Dimensions Savings
Investment Series

General information of Dimensions

Understanding your
dimensions policy

Table of Contents

This document aims to give you general information about how the policies of Dimensions Savings Investment Series (“Dimensions policy / policies”) work and the approach we take to manage it.

What is a Dimensions policy?

A Dimensions policy is designed to provide both life insurance protection and growth potential for savings through a combination of guaranteed and non-guaranteed benefits. On top of it, it offers you growth potential through a wide range of investment options available.

Premiums of your Dimensions policy will be pooled together with the premiums from owners of other policies in one of our participating funds. We will invest and manage the participating fund in a wide range of assets, including bonds, equities, etc. Your policy will then entitle you to a share of this participating fund.

We pay your share in the form of guaranteed benefits and non-guaranteed benefits. The death benefit, the cash endowments and the cash value of your policy are guaranteed. Then in each year, we may declare annual dividend. Finally, upon termination, you may also receive a special investment bonus. The amounts we pay you as annual dividend and special investment bonus will depend on the performance of the participating fund.

Once the guaranteed cash endowment and the non-guaranteed annual dividend are declared to your policy, you can invest the sum in the investment options of your choice. We offer a variety of investment options for you to choose from. The amounts invested in these investment options are separated from the participating fund.

In this document, we are going to talk about how we manage the participating fund only. If you wish to understand more on the available investment options, you are always welcome to refer to your financial consultant.

What are the guarantees and what are not?

Guarantees

The guarantees of your policy are those benefits we promise to pay regardless of how the participating fund performs. They include the death benefit, the cash endowments and the cash value. You can refer to your policy contract for more details.

Non-guarantees

In contrast with the guarantees, we may also pay benefits which are not guaranteed. The non-guaranteed benefits are:

Annual dividend

Annual dividend may be declared to a policy on an annual basis. Once declared, the amount will be invested in the investment options you selected. While it is our aim to add annual dividend to your policy every year, there may be circumstances under which we decide not to declare any in some particular years.

Special investment bonus

When your policy terminates, we expect to pay you an additional benefit called the special investment bonus, such that you can receive your fair share of the participating fund. However, if the sum of your guarantees exceeds your fair share, we may not pay the special investment bonus.

Besides, your Dimensions policy lets you invest your cash endowments and declared annual dividends in a wide range of investment options of your choice. While the performance of the investment options is also non-guaranteed, it mainly depends on the performance of the reference funds of the corresponding investment options. Please refer to the offering documents of the reference funds for more information.

How does a participating fund of a Dimensions policy work?

The premiums from you and the owners of participating policies pooled together will form a participating fund. The value of your policy will then depend on the value of the assets invested. We call it the “asset share”, and it is an important reference to help us determine your fair share.

What is an asset share?

The asset share depends on factors including the premiums received, actual investment returns made from the participating fund net of investment expenses, deductions for the management of the participating policies, and amounts for profit sharing with us. It tells us how much your share of the fund has earned. We will then determine the appropriate non-guaranteed benefits, so that you can get your fair share from the participating fund.

What are the deductions?

We make some deductions from the participating fund to pay for costs and expenses. These include costs of providing you with benefits and guarantees, as well as management fee and other costs of running the business, for example, distribution costs, policy administration expenses, servicing costs, relevant taxes and office rent.

How does profit sharing work?

We have an interest in the participating fund and share part of the profit of the participating fund. This will be described in more detail when we talk about our dividend philosophy afterwards.

What are our investment objective and strategy of the participating fund?

Investment objective

The overall objective of investing the participating fund is to ensure that the guarantees we committed to the policies are met, while seeking competitive and stable returns over a medium to long term.

Investment strategy

We employ a rigorous and disciplined approach in determining strategic asset allocations which defines the nature of assets and how much we invest in. We monitor market positions carefully and frequently, and update our allocations when appropriate. In addition, we may complement our investment strategies with the use of derivatives and other financial agreements to manage liquidity and achieve an efficient and effective risk management.

Investment strategies may vary across plans depending on their features, as well as their levels of guarantees and required stability of returns. Generally, plans with higher guarantees would have a larger portion of investments invested in more stable assets, such as bonds, and plans with lower guarantees may generally include a slightly higher allocation to other assets such as equities.

From time to time we will review the investment strategies and asset allocations, and will modify them if necessary. We aim to ensure all guarantees are met while maintaining non-guaranteed return potential. We also assess factors such as risk tolerance, changes in market conditions and economic outlook in order to maintain an optimal portfolio for the plans.

What are our investment objective and strategy of the participating fund? (cont'd)

Selection of assets

We maintain a robust asset portfolio for the participating funds by investing in a wide range of investments, primarily with exposure to the U.S. and Asia (including Hong Kong and China). Generally, we aim to match the currency of the investments and the underlying policy currency denomination to the extent appropriate investments are available and acceptable. However, taking into consideration the aforementioned market constraints, we also invest in assets that are not denominated in the same currency as the underlying policies ("currency mismatch"). In such case, we may consider using derivatives to hedge the currency risk, and more broadly to ensure a proper matching between the assets and the policies. Overall, we target to limit the extent of currency mismatch, except for some specific strategies where it may bring additional returns or be a source of diversification. We also aim at maintaining adequate liquidity with respect to the policies and an appropriate level of risk diversification.

Asset allocations

You can find the current target asset allocations below:

Asset	Allocation*
Government bonds, corporate bonds and other similar instruments	70%
Growth assets	30%

* There may be some holdings in cash. In addition, we may accept certain degree of deviation from the above targets in order to manage the portfolio efficiently.

How do we decide your non-guaranteed benefits?

When deciding the non-guaranteed benefits, we may group your policy with similar participating policies, based on various characteristics which may include the plan structure, currency and issue date, and consider them as a whole. The group may also include policies other than the Dimensions policies. This allows us to have a larger sum of money and invest with more flexibility. At the same time, you can share the profits and losses with the owners of other policies.

We closely monitor the participating fund and review the non-guaranteed benefits at least annually. The more assets allocated in the growth assets (e.g. equity), the more frequent we may adjust them. We may consider not adjusting the non-guaranteed benefits at all, but we may also adjust them once, twice or even more in a particular year if we consider this necessary to be fair to all policy owners.

During each review, we look at the following to decide the non-guaranteed benefits to be paid:

a) the asset share;

b) both the current and the expected future amount of guarantees; and

c) the returns we expect the participating fund to earn in the future.

We may adjust the annual dividend and the special investment bonus differently because of their different nature. They are paid from the same participating fund, so increasing the payout of one of them may mean a reduction on another.

Your Dimensions policy is designed to be held for long term. When we determine the fair share, and thus your non-guaranteed benefits, we also take into account the policy duration, and they are adjusted downward in the early policy years to reflect this.

How do we decide your non-guaranteed benefits? (cont'd)

Annual dividend

When we review the annual dividend, we mainly look at the return we expect the participating fund to earn in the future, as well as the ability to provide you with stable annual dividend.

To provide you with stable annual dividend, we may hold back some of the returns and carefully control the level of the annual dividend to be declared each year. Normally we will not distribute all the gains or losses through annual dividend in a single year. There may also be times that we decide not to declare any annual dividend.

While the stability of the payouts is one of our main concerns in deciding the amount of annual dividends to pay, rest assured that you can still get your fair share from the participating fund because we will adjust the payout to you through the special investment bonus.

Special investment bonus

When we decide the amount of special investment bonus to pay, we make reference to mainly the asset share and apply smoothing to work out the fair payout that we should pay. We then compare this against the sum of the guarantees to determine the special investment bonus. If the sum of the guarantees is greater than the fair payout you should receive, we may not pay any special investment bonus.

Compared to the annual dividend, the special investment bonus will be more sensitive to the past performance of the participating fund.

What are our philosophy and governance when managing the participating business and setting payouts?

When managing your Dimensions policy, we handle with care and discipline. We bear in mind the following key considerations:

a) fairness to policy owners;

b) policy owners' reasonable expectation; and

c) long-term sustainability of non-guaranteed benefits.

It is also part of our aim to provide you with stable payouts. While the asset prices may go up and down every day, we will try to even out some of the short-term fluctuations in the value of the participating fund.

At the policy issuance, we determine our share of profit, and will receive it from the participating fund regularly. After we determine our share of profit, we aim to share with you the gain and loss from investment of the participating fund. If the actual amount we can distribute as non-guaranteed benefits is more than the amount illustrated at the time of policy issuance, you may receive 80% of the excess and the remaining 20% will be ours.

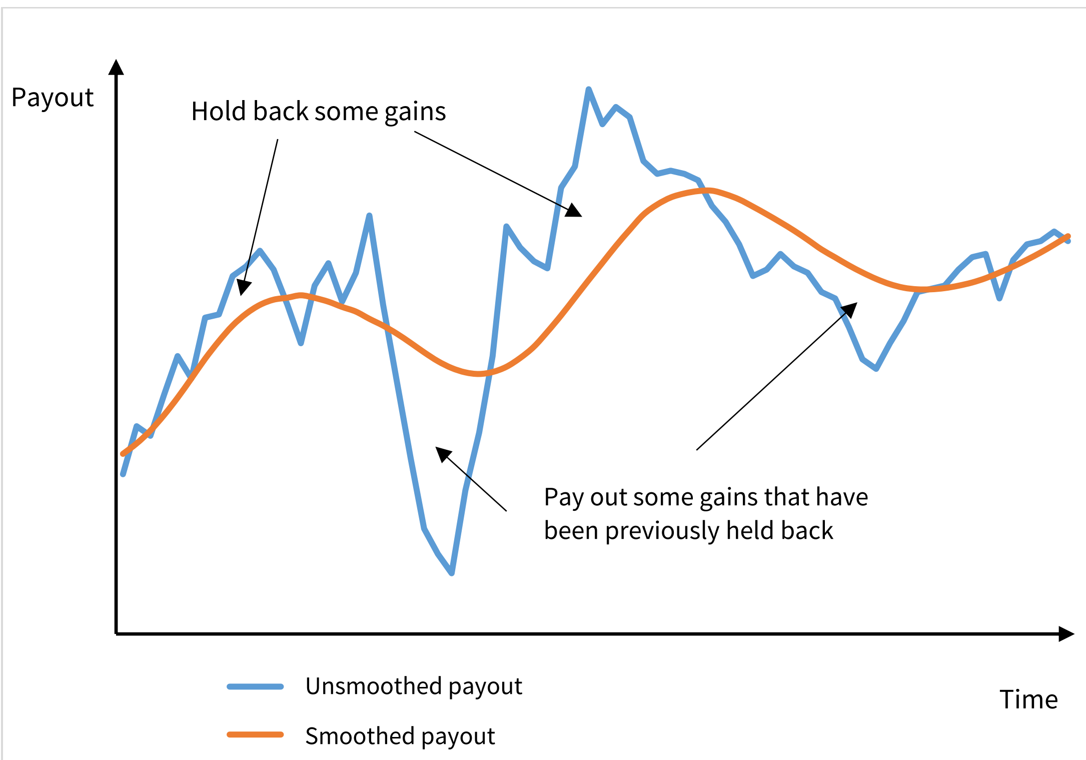
With all these in mind, our appointed actuary conducts a detailed analysis of the participating business and makes recommendation of the non-guaranteed benefits to be declared at least annually. To further safeguard your interest, we have designated committees to review and scrutinise the recommendation. Our board of directors will then make the decision taking into account the appointed actuary's recommendation. Through this robust framework of governance, we ensure a fair balance of interests of the policy owners and shareholders in every decision we make.

The board of directors may delegate the authority to designated committees to ensure efficient management of the business.

What is smoothing?

Smoothing is a process by which your payouts can remain stable against some short-term fluctuations in the returns on the participating fund. If there is no smoothing, your payouts may go up and down every day, because the asset prices keep changing and the asset share will fluctuate.

We can hold back some short-term fluctuations and provide you with stable payouts. Instead of immediately adjusting the non-guaranteed benefits upon the asset share changes, we may choose to keep them unchanged or make a milder adjustment in order to reduce any significant fluctuation in the value of your policy.



Note: This graph is not representative of any particular plan or time period. It is not drawn to scale neither. Its sole aim is only to explain how smoothing works. If the actual performance happens to be the same as in the graph, we may not perform smoothing in the same way as presented in the graph.

What is smoothing? (cont'd)

We aim to apply smoothing to the extent that there is no net gain or loss from smoothing over time. Therefore, the accumulated gain or loss from smoothing in the past may also change our ability to smooth the payouts in the future. For example, if we have already held up some gains from smoothing, we will be able to protect you against a deeper drop in the investment of the participating fund.

As another example, if the asset value changes sharply, or there is large outflow from the participating fund, the net gain or loss from the smoothing in the past may not be sufficient to offset the change. In this case, we may also reduce or even stop smoothing. We may decide to do so to protect the interest of the owners of other policies who are still participating in the fund.

We may also apply different levels of smoothing for different causes of payouts, e.g. the death of the insured, policy surrender and maturity.

What will affect your non-guaranteed benefits?

We consider the past performance and future outlook of these factors when determining your non-guaranteed benefits and they may significantly affect them.

<u>Investment return of the participating fund</u>

A number of factors may change the return of your investment. In particular, you should pay attention to the following:

Interest income factors: If interest rates change, future interest earnings will be affected.

Market risk factors: The investment performance will also be affected by changes in financial markets and economic conditions. These may result from risks or changes in factors such as:

- interest rates
  If interest rates change, the value of some assets, e.g. bonds, will also be changed. In general, this will have a greater effect on assets with longer term to maturity.
- currency risk
  If the assets are not denominated in the same currency as the policies, any change in the foreign exchange rates will change the value of the assets measured in this currency and affect the investment performance.
- liquidity risk
  Liquidity risk is the risk that securities or assets cannot be traded rapidly or have to be traded at a loss in a short period of time.
- credit / default risk
  Credit / default risk is a risk where companies or individuals may be unable to make payments on their debt obligations, leading to losses in principal and interest / coupons for investors.

What will affect your non-guaranteed benefits? (cont'd)

- volatility risk

  The values of assets are subject to price fluctuations. There is no assurance of value appreciation, and prices of assets may increase or decrease over time, sometimes quite significantly.
- and also general investment conditions.

If the past investment performance or future investment outlook is less favourable, your non-guaranteed benefits may be reduced.

The non-guaranteed benefits you are going to receive will also depend on:

Smoothing

The non-guaranteed benefits you receive may not immediately reflect the ups and downs in the asset share because of smoothing. We will try to even out some of the short-term fluctuations so that your payouts can remain stable. However, the extent of smoothing depends on the size of the fluctuations and also the profit and loss from smoothing in the past. There may be circumstances we do not apply any smoothing as well.

Pooling of policies

As said earlier, your policy will be grouped together with other similar policies. When we review the non-guaranteed benefits, we will consider all policies participating in the same participating fund as a whole. As the deductions may vary among policies depending on policy characteristics including insureds' age, gender, etc., the value of the participating fund and hence your non-guaranteed benefits may change if the characteristics of policies in your group change.

Glossary

Asset allocation(s)

Asset allocation is the activity of defining the investment strategy of a portfolio by selecting the amount of investment into different asset types so as to strike a balance between diversification of risks, investment return goals and investment time frame.

Bonds

Bonds are securities under which the issuer owes the holders a debt and is generally obliged to pay interest and / or to repay the principal at a specified date.

Derivatives

Derivatives are instruments of which the prices are dependent on or derived from the value of underlying assets. Examples of some common derivatives are forwards, futures, options, swaps, etc.

Equity(ies)

Equity is a type of security that indicates ownership in a corporation and represents a claim, generally residual after discharge of all senior claims, on the corporation's assets and earnings.

Growth assets

This includes a variety of securities that are of similar nature as equity. Some examples are public equities, private equities, hedge funds and investment in real estates.

Hedging

Hedging is an investment strategy intended to manage and mitigate financial risks.

安盛

Dimensions Savings Investment Series
Understanding Your Dimensions Policy

Hong Kong

Tel : (852) 2802 2812
Fax : (852) 2598 7623

www.axa.com.hk

Macau

Tel : (853) 8799 2812
Fax : (853) 2878 0022

www.axa.com.mo