

Your Participating Fund Update for 2018

Thank you for trusting Prudential with your investment and protection needs.

Please find enclosed an update on the performance of the **Regular Premium Life Sub-Fund** (Par Fund) and the bonus allocation to your participating policy for the year ending 31 December 2018.

At a glance

In 2018, our Par Fund generated an investment return of -2.12% for Singapore Dollar products and -6.78% for US Dollar products. The total expense ratio was maintained at around 3%.

Year	2016	2017	2018
Investment Return (SGD product) ¹	8.32%	10.63%	-2.12%
Investment Return (USD product) ¹	9.70%	12.44%	-6.78%
Total Expense Ratio ²	3.07%	2.99%	2.95%

¹ The investment return is shown after deducting investment expenses incurred in managing the par fund. Past performance is not necessarily indicative of future performance.

² This Total Expense Ratio is computed at total Participating Fund level, inclusive of all participating sub-funds. This ratio is the proportion of total expenses incurred by the Participating Fund to the assets of the Participating Fund. These expenses include costs such as investment, management, distribution, taxation and other expenses. Past expense ratios are not necessarily indicative of actual expenses that may be incurred in the future.

What is a participating policy?

A participating policy is a life insurance plan which provides guaranteed benefits and non-guaranteed bonuses.

The premiums of participating policies are pooled into a Par Fund which invests in a range of assets such as bonds and equities, and pays customers when they make a claim or surrender their plans.

How are bonuses of participating policies determined?

The level of bonuses depends on the actual experience and future outlook of key factors affecting the performance of the Par Fund. The key factors include investment performance, operating expenses and benefit payouts (from insurance claims, surrenders and survival benefits).

Prudential aims to provide stable bonuses and returns over the life of your policy. To make sure bonuses are less impacted by fluctuations in the financial markets, we adopt a concept

of “smoothing”. This means we may save a portion of the Par Fund’s investment returns in good years to help us maintain bonuses in periods when returns are lower.

What is my bonus allocation for 2018?

Whilst we have maintained the projected Reversionary Bonus rates for more than a decade, some customers will have reduced Terminal Bonus rates this year. Details of bonus allocation to your policy and changes to projected benefits can be found in the enclosed Bonus or Policy Notice.

What factors affected the Par Fund’s performance in 2018?

The Par Fund’s performance and its declared bonuses are determined by a number of factors. These include the fund’s portfolio composition and performance, non-investment related factors, such as operating expenses and benefit payouts, and the health and outlook of the global economy.

1. Non-investment factors

Benefit payouts from insurance claims and surrendered policies as well as operating expenses could impact the Par Fund’s performance and the level of bonuses declared. We do not expect short-term fluctuations in these non-investment factors to affect current and future bonuses significantly.

Key Non-Investment Factors	Impact on Bonus
Insurance claims were close to expected	Neutral
Surrender payments were lower than expected	Negative
Expenses were close to expected	Neutral

In 2018, the total amount of benefits paid to our customers amounted to S\$ 1,158.0 million.

Insurance Claims _____ **S\$53.3 million**

Surrender Payments _____ **S\$163.8 million**

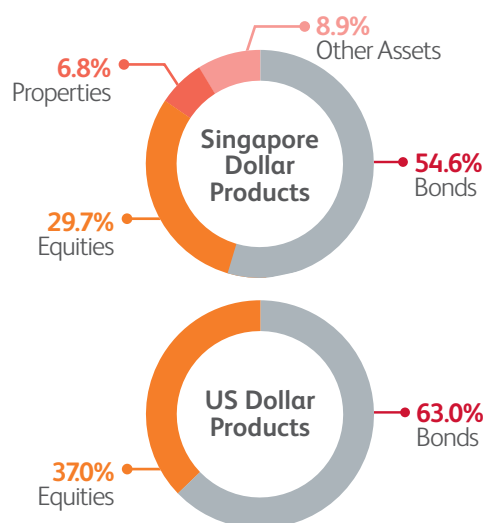
Survival Benefit Payments* _____ **S\$940.9 million**

*Includes Maturity Benefit and Cash Benefit

2. Portfolio composition

As of 31 December 2018, the size of the Par Fund is S\$18,744 million and the Actual Asset Allocation is as follows:

Actual Asset Allocation*



*For SGD products, the strategic asset allocation is 31.0% in Equities, 50.0% in Bonds, 7.5% in Properties and 11.5% in Other Assets. For USD products, the strategic asset allocation is 37% in Equities and 63% in Bonds. The actual allocation is reviewed periodically and may deviate from the target due to market and business movements.

3. Market review

The withdrawal of liquidity as the US Federal Reserve Board (Fed) and other central banks tightened their balance sheets had a negative impact on asset classes across the board. Risk assets, particularly corporate credits and equities, corrected in tandem with volatility rising in many areas. At the same time, the global economy experienced a slowdown, particularly in manufacturing. After the highs of 2017, it came as no surprise that 2018 was a year of more moderate returns with one or more corrections.

2018 saw a flattening of government yield curves. The short-term 2-year Singapore Government yield increased by 0.23% whilst longer-term yields remained relatively unchanged. Emerging Markets and Asia, led by China, fared badly with major capital outflows brought on by a strong USD and the impact of global trade disputes. US equities were a clear stand out for much of the year, only to succumb to some correction in the last quarter on negative sentiment and worries on further Fed rate hikes.

Looking ahead

Developments in the economic outlook and interest rates will remain the key drivers of markets in 2019. Central banks could strike a more dovish tone and the Fed's ability to moderate the pace of rate hikes should alleviate some worries. China's central bank has begun to cut bank reserves to bring on financial liquidity, on top of easing monetary policies put in place since mid-2018. The European Central Bank could be the next to signal some degree of caution and we would not rule out more geopolitical events that could add to market volatility. Although earnings growth is likely to moderate further this year, valuations have become more attractive.

We prefer to focus on relative valuations while staying in stable, higher quality and defensive assets. That means being neutral in equities and bonds with longer duration as a hedge against significant growth slowdown. We continue to track market sentiment closely and utilise risk management tools to be nimble in positioning the portfolios.

At Prudential, we will continue to adopt a disciplined approach to investing by maintaining a diversified portfolio and balancing both risks and returns in our asset selection. We aim to deliver stable returns over the long term to help you meet your financial goals.

We have provided both the English and Chinese versions of this update for your convenience. It can be accessed at the following link: <https://www.prudential.com.sg/annual-bonus-update>

如果您需要我们华文版的年度红利报告, 您可浏览我们的网页: <https://www.prudential.com.sg/annual-bonus-update>

The purpose of this report is to present you with an update on the performance of the Par Fund for the year ending 31 December 2018 and the bonuses allocated for the year. It also sets out our views on the future outlook of the Par Fund based on our latest actuarial investigation of policy liabilities carried out under section 37(1) of the Insurance Act and updates you on any changes in future non-guaranteed benefits.

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