

# YOUR PARTICIPATING FUND UPDATE FOR 2016

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THE REAL LIFE  
COMPANY

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 2016. We will also inform you about our asset allocation strategy and achieved investment returns; our view on the future outlook for bonuses and dividends. Through this update, we hope to provide you with a better understanding of the factors that impact bonuses and dividends for your participating policies.

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

## REVIEW OF 2016

As at 31 December 2016 the Par Fund held total assets at market value amounting to approximately S\$19.66 billion. The assets are supporting the Singapore Dollar (S\$), US Dollar (US\$) and Australian Dollar (A\$) plans.

### KEY STATISTICS OF THE PAR FUND AT A GLANCE (AS AT 31 DECEMBER 2016)

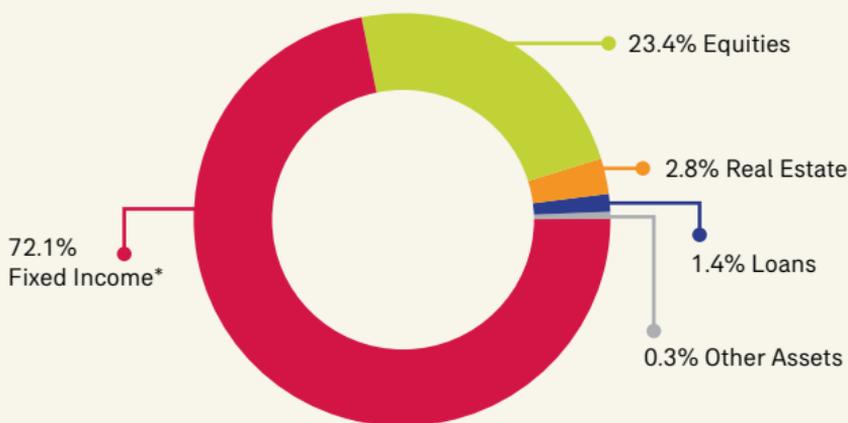
Total amount of benefits paid in 2016	<b>S\$1,237 million</b>
Market Value of Total Assets as at 31 December 2016	<b>S\$19,656 million</b>
Value of Bonuses and Dividends declared	<b>S\$484 million</b>
Fixed Income Holdings as % of Total Assets	<b>72.1%</b>
Equities Holdings as % of Total Assets	<b>23.4%</b>
Net Investment Return S\$ Plans	<b>4.9%</b>
Net Investment Return US\$ Plans	<b>7.5%</b>
Net Investment Return A\$ Plans	<b>4.1%</b>

## ASSET ALLOCATION AS AT 31 DECEMBER 2016

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

Fixed income securities represent the largest component at 72.1% while equities represent 23.4% and real estate 2.8%. Loans and other assets represent 1.7%.

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.



\* Includes Preference Shares

## HOW PAR FUND ASSETS ARE ALLOCATED BY CURRENCY TYPE:

**S\$ participating plans:** 66.2% fixed income, 28.3% equities, 3.4% real estate and 2.1% loans and others.

**US\$ participating plans:** 78.7% fixed income and 21.3% in equities.

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

## PERFORMANCE

2016 was an eventful year for investors, filled with surprises that turned markets topsy-turvy. Notwithstanding the poor start to the year, equity markets promptly reached a trough in February before climbing to finish the year markedly higher. The unexpected outcomes of several macro events shook confidence but did not derail the uptrend. Commodities soared in tandem with equities, aided by supply and policy responses. Bonds were the laggards amongst the major asset classes.

The MSCI World and S&P500 equity indices posted total returns of 8.2% and 12.0% (in USD terms) respectively, with the latter establishing a new high. Returns in several emerging markets were even more stellar, augmented by their rebounding currencies. All these were achieved despite the surprising outcomes of Brexit and the US Presidential Election, which temporarily rocked sentiment. Within the Asian markets, returns were more disparate with the top performer (Thailand) gaining 26% and the weakest performer (Philippines) suffering a 6% loss.

The bond markets had an uncharacteristically volatile year, with yields seemingly having reached an inflection point. Yields trended lower in the first half of the year on risk-off events such as the oil price collapse and renewed fears of a China slowdown. Aggressive monetary easing by central banks further fuelled the plunge in yields. The outcome of the UK referendum in June was another trigger for a bond rally. However, as the market digested the implications of Brexit and focused on the improving US economic data points, yields gradually moved higher. The tipping point was the November US Presidential Election, as yields spiked after Trump's unexpected victory raised hopes for major fiscal expansion in the US. Consequently, the benchmark US Treasury 10-year yield ended the year higher at 2.45%, rebounding strongly off the low of 1.36% at the peak of the Brexit fears.

Against this backdrop, overall the Par Fund achieved an investment return of 5.6% in 2016. The investment returns achieved over the past 3 years are as shown in the following table:

PRODUCT GROUP										
S\$ Group	1	2	3	4	5	6	7	8	9	S\$ Overall
Historical Investment Returns										
2014	6.9%	6.9%	6.5%	6.2%	5.8%	7.2%	6.9%	-	-	6.5%
2015	1.2%	1.2%	1.4%	1.5%	1.7%	1.0%	1.2%	1.2%	-	1.4%
2016	5.0%	5.0%	4.9%	4.8%	4.5%	5.0%	5.0%	4.9%	4.8%	4.9%

	US\$ Group 1	US\$ Group 2	US\$ Group 3	US\$ Group 4	US\$ Overall	A\$
Historical Investment Returns						
2014	13.2%	12.5%	12.2%	-	13.1%	10.0%
2015	-1.4%	-2.4%	-2.9%	-	-1.9%	3.3%
2016	7.8%	7.7%	7.2%	7.0%	7.5%	4.1%

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:

<b>Group 1</b>	
<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</li> <li>• AIA Guaranteed Protect 15 / 20 series</li> </ul>	<ul style="list-style-type: none"> <li>• AIA Smart Pro Saver</li> <li>• AIA Smart Pro Rewards</li> <li>• AIA Retirement Saver (I) RP</li> <li>• AIA Retirement Saver (II) RP</li> <li>• AIA Guaranteed Protect Plus Series</li> <li>• AIA Wealth Pro Advantage Growth</li> <li>• AIA Smart Lifetime Rewards</li> <li>• AIA Platinum Heritage II Limited Pay</li> </ul>
<b>Group 2</b>	<b>Group 6</b>
<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 Retirement Saver (I) SP</li> </ul>
<b>Group 3</b>	<b>Group 7</b>
<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 (II) (SP)</li> <li>• AIA Platinum Gift for Life</li> </ul>
<b>Group 4</b>	<b>Group 8</b>
<ul style="list-style-type: none"> <li>• All other S\$ Endowment plans ^</li> </ul>	<ul style="list-style-type: none"> <li>• S\$ Platinum Heritage II</li> <li>• S\$ Platinum Heritage Premier</li> </ul>
<b>Group 5</b>	<b>Group 9</b>
<ul style="list-style-type: none"> <li>• AIA Endowment Select</li> </ul>	<ul style="list-style-type: none"> <li>• S\$ Platinum Heritage Treasure</li> </ul>

^ Excluding AIA Endowment Select, AIA Retirement Saver (I), AIA Retirement Saver (II) and AIA Platinum Gift for Life.

## US DOLLAR PARTICIPATING PLANS BY PLAN TYPE:

Group 1	Group 2	Group 3	Group 4
<ul style="list-style-type: none"> <li>US\$ Other plans inception prior to 1 November 2013 <sup>^</sup></li> </ul>	<ul style="list-style-type: none"> <li>US\$ Smart Pro Saver</li> <li>US\$ Other plans inception post 1 November 2013 <sup>#</sup></li> </ul>	<ul style="list-style-type: none"> <li>US\$ Platinum Heritage plans (except Platinum Heritage Treasure)</li> </ul>	<ul style="list-style-type: none"> <li>US\$ Platinum Heritage Treasure</li> </ul>

<sup>^</sup> Excluding US\$ Smart Pro Saver and US\$ Platinum Heritage plans.

<sup>#</sup> Excluding US\$ Platinum Heritage plans.

## THE TOP 5 FIXED INCOME AND EQUITY HOLDINGS OF THE AIA PAR FUND AS AT 31 DECEMBER 2016 ARE AS FOLLOWS:

Top 5 Fixed Income Exposures	Issuer Rating (Moody's/S&P)
Singapore Government Securities	<b>Aaa/AAA</b>
Temasek Holdings	<b>Aaa/AAA</b>
Capitaland Limited <sup>**</sup>	<b>NR/NR</b>
United Overseas Bank	<b>Aa1/AA-</b>
DBS Group Holdings Ltd	<b>Aa2/NR</b>

<sup>\*\*</sup> includes all the entities within the Capitaland group

Top 5 Equity Holdings	% of Total Equities
DBS Group Holdings Limited	<b>2.98%</b>
Singapore Telecommunications Limited	<b>2.73%</b>
Mapletree Commercial Trust	<b>2.68%</b>
Starhill Global Reit	<b>2.54%</b>
Oversea-Chinese Banking Corp Limited	<b>2.14%</b>

## OTHER AREAS OF PERFORMANCE

Insurance claims and expenses, were in line with our expectation. 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\$1,237 million in 2016, which was broadly in line with the S\$1,198 million paid in 2015.

	S\$ Million
Maturity Benefits and Coupons paid	<b>746</b>
Value of Death and Total & Permanent Disability claims paid	<b>58</b>
Surrenders	<b>185</b>
Cash Bonuses	<b>244</b>
Annuities	<b>4</b>
<b>Total amount of benefits paid in 2016</b>	<b>1,237</b>

## **BONUSES AND DIVIDENDS**

The total value of Par Fund bonuses and dividends declared as at 31 December 2016 was S\$484 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 2016 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**

2017 began with a palpable sense of optimism on global growth. The US Federal Reserve raised the policy interest rate by another 25 basis points in December 2016, exactly one year after the previous hike. Markets took it in their stride, reflecting confidence in the outlook for the US economy. Much of this is premised on expectations of more fiscal stimulus ahead but the already high levels of public debt may act as a constraint. Other pivotal issues that investors will likely stay vigilant over include currency vulnerability in the emerging markets, the spectre of trade wars and political risks in Europe.

## **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 2016.

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