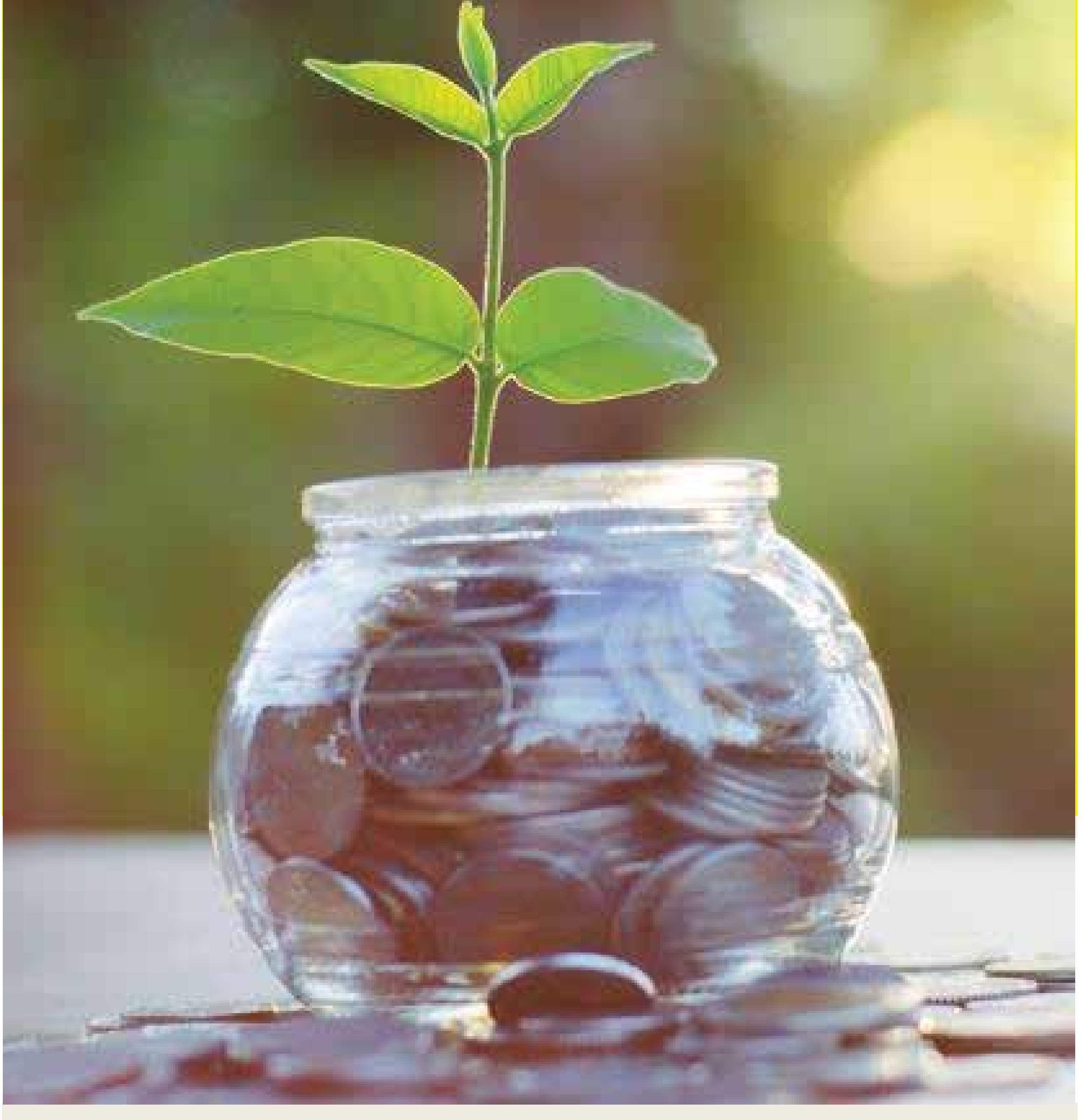
Annual Investor Report 2019-20

IN ULIP PRODUCTS THE INVESTMENT RISK IN THE INVESTMENT PORTFOLIO SHALL BE BORNE BY THE POLICY HOLDER

THE LINKED INSURANCE PRODUCTS DO NOT OFFER ANY LIQUIDITY DURING THE FIRST FIVE YEARS OF THE CONTRACT. THE POLICYHOLDER WILL NOT BE ABLE TO SURRENDER/WITHDRAW THE MONIES INVESTED IN LINKED INSURANCE PRODUCTS COMPLETELY OR PARTIALLY TILL THE END OF THE FIFTH YEAR.

Aviva Investor



Disclaimer/Disclosure

Aviva Life Insurance Company India Limited Aviva Towers ,Sector road,Opp.Golf Course, DLF Phase-V,Sector 43,Gurgoan,Haryana-122 003 Tel:+91(0)1242709000-01, Fax: +91(0)124 2571 214 Registered office:2nd Floor,Prakashdeep Building, 7,Tolstoy Marg, New Delhi -110 001

The global economy in 2019 was reeling under the pressure of US China trade war. But Indications of monetary easing by the global central banks assured the financial markets that measures being taken will arrest the slowing global economy. The US Federal Reserve reduced interest rate by 75bps during 2019 but as fiscal measures were lacking, the global economy growth slowed from 2.9% in 2018 to 2.3% in 2019. China reported 6.2% GDP growth in the quarter of Jun-19, lowest in 27 years. Nonetheless, financial markets rallied in the hopes of a resolution to the trade war.

In Jan-20, the US and China finally agreed to a truce for the trade war that started in Jan-18. This further boosted the equity markets leading to an all time high for US S&P 500 on Feb-20. UK's decision to leave the European Union (Brexit) finally materialised in Jan-20 after Boris Johnson won the hurriedly called election with some changes to the backstop at Northern Ireland. During the same time the rise of the covid-19 epidemic in China took the world by surprise. As the impact initially was only in China, the global economy chugged along keeping a watchful eye. But gradually the epidemic spread to most countries and continents in Feb-20 and this triggered a sharp fall in the risk assets globally. It was known to most, the debt fuelled global economic recovery was fragile, but the severity of the unravelling took the investors by surprise. Most equity indices corrected by 20-40% from their peak in Jan/Feb till Mar, marking the steepest fall in such a short duration.

But the Governments of major economies, having recognised the scale of the covid-19 problem, launched an unprecedented scale of monetary easing and fiscal stimulus. The co-ordinated measures were supported by US, Europe and Japan and the emerging markets. While global central banks have reduced interest rates further and have infused enormous liquidity globally, the governments have announced income transfers to the poor and support for the businesses to tide over this crisis. At a later date, when the covid-19 risk subsides, the governments will also unleash stimulus to boost the economic output.

The Indian economy though continued to languish with every sequential quarter posting lower GDP growth, 5% growth in real GDP in 1QFY20 and 2QFY20 and 4.7% in 3QFY20.

Now with Covid-19 impacting most of Mar-20, the growth in 4QFY20 may decline to c.4%. The credit growth slowed meaningfully as industrial credit growth was muted for bulk of the year and off-late retail segment also started slowing. The Year 2019 saw the BJP roaring back to power at the centre even after losing assembly elections in a few large states. The final tally at 300 seats in the Lok Sabha surprised many. But the charm of the regional parties ensured BJP was not part of the state governments in Maharashtra, Andhra Pradesh, Odhisa and Telangana all of which had elections in 2019.

To counter the slowdown in the economy, the Indian government took sweeping measures and slashed the corporate tax from 30% to 22% in Sep-19. The tax cuts globally act as a fiscal stimulus but also need to be supported by reforms. This improved the competitive positioning of India among its peers and the government hoped the private sector being the efficient allocator of capital will use the savings from tax to invest in capacity expansion and support job creation. But, the tax cuts impacted the tax collections of the government that were already under pressure due to a slowing economy. The consolidated fiscal deficit is already c.10% of the GDP and this limits the ability of the government to undertake an expansion program for the economy.

India too has suffered from the covid-19 epidemic and the number of cases are slowly inching up. Hence, the government of India with the support of various state governments enforced a lockdown throughout the country. Unfortunately, it will impact the economic output too, hurting the earnings of the large portion of the population. The Nifty Index declined 34% from its peak in Jan 2020. Generally such corrections provide good opportunities for investments. Traditionally the equity markets have rewarded patience and consistency. Given that valuations have corrected to around 1 standard deviation below its long term mean, Nifty Index offers a good opportunity though short term volatility can persist for few more months.

Equity Markets

The Nifty index declined 26% in FY20, and stands at the bottom quartile, among the 35 global equity indices. The mid and small cap indices declined 35% and 46% respectively, underperforming the Nifty Index again. All the sectors closed in red in FY20, with FMCG, IT and Pharma declining the least whereas PSU banks, metals and auto declined the most. The primary market was robust with 62% growth in amount raised, led by IPO worth Rs210bn and QIP worth Rs512bn. The inflows in India equities by domestic institutional investors in 2019 stood at $10bn whereas foreigners withdrew $6bn. Most emerging markets in 2019 saw an outflow of foreign funds.

Portfolio positioning and Risk Management

The focus of the portfolio was towards large cap stocks, and the exposure to mid and small caps continued to remain limited for most part of the year. The key overweight sectors during the year were corporate banks and telecom. Underweight stance in Oil and Gas PSUs aided performance during the year. During the first half of the year, the funds were underweight in consumption and consumer durables such as Autos, given the slowdown in the economy. However, after the stimulus in terms of corporate tax cuts and good monsoons, the stance was changed to overweight during the second half of the year. Towards the end of the year, a steep correction in the Indian markets, led by the Covid-19 epidemic impacted performance.

Robust risk management practices are followed in portfolio positioning and performance analysis. Portfolio performance and positioning is frequently monitored using attribution analysis. The investment policy sets maximum limits on exposure to Mid/small caps stocks in the portfolio which limits risk to the portfolio to acceptable levels. Any divergence from such limits and deviation in performance is highlighted to the fund manager who has to take corrective actions.

Fixed Income Markets

Fixed Income markets saw another year of gains as Gsec yields fell across the curve due to the combined effect of low growth-low inflation in the economy. 10Y Gsec Benchmark yield fell from 7.50% in the beginning of the year to 6.14% at the end of the year. This year, RBI supported the fixed income markets by cutting policy rates by 210 bps and adopting a variety of unconventional monetary policy tools to aid monetary transmission and improve credit flow to various sectors of the economy. The gain in Gsec market was however compensated to some extent by the huge rise in corporate downgrades and defaults where various large corporate groups got downgraded and some even defaulted. This brought with increased risk aversion and rise in corporate spreads with Bank credit growth YoY falling to 6.50%, or decadal lows. At the end of the year, we witnessed another big crisis in the form of a Global Pandemic Covid-19 and it is expected to further worsen the credit crisis and growth of the country. With very limited space on the fiscal side to boost the economy, it remains to be seen how Covid-19 will affect the economic growth of our country and how the monetary policy response will help support any economic stimulus. We expect the government securities to do relatively better as an asset class for the next year.

Portfolio Positioning: Duration Strategy and Risk Management

We were actively monitoring the incoming economic data and consequently, an overweight position on duration was adopted with respect to benchmark for H1FY20 as we believed that the low growth-low inflation dynamic was set to cause a big rally in the Gsec markets. However, we were faced with certain defaults in our HFC/NBFC credits which were affected badly in the liquidity crisis post the IL&FS default. We expect certain recoveries in these defaulted exposures, however, due to the impending Covid-19, the outlook of recoveries has also somewhat weakened. New credit risks in the portfolios have been monitored with utmost attention and addition of new credit exposures have been made after a thorough analysis and due diligence process. Existing credits are being monitored regularly for any developments that could be beneficial or detrimental to the standing of the particular entity. With regards to duration and asset allocation, we are still overweight on duration as we believe the Covid-19 crisis will cause further rally in the fixed income markets and especially in government securities versus corporate credits.

Disclaimer

Benchmark Indices Provided by CRISIL

The composite indices are computed based on notional Asset allocation (weights for sub indices) provided by Aviva from time to time. Such weights for the sub indices would impact the return of the composite index. CRISIL does not take responsibility of variations in the returns due to such changes in weights for sub indices. CRISIL Indices are the sole property of CRISIL Limited (CRISIL) indices shall not be copied, retransmitted or redistributed in any manner for any commercial use. CRISIL has taken due care and caution in computation of indices, based on data obtained for any errors or for the results obtained from the use of the Indices. CRISIL especially states that it has no financial liability whatsoever to the users of CRISIL indices.

For more details, call now on the toll-free number **1800-103-7766** | For non-MTNL/BSNL users the number is **0124-2709046**

(Monday to Saturday, 8 a.m. to 8 p.m.)

Disclaimer

CAGR- Compounded Annualised Growth Rate

“For more details on risk factors, terms and conditions, please read sales brochures carefully before concluding a sale. Tax benefits are as per applicable tax laws which are subject to change. Unit linked Life Insurance products are different from traditional insurance products and are subject to risk factors. The premium paid in unit-linked life insurance policies are subject to investment risks associated with capital markets and the NAVs of the units may go up or down based on the performance of the fund and factors influencing the capital market. The insured is responsible for his/her decisions. Aviva Life Insurance Company India Limited is only the name of the Insurance Company and the various funds offered under this contract are the names of the unit linked life insurance contract and do not in any way indicate the quality of the contract, its future prospects or returns. Please know the associated risks and the applicable charges, from your sales representative or the Intermediary or policy document issued by the insurance company. The premiums and funds are subject to certain charges related to the fund or to the premium paid and there is a possibility of increase in charges. The various funds offered under this contract are the names of the funds and do not in any way indicate the quality of these plans, their future prospects and returns. Unit-linked funds are subject to market risks and there is no assurance or guarantee that the objective of the investment fund will be achieved. Past performance of the investment funds is not indicative of future returns. Investors in the scheme are not being offered any guaranteed/ assured results.”

BEWARE OF SPURIOUS / FRAUD PHONE CALLS!
IRDAI is not involved in activities like selling insurance policies, announcing bonus or investment of premiums. Public receiving such phone calls are requested to lodge a police complaint.

CIN: U66010DL2000PLC107880
customerservices@avivaindia.com

Advt. No. Apr 06/20 IRDAI Registration Number: 122

Aviva Life Insurance Company India Limited
Aviva Tower, Sector Road, Opp. Golf Course, Sector 43, Gurgaon, Haryana -122 003
Tel: +91(0) 124 270 9000-01, Fax: +91(0) 124 257 1214

AVIVA Life Insurance
A Joint Venture between Dabur Invest Corp and Aviva International Holdings Limited

www.avivaindia.com

Registered Office: 2nd Floor, Prakashdeep Building, 7 Tolstoy Marg, New Delhi - 110 001