

USD Participating Fund Commentary

Annual bonus update for financial year ended on 31 December 2019 and 1st quarter of 2020

Participating fund commentary

This is an annual commentary on Participating USD Fund (commonly referred to as “Par USD Fund”) managed by HSBC Insurance (Singapore) Pte. Limited (“HSBC Life Singapore”). This report aims to inform policyholders on the performance of Par USD Fund over the previous accounting period and the bonuses allocated to them for the year. It also provides the future outlook for Par Fund performance based on the latest actuarial investigation of policy liabilities carried out pursuant to Section 37(1) of the Insurance Act Cap. 142 and updates on any changes in future non-guaranteed bonuses. Typically, Par Fund commentary pertains to the last financial year. However, due to the adverse and extreme market movements in the 1st quarter of 2020, additional considerations were made pertaining to the performance of Par USD Funds over this period.

It is important to note that this bonus update report contains general commentary on HSBC Life Singapore’s Par USD Fund and is not specific to any

particular policy. Rest assured, once bonuses have been declared for the year, they are guaranteed.

Your participating policy

The main feature of your participating policy is its ability to provide stable returns for your savings, allowing you to participate in the performance of Par USD Fund in the form of bonuses. Your policy’s benefits will ultimately depend on the investment performance, claims experience and expenses of the relevant Par Fund.

Based on the Par USD Fund’s performance, we will steadily allocate part of the surplus of the fund to your policy to increase its value via bonuses. When considering suitable bonus rates, we usually consider average performance over a period longer than one year so as to minimise the effect of short-term fluctuations in asset values.

All bonuses allocated are approved by the Board of Directors of HSBC Life Singapore and based on the recommendation by the Appointed Actuary.

Performance of the USD participating fund

Economic Review and Outlook

We are living in an age of uncertainty. 2019 was a year of contrast. On one hand, the narrative of 2019 in financial markets was rather pessimistic; trade tensions, policy uncertainty, and recession worries dominated news headlines. On the other hand, investment market performance was strong across fixed-income securities, equities, and many other types of assets.

Global supporting policies were key reasons driving positive performance of financial markets in 2019. Rate cuts from the US Federal Reserve, negative policy rates and cash injections to banks from the European Central Bank and fiscal policy support from China protected markets during the year. Overall, more than 15 global central banks have cut rates in 2019 – it has been a true phase of global easing.

In addition, much of what we saw in the policy uncertainty sphere was principally a deterioration in sentiment. While trade “threats” had been elevated in 2019, the actual policy action on trade was more muted, although still impactful. In the economy, much of the bad news in 2019 was concentrated in confidence surveys and manufacturing data.

The fear was that this would spill-over into the rest of the economy, which did not materialize.

Market volatility substantially increased in the first months of 2020 to levels not seen since the 2008 financial crisis as it has become clear that the COVID-19 coronavirus caused economic dislocation. In addition, unprecedented moves in oil markets reflect the challenges facing the global economy.

The economic outlook is challenging as the timing and potential of a rebound of economic activity is uncertain. Overall, a global recession cannot be excluded while the length and intensity of the impact to the global supply chain is a key variable. Part of that will be determined by how widely COVID-19 spreads globally and how disruptive to economic life the containment measures are. It will be important to track how labor markets and the financial system respond.

The impact of the lockdowns was apparent in economic data. In the first quarter of 2020, US and Eurozone GDP contracted by 4.8% and 3.8%, respectively. The US unemployment rate spiked to 14.7% in April, the highest in history. Following the announcement of various central banks to engage in large scale purchases of financial assets, interest rates and yields on high quality fixed-income assets

declined. Equity markets likewise experienced a notable correction in Q1 2020.

Going forward, it is conceivable that the downward pressure to interest rates and the high volatility in equity markets will persist, while overall, growth perspectives seem to have moderated compared to 2019. On this backdrop, it is likely that the return of the Par USD Fund will remain subdued in the coming year.

Performance of the USD participating fund

Total assets

On 31st December 2019, the total assets in the Par USD Fund amounted to approximately USD 1.6 million, all held in cash. This is due to an operational constraint as the USD fund was newly established and the fund size has only recently reached the scale needed to be invested efficiently as a standalone fund.

This Par USD Fund shall be primarily invested in fixed-income securities (corporate bonds), representing approximately 72% of the Fund's assets. Approximately 28% of the Fund shall be invested in equities.

If the premiums were invested in line with the targeted allocation, the portfolio would have generated gross returns of approximately 6.71% and -4.89% for the periods of 2019 and 1Q2020 respectively. The following table provides further details on the simulated returns.

	Gross Returns (June2019 – Dec2019)	Gross Returns (Dec2019 – Mar2020)
Equities	6.26%	-21.08%
Fixed Income	6.70%	1.74%
Total Portfolio	6.71%	-4.89%
Investment Fees	0.09%	0.04%

Even though collected premiums were held in cash until March 2020, any shortfall of the total assets based on the simulated returns for the period premiums were held in cash, will be compensated into the Par USD Fund to ensure the policyholders' interests are not impacted by this operational constraint.

It is also worth noting that the Par USD fund has recently reached the required scale and it is now being invested according to the investment strategy.

Other factors affecting performance

Besides investment returns, other factors affecting the fund performance include mortality claims, voluntary surrenders and expenses incurred and allocated to the participating fund. For the year 2019, mortality and voluntary surrender claims were lower than expected; and partially offset by higher than expected expenses incurred. Overall, these factors have not significantly impacted the current bonus levels.

Conclusion

The guaranteed benefits on HSBC Life Singapore's products, in relation to the basic sum assured and the bonuses earned to date are, and will continue to be, effective regardless of the situation.

As the outlook for the 2020 investment condition remains uncertain, future investment returns and hence future bonuses cannot be guaranteed. That said, our investment strategy aims to deliver the current expected level of investment returns and we also aim to maintain stability in our bonus rates for all policyholders wherever possible, in line with our bonus philosophy.

An updated benefit illustration of your policy based on the current projected bonus is available upon request via e-mail to us at e-surance@hsbc.com.sg.

Note: This is only a commentary of HSBC Life Singapore's Par USD Fund and is not specific to any particular policy.

About The Hongkong and Shanghai Banking Corporation Limited

The Hongkong and Shanghai Banking Corporation Limited is the founding member of the HSBC Group. HSBC serves customers worldwide from offices in 64 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of USD2,918 billion at 31 March 2020, HSBC is one of the world's largest banking and financial services organisations.

About HSBC Life Singapore

HSBC Insurance (Singapore) Pte. Limited is a wholly owned subsidiary of HSBC Insurance (Asia Pacific) Holdings Limited, which is ultimately owned by HSBC Holdings plc, the London-based holding company of the HSBC Group. HSBC Life Singapore has been a Monetary Authority of Singapore's (MAS) Tier-1 insurer, managing total assets of close to SGD 7 billion with a 199% Capital Adequacy Ratio (CAR) as at 31 December 2019 and received an A+ rating by Standard & Poor's in April 2020. It provides a wide range of solutions that cater to retirement, protection, education, legacy planning, and wealth accumulation needs. It also has a fully digital platform, <http://www.insuranceonline.hsbc.com.sg/>, that offers simple and value for money term-based life insurance products online.

Safety net for your assets

This policy is protected under the Policy Owners' Protection Scheme which is administered by the Singapore Deposit Insurance Corporation (SDIC). Coverage for your policy is automatic and no further action is required from you. For more information on the types of benefits that are covered under the scheme as well as the limits of coverage, where applicable, please contact us or visit the LIA or SDIC web-sites <http://www.lia.org.sg> or www.sdic.org.sg.

For more information, please contact your financial planner or call our Customer Service Hotline on 6225 6111, Monday to Friday from 9 am to 5 pm or visit our website at www.insurance.hsbc.com.sg.

Issued by HSBC Insurance (Singapore) Pte. Limited. Company (Reg. No. 195400150N)
9 Battery Road, #12-01 MYP Centre, Singapore 049910.