li>• US\$ Smart Pro Saver</li> </ul>

^ Excluding US\$ Platinum Heritage, US\$ Smart Pro Saver.

**The top 5 fixed income and equity holdings of the AIA Par Fund as at 31 December 2013 are as follows:**

Top 5 Fixed Income Exposures	Issuer Rating (Moody's/S&P)
Singapore Government Securities	Aaa/AAA
Temasek Holdings	Aaa/AAA
DBS Group Holdings Ltd	Aa2/AA-
Singapore Power Group	Aa3/AA-
Oversea-Chinese Banking Corporation Limited	Aa1/AA-

Top 5 Equity Holdings	% of Total Equities
Starhill Global REIT	4.52%
DBS Group Holdings Ltd	4.34%
Mapletree Commercial Trust	3.25%
Singapore Telecommunications Limited	2.66%
Oversea-Chinese Banking Corporation Limited	2.60%

### Other areas of performance

Mortality experience remained stable. Policy terminations due to voluntary surrenders and expenses were close to last year's experience. Short term fluctuations are not expected to significantly affect future bonus.

### Benefits paid

The total amount of benefits paid to policyholders from the Par Fund amounted to S\$1,130 million in 2013, which was broadly in line with the S\$941 million paid in 2012.

	S\$Million
Maturity Benefits and Coupons paid	773
Value of Death and Total & Permanent Disability claims paid	48
Surrenders	126
Cash Bonuses	179
Annuities	4
<b>Total amount of benefits paid in 2013</b>	<b>1,130</b>

### Bonuses and dividends

The total value of Par Fund bonuses and dividends declared as at 31 December 2013 was S\$446 million. The annual bonus and dividend rates for participating policies will be maintained this year. More information on the bonus and dividend rates for the previous 3 years will be included in your anniversary statement.

Bonuses or dividends allocated to your policy for the accounting period ending 31 December 2013 were recommended, in writing, by the Appointed Actuary and approved by AIA Singapore's Board of Directors. Once declared, annual bonuses and dividends will be credited to your plan at the policy anniversary.

## Outlook

We expect world GDP growth to pick up pace in 2014 and it is particularly encouraging in the developed markets, except for Japan which may experience deceleration with the hike in consumption tax in April 2014. In Asia, we anticipate diverging growth trajectories but most countries should enjoy stronger growth. Against this backdrop, we see more opportunities in equities especially in markets that are better leveraged to global growth and less vulnerable to scaling down of bond purchases by US Federal Reserve. Bond markets will however continue to face headwinds.

### Stability for our Policyholders

Bonus and dividend declarations in the future depend largely on the investment returns we will achieve in the future. Future investment returns cannot be guaranteed and for that reason, neither can future bonuses and dividends.

AIA tries to provide stable returns over the life of your participating policy, and so we adopt a concept known as 'smoothing'. Simply put, we try to spread profits and losses over the life of your plan. For example, if the Par Fund performance is particularly good in one year, we may hold back a portion of the earnings so that we can maintain bonuses in years when the Par Fund does not perform so well. If the future outlook of Par Fund performance continues to be unfavourable, it may be necessary to reduce the estimates of future bonuses accordingly. Overall, our aim is for the long-term cost of smoothing to be broadly neutral across generations of policyholders.

**Note:** This commentary is intended for your general information only and does not have regard to your specific investment objectives, financial situation and particular needs of any persons. Any opinions, predictions, forecasts or forward-looking statements made are not necessarily indicative of future or likely performance. All figures quoted are rounded off in millions. The above information is accurate as at 31 December 2013.

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