

Your Participating Fund Update for 2020

Par Retirement SGD Sub-Fund

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

We're writing to share with you the performance of the Par Retirement SGD Sub-Fund (Par Fund) and the bonus allocation for your participating policy for the year ending 31 December 2020.

At a glance

In 2020, our Par Fund generated an investment return of **5.22%**. The total expense ratio was **maintained below 3%**.

Year	2018	2019	2020
Investment Return ¹	N.A.	2.98%	5.22%
Total Expense Ratio ²	2.95%	2.92%	2.50%

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 or when the plan matures.

How are bonuses of participating policies determined?

Bonuses declared depend 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).

At Prudential, we aim to provide stable bonuses and returns over the lifetime 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 2020?

We are pleased to announce that we will be maintaining the bonus rates for all policies for financial year 2020. Details of bonus allocation to your policy and changes to projected benefits can be found in your Bonus Notice, which will be sent progressively between April to September. Once available, you will be able to view your Bonus Notice in **PRUAccess**.

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 the total Participating Fund level and is 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 factors affected the Par Fund's performance in 2020?

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.

Let's go through in detail below.

01 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.

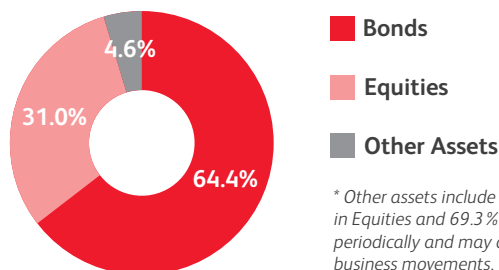
Key Non-Investment Factors	Impact on Bonus
Insurance claims were lower than expected	Positive
Surrender payments were lower than expected	Negative
Expenses were lower than expected	Positive

Since the establishment of this new sub-fund in Sept 2019, no benefits were paid.

02 Portfolio Composition

As of 31 December 2020, the size of the Par Fund is S\$ 93 million and the Actual Asset Allocation is as follows:

Actual Asset Allocation*



* Other assets include cash. The strategic asset allocation is 30.7% in Equities and 69.3% in Bonds. The actual allocation is reviewed periodically and may deviate from the target due to market and business movements.

03 Market Review

One year after the start of the COVID-19 pandemic, there is finally light at the end of the tunnel. The US, China and Russia have all developed vaccines. However even with large scale vaccine production, the task of inoculating most of the world's 7.8 billion population will not be easy.

Economic indicators for US and China towards the end of 2020 were surprisingly strong, despite more virulent COVID-19 strains forcing stricter lockdowns. However, the harm to the global economy could be more prolonged and remains to be fully seen. A lot of the current optimism rests on the idea that supportive policies will continue to remain.

The Federal Open Market Committee lowered interest rates dramatically in 2020 while instituting new and drastic measures in response to the economic turmoil caused by COVID-19. The target range for the federal funds rate stayed at 0.00% - 0.25% through December and will likely remain there for most of 2021. The US Federal Reserve projects policy path with rates on hold at lower bound and has committed to continue increasing its holdings of Treasuries and mortgage-backed securities.

Following the US Presidential Election win by Joe Biden, the Democrats have made a clean sweep and taken over control of the US Presidency, Congress and Senate. The result is significant and resulted in the market repositioning to adjust. There are two key implications: 1) US fiscal policy will be more responsive to any economic weakness; 2) larger COVID-19 relief package and infrastructure spending are now possible.

To this end, economic forecasts have increased for US GDP growth, inflationary expectations and long-term interest rates. Global rates similarly saw a sharp rise in core rates and further driving a rally in risky assets. That said, most are not expecting the US Federal Reserves to lift rates until after 2023 though tapering of bond purchases may now be brought forward.

Looking ahead

2021 will feature an extended period of low-inflation, low-interest rate growth that favours equities over bonds. Broadly, the indicators reflect continued outperformances in risky assets such as global equities, emerging markets and credit spread products.

The major considerations to watch in 2021 are corporate earnings and interest rates as markets continue to price in a strong earnings recovery. With the rally in recent months points, the question remains – how much of the fundamental improvement has already been baked into the price?

In the current environment of low interest rate and growth, seeking sustainable investment returns can be more challenging. At Prudential, we will continue to adopt a disciplined approach to investing by maintaining a diversified portfolio and balancing both long-term risks and returns in our asset allocation. As a life insurer, we play a unique role in responding to environmental, social, and governance (ESG) issues by being long-term stewards of policyholders' investments. Therefore, we have taken further steps to integrate ESG considerations into our investment decisions.

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 2020 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.

Prudential Assurance Company Singapore (Pte) Limited.
(Reg. No. 199002477Z)
5 Straits View #01-18/19, Marina One The Heart
Singapore 018935
Tel: 1800 333 0 333 Fax: 6734 6953
Part of Prudential plc
www.prudential.com.sg

