

YOUR
PARTICIPATING
FUND UPDATE
FOR 2019



INTRODUCTION

Thank you for choosing AIA to serve your financial needs and aspirations. We are pleased to inform you that AIA Singapore is projecting to pay out S\$527 million in participating fund bonuses for 2020. We will be maintaining the bonus and dividend rates for majority of policies at the same scale as the previous year, and revising the bonus and dividend rates for a small block of policies.

Bonuses or dividends allocated to your policy for the accounting period ending 31 December 2019 were recommended by the Appointed Actuary and approved by AIA Singapore's Board of Directors. Once declared, annual bonuses and dividends will be credited to your plan at the next policy anniversary. More information on the current year bonus and dividend rates including those for the previous three years will be included in your Participating Policy Annual Statement (PPAS). Your PPAS will be sent within two months of your policy anniversary.

In this Par Fund update, you will find key information on the performance of the Par Fund. We will also inform you about our asset allocation strategy, Par Fund performance and our views on the future outlook for bonuses and dividends. Through this update, we hope to provide you with a better understanding of the factors that impact bonuses and dividends for your participating policies.

AIA Singapore is committed to managing the long-term performance of our Par Fund for our policyholders. We are also focused on ensuring the security and solvency of the Par Fund and seek to maximise returns on the Par Fund's investments to provide stable benefits to our policyholders.

Review of 2019

As at 31 December 2019, the Par Fund held total assets at market value amounting to approximately S\$26 billion. The assets support the Singapore Dollar (S\$), US Dollar (US\$) and Australian Dollar (A\$) plans.

Key Statistics of the Par Fund at a glance (as at 31 December 2019)

Market Value of Total Assets	S\$25,918 million
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Investment returns

Net Investment Return S\$ Plans	9.5%
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Net Investment Return US\$ Plans	18.3%
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Net Investment Return A\$ Plans	4.3%
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Total benefits

Total amount of benefits paid in 2019	S\$1,047 million
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Value of Bonuses and Dividends declared	S\$527 million
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ASSET ALLOCATION AS AT 31 DECEMBER 2019

Asset Mix Of The Par Fund

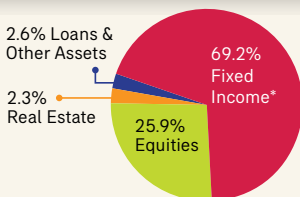
* Includes Preference Shares

2.6% Loans &
Other Assets

2.3% Real Estate

69.2%
Fixed
Income*

25.9%
Equities



Existing participating plans are denominated in one of three currencies: S\$, US\$ or A\$. AIA adopts a different asset allocation strategy for each policy group. The overall asset allocation by currency type is shown below.

Asset Mix Of The Par Fund By Currency

	As at 31 December 2019	As at 31 December 2018
S\$ participating plans		
Fixed Income	67.4%	65.8%
Equities	26.6%	27.8%
Real Estate	2.8%	3.1%
Loans and Others	3.2%	3.3%
US\$ participating plans		
Fixed Income	76.8%	78.6%
Equities	23.2%	21.4%
A\$ participating plans		
Fixed Income	100.0%	100.0%

INVESTMENT PERFORMANCE

After enduring a tumultuous 2018, 2019 is a year of strong recovery worldwide. All major asset classes delivered solid returns. Benefitting from a low starting point at the end of 2018, equities enjoyed a strong rally in 2019. Investors maintained a sense of caution on global uncertainty with safe haven assets (such as government bonds and gold) recording good performances. The catalyst of the rally is attributed to two key events. First, the ongoing US-China trade tensions and its impact on global economic growth; this remained the main source of uncertainty, as seen by the spike in volatility induced by the mid-year escalation in trade tensions and subsequently placated by the October announcement on the progress of the Phase One deal. Second, the change in stance on the monetary policy by global central banks which pivoted towards a looser policy with the aim of staving off an economic slowdown, made possible by subdued inflation. This provided the calming shot which sent both equities and bond yields alike to historical highs and lows respectively.

Sentiment in the equity markets was predominantly influenced by the US-China trade developments throughout the year. At the end of 2019, global equities (measured by MSCI World Index) delivered a total return of 28.4% (with dividends) in USD terms, underpinned by easing trade tensions and the accommodative monetary stance undertaken by the major central banks. Global and US equities rallied to new highs after the US and China announced that both were close to signing an interim trade deal, with S&P 500 Index delivering returns of 31.5% (with dividends) while Asia ex Japan equities delivered a decent return of 18.2% (with dividends). Within the Asia ex Japan region, Taiwan was the top performing market as the technology sector benefitted from rising expectations of 5G adoption. Malaysia was the worst performer and the only market that suffered a negative return. As bond yields declined, strong demand for yield assets lifted the Singapore REITs, with the FTSE Straits Times REIT index gaining 27.2% (with dividends) and significantly outperforming the Singapore equities market.

The escalation of US-China trade tensions, concerns on global growth and the ongoing uncertainty of "Brexit" led bond yields lower for most part of the year. Several central banks reacted by cutting interest rates over the course of the year while European Central Bank had also restarted asset purchases. The 10-year US Treasury ("UST") yield plunged 123 basis points to a year-to-date low of 1.46% in early September 2019 before retracing higher to end

the year at 1.92%, following optimism on a Phase One US-China trade deal and a decisive victory won by the UK Conservative Party to implement Brexit deal. In Singapore, government bond yields moved largely in tandem with UST yields which were relatively more volatile during the year. Benefitting from the favourable monetary and fiscal policies by major central banks worldwide, decreasing interest rates in 2019 has led to strong bond returns in 2019. In the longer-term, we are mindful that a prolonged low interest rate environment would depress future bond returns.

HISTORICAL INVESTMENT RETURNS BY PRODUCT GROUPS

The investment returns achieved over the past three years are as follows:

PRODUCT GROUPS										
S\$ Group	1	2	3	4	5	6	7	8	9	S\$ Overall
2017	11.1%	11.1%	10.5%	9.8%	7.7%	11.1%	11.0%	11.1%	10.4%	10.5%
2018	-1.0%	-1.0%	-0.5%	-0.3%	1.1%	-1.0%	-0.9%	-0.8%	-0.3%	-0.6%
2019	9.9%	9.9%	9.4%	8.8%	7.8%	9.9%	9.8%	9.2%	8.8%	9.5%

	US\$ Group 1	US\$ Group 2	US\$ Group 3	US\$ Group 4	US\$ Overall	A\$
2017	11.2%	13.1%	13.6%	12.8%	12.3%	3.9%
2018	-4.3%	-5.0%	-7.8%	-6.7%	-5.9%	3.3%
2019	17.4%	17.5%	19.3%	19.0%	18.3%	4.3%

Note: These figures are derived from net investment income, divided by the average market value of the total assets. Net investment income includes amongst others, rental income from land and buildings, less expenses. Past performance is not necessarily indicative of future performance.

Singapore Dollar Participating Plans By Product Groups:

Group 1	Group 3
<ul style="list-style-type: none"> AIA Gen3 series AIA Growth Special AIA Guaranteed 10/15 for Life series AIA Guaranteed Protect 15/20 series AIA Guaranteed Protect Plus Series AIA Life Plus series AIA Platinum Heritage II Limited Pay AIA Prime Secure Accumulator AIA Retirement Saver RP series AIA Smart Growth series AIA Smart Lifetime Rewards AIA Smart Pro Rewards AIA Smart Pro Saver AIA Smart Rewards Saver 21/25 series AIA Wealth Pro Advantage Growth Direct – AIA Whole Life Cover AIA Smart Wealth Builder RP series AIA Smart Flexi Rewards (Policy Term 16-25 years) 	<ul style="list-style-type: none"> All other S\$ Whole Life plans[#] AIA Smart Flexi Rewards (Policy Term 10-15 years)
	Group 4
	<ul style="list-style-type: none"> All other S\$ Endowment plans[^] AIA Dollars for Life AIA Participating Annuity plans (12 Yr Gtd Ben)
	Group 5
	<ul style="list-style-type: none"> AIA Endowment Select
	Group 6
	<ul style="list-style-type: none"> AIA Retirement Saver (I) SP
	Group 7
	<ul style="list-style-type: none"> AIA Retirement Saver (II) (SP) AIA Retirement Saver (III) (SP) AIA Platinum Gift for Life AIA Smart Wealth Builder (SP)
	Group 8
	<ul style="list-style-type: none"> S\$ Platinum Heritage II S\$ Platinum Heritage Premier
	Group 9
	<ul style="list-style-type: none"> S\$ Platinum Heritage Treasure
Group 2	
<ul style="list-style-type: none"> AIA Prime Life offered in 1991-1999 AIA EAS 2-year and 3-year limited pay savings at age 60 offered in 1997-1999 	

[#] Excluding S\$ Platinum Heritage plans.

[^] Excluding AIA Endowment Select, AIA Retirement Saver plans and AIA Platinum Gift for Life.

US Dollar Participating Plans By Product Groups:

Group 1	Group 2	Group 3	Group 4
<ul style="list-style-type: none"> US\$ Other plans inception prior to 1 November 2013 [^] 	<ul style="list-style-type: none"> US\$ Smart Pro Saver US\$ Other plans inception post 1 November 2013 [#] 	<ul style="list-style-type: none"> US\$ Platinum Heritage US\$ Platinum Heritage II US\$ Platinum Heritage Premier 	<ul style="list-style-type: none"> US\$ Platinum Heritage Treasure US\$ Platinum Heritage Wealth

[^] Excluding US\$ Smart Pro Saver and US\$ Platinum Heritage plans.

[#] Excluding US\$ Platinum Heritage plans.

The top 5 fixed income and equity holdings of the AIA Par Fund as at 31 December 2019 are as follows:

Top 5 Fixed Income Exposures	Issuer Rating (Moody's/S&P)
Singapore Government Securities	Aaa/AAA
Temasek Holdings	Aaa/AAA
Capitaland Limited ^{##}	NR/NR
Keppel Corp Ltd	NR/NR
DBS Group Holdings Ltd	Aa2/NR

^{##} includes all the entities within the Capitaland group.

Top 5 Equity Holdings	% of Total Equities
DBS Group Holdings Limited	4.5%
Oversea-Chinese Banking Corp Limited	3.9%
Alibaba Group Holding Ltd	3.4%
United Overseas Bank	3.2%
Tencent Holdings Ltd	3.0%

NON-INVESTMENT PERFORMANCE

Insurance claims and expenses were in line with our expectation in 2019. Short term fluctuations of non-investment performance are not expected to significantly affect future bonus.

Benefits Paid

The total amount of benefits paid to policyholders from the Par Fund amounted to S\$1,047 million in 2019.

	S\$ Million
Maturity and Coupons Benefits	412
Death, Total Permanent Disability and Critical Illness Claims	67
Surrender Claims	259
Cash Bonuses	306
Annuity Benefits	3
Total amount of benefits paid in 2019	1,047

TOTAL EXPENSE RATIO

The Total Expense Ratio is the proportion of total expenses incurred by the Participating Fund to the assets of the Participating Fund. The expenses incurred by the Participating Fund include investment, management, distribution, tax and other expenses.

The total expense ratio over the past three years are as follows:

Total Expense Ratio	
2017	1.6%
2018	1.7%
2019	1.7%

Note: Historical expense ratios may not be indicative of future expense ratios.

FUTURE OUTLOOK

A low interest rates environment and the concluded Phase One trade agreement between US and China would have set the stage for an improving growth outlook in 2020, before volatility picked up in late January. Fears over the prolonged impact of COVID-19 global outbreak significantly dampened the global economy outlook for the rest of the year while disrupting the global supply chain which is supported significantly by China. At the time of this commentary, there are over six million confirmed cases of COVID-19 with death toll surpassed quarter million mark globally. As the world struggles to contain the outbreak and slowly plans to re-open, it is hard to predict how the situation will develop and the consequent economic impact. However, in the near term, it is certain that there will be significant volatilities in the market and the drag on global economy growth will disproportionately impact certain industries and countries. As long-term stewards of AIA Singapore Par Fund, we are mindful that market volatilities are opportunities to further improve investment outcomes for you.

STABILITY FOR OUR POLICYHOLDERS

The bonus or dividend declared for a policy will depend on the performance of the plan it belongs to, based on past and projected future investment returns, and past and projected future experiences such as claims, surrenders and expenses of the plan. Any changes to the bonus or dividend rates for a plan will apply to all policies of that plan.

AIA tries to provide stable returns over the life of your participating policy, and so we adopt a concept known as smoothing. Simply put, we try to spread profits and losses over the life of your plan. For example, if the Par Fund performance is particularly good in one year, we may hold back a portion of the earnings so that we can maintain bonuses in years when the Par Fund does not perform so well. Overall, our aim is for the long-term cost of smoothing to be broadly neutral across generations of policyholders. If the future outlook of Par Fund performance continues to be unfavourable, it may be necessary to reduce the estimates of future bonuses accordingly.

FINDING OUT MORE ABOUT YOUR PARTICIPATING POLICY

If you would like to know how a participating fund operates in general, a copy of "Your Guide to Participating Policies" is available on AIA's website at AIA.COM.SG or you may request a copy from your AIA Financial Services Consultant/Insurance Representative.

You can also visit our website at www.aia.com.sg/parfundupdate for a list of "Frequently Asked Questions" on bonus and dividend rates.

Note: This commentary is intended for your general information only and does not have regard to your specific investment objectives, financial situation and particular needs of any persons. Any opinions, predictions, forecasts or forward-looking statements made are not necessarily indicative of future or likely performance. The above information is accurate as at 31 December 2019.

Policy Owners' Protection Scheme: The policies mentioned in this commentary are 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 GIA/LIA or SDIC web-sites (www.gia.org.sg or www.lia.org.sg or www.sdic.org.sg).

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