PRUDENTIAL

Listening. Understanding. Delivering.

Your Participating Fund Update for 2019

Par Short Term Single Premium Endowment 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 Short Term Single Premium Endowment Sub-Fund (Par Fund) and the bonus allocation for your participating policy for the year ending 31 December 2019.

At a glance

In 2019, our Par Fund generated an investment return of **5.60%.** The total expense ratio was maintained at around 3%.

Year	2017	2018	2019
Investment Return[1]	4.09%	1.96%	**5.60%**
Total Expense Ratio[2]	2.99%	2.95%	**2.92%**

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. These 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 ensure 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 2019?

We are pleased to announce that we will be maintaining the bonus rates of all policies for financial year 2019. Details of bonus allocation to your policy and changes to projected benefits can be found in your Bonus Notice. You can view your Bonus Notice by logging in to **PRU**Access. If you have not opted for a digital copy, you will receive it by mail.

What factors affected the Par Fund's performance in 2019?

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] 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.

Let's go through in details 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 higher than expected	**Positive**
Expenses were close to expected	**Neutral**

In 2019, the total amount of benefits paid to our customers amounted to S$ 161.3 million.

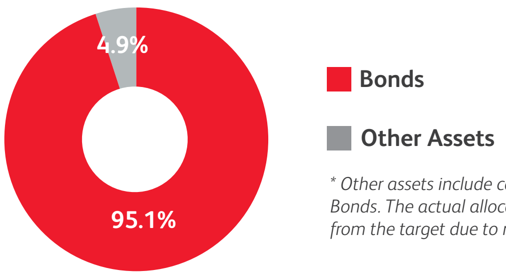
Breakdown of Benefits Paid	Amount
Insurance Claims	**S$ 0.7 million**
Surrender Payments	**S$ 0.8 million**
Survival Benefit Payments *	**S$ 159.8 million**

**Includes Maturity Benefit*

02 Portfolio Composition

As of 31 December 2019, the size of the Par Fund is S$ 640 million, and the Actual Asset Allocation is as follows:

Actual Asset Allocation*



** Other assets include cash. The strategic asset allocation is 100.0% in Bonds. The actual allocation is reviewed periodically and may deviate from the target due to market and business movements.*

03 Market Review

Global financial markets ended 2019 strongly with strong performances across all asset classes despite the trade tension between US and China for most part of the year. Thankfully, consumption activities held up well across many economies throughout the year. US-China trade tension subsided after October with a "Phase-One" trade deal announced. Dovish monetary policies led by the US Federal Reserve had strengthened risk sentiment, driving up equities led by the US, whilst bond yields continue to reduce with credit spreads tightening in general.

Looking back, the past decade had been led by the US across stocks, bonds and the dollar. Global economy began on the multi-year path of recovery with central banks started on quantitative easing. This was despite Europe being involved in continental sovereign debt crisis whilst Emerging Markets had to struggle with a slowing China. Low volatility, momentum and growth stocks, largely driven by the US tech sector, led equities higher whilst commodities, energy and value stocks lagged. Credit spreads across various risk spectrum tightened and dividend yielding stocks were in favour as the search for yield intensified. As a result, up to a third of all EUR sovereign debt or around $15 trillion have negative yields.

Source: Bloomberg

Looking ahead

In March 2020, the World Health Organisation declared the COVID-19 (CORONAVIRUS DISEASE 2019) outbreak to be a global pandemic. While it is difficult to estimate its full impact, we expect the transmission to be contained eventually with some negative economic impact. Governments and central banks are preparing for the worst cases in which COVID-19 intensifies in breadth and duration. The full extent of economic impact will be dependent on the duration of this outbreak, and severity of its transmission and containment. The longer it takes to contain the global pandemic, the greater the risk that an economic slowdown will increase further.

It is important to navigate the present challenges with flexibility to deliver steady returns. The upcoming US presidential election in November 2020 will likely be another source of uncertainty. This will likely be another transition year for the Chinese economy. We anticipate inflation to remain low in many parts of the world, reflecting the effect of government debt levels, low wages and digital disruption.

In the current environment of low interest rate and low-to-negative growth, seeking short-term investment returns can be most challenging. At Prudential, we 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 both risk managers and long-term stewards of policyholders' investments. Therefore, we have begun steps to incorporate an ESG framework into our investment decisions with better governance and accountability.

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

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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 2019 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

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