SGD 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 SGD Fund (commonly referred to as Par SGD Fund) managed by HSBC Insurance (Singapore) Pte. Limited. The report aims to inform policyholders on the performance of the Par SGD Fund since the last review. 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 placed on the performance of Par SGD Fund over this period.

It is important to note that this bonus update report contains general commentary on HSBC Insurance (Singapore) Pte. Limited's Par SGD 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 SGD 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 SGD 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 Insurance (Singapore) Pte. Limited and based on the recommendation by the Appointed Actuary.

Performance of the SGD 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 SGD Fund will remain subdued in the coming year.

Performance of the SGD participating fund

2019 performance:

HSBC Insurance's Par Fund produced positive net return of 10.54% in 2019, higher than the expected return. This was driven by the backdrop of strong investment market performance. However, the low interest environment poses challenges for future investments. The return includes effects of both realized and unrealized gains and losses on all investments, which are based on market values.

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Total assets

On 31st December 2019, the total assets in the Par Fund amounted to approximately S$691 million (31st December 2018: S$616 million). This Fund is primarily invested in fixed-income securities (corporate/ government bonds) and alternative credit strategies, representing approximately 73% of the Fund's assets. Approximately 26% of the Fund is invested in equities. The rest of the Fund was held in cash and deposits.

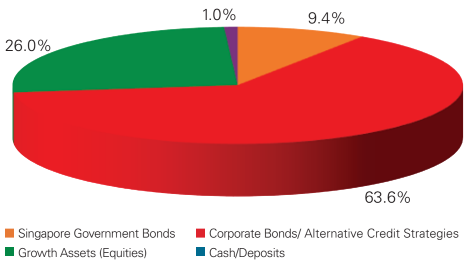
Fixed income and Other Credit Strategies

Over the year, asset allocation to fixed income (corporate/ government bonds) and other credit strategies increased by 2%. Falling yields delivered positive returns. A dovish policy across central banks drove the return across the segment.

Growth Assets (Equities)

Allocation to growth assets reduced by 3%. Despite market sentiment being overly negative for most of the year, equity markets notched up solid gains amidst a slew of accommodative policies from central banks across the world. As a result, equities produced strong returns over the period.

SGD Par Portfolio
as of 31-Dec-19

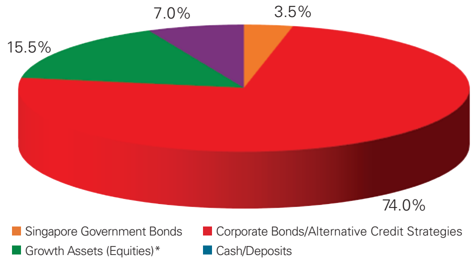


Q1 2020 performance:

The COVID-19 outbreak resulted in market disruptions and high volatility. Unprecedented moves in oil markets reflect the challenges facing the global economy. Uncertainty persists around the timing and potential of a rebound in economic activity. Interest rates sharply declined, while credit spreads initially spiked with tightening thereafter. Global equity markets experienced a notable correction, particularly in March 2020.

As a result, the Par Fund suffered negative net return of -5.73% in Q1 alone, a large detraction from the expected return. The unfavorable portfolio performance was largely driven by the negative performance of our equity holdings. In addition, market volatility and the sharp decline in interest rate in Q1 poses even greater challenges for future investments.

SGD Par Portfolio
as of 31-Mar-20



** De-risking actions were taken by temporarily reducing equity holdings to mitigate loss potential in view of high market volatility and economic outlook uncertainty*

Year	Q1 2020	2019	2018	2017	2016	2015
Gross investment return*	-5.69%	10.74%	-3.29%	9.19%	4.85%	0.36%
Investment fees	0.04%	0.20%	0.17%	0.16%	0.15%	0.17%
Net investment return	-5.73%	10.54%	-3.46%	9.03%	4.70%	0.19%

**Source: HSBC Global Asset Management*

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. On an overall basis, these factors have not significantly impacted the current bonus levels.

Conclusion

The guaranteed benefits on HSBC Insurance 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.

While 2019 Par Fund performance was above expectation, Q1 2020 performance was below expectation mainly driven by poor equity returns. In addition, extreme market volatility and ultra-low interest rate environment pose challenges to future investments. 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.

A benefit illustration of your policy based on the current projected bonus will be available upon request. You may register your request via e-mail to us at e-surance@hsbc.com.sg.

Note: This is only a commentary of HSBC Insurance (Singapore) Pte. Limited's Par SGD Fund and is not specific to any particular policy.

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.