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Life protection and savings  
Wealth Ultra Savings Plan

# General information of participating policy

Participating policy fact sheet

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This fact sheet aims to give you general information about how the participating life insurance policies (“participating policy / policies”) of Wealth Ultra Savings Plan and Wealth Ultra Savings Plan (2-year pay), collectively referred to as “Wealth Ultra” in this fact sheet, work and the approach we take to manage it.

## What is a participating policy?

A participating policy is designed to provide both life insurance protection and growth potential for savings through a combination of:

- a) guaranteed benefits, such as guaranteed cash value and guaranteed death benefit; and
- b) non-guaranteed benefits, in the form of regular bonus, interest and / or final bonus.

Premiums of your participating 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. Your policy has certain benefits that are guaranteed, such as the death benefit or the cash value (if applicable). Then in each year, the value of your policy may gradually increase with regular bonus. If Bonus Lock-in Option is exercised, the value of the bonus lock-in account may gradually increase with any interest credited. Finally, upon termination, you may also receive a final bonus. The amounts we pay you as regular bonus, interest and final bonus will depend on the performance of the participating fund.

The value of the participating fund may go up and down sharply within days. Instead of sharing with you the profits or losses immediately, we may even out some short-term fluctuations. This is called smoothing and we will explain it further in a later section.

# 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. It can be in the form of the death benefit, the cash value and / or other benefits. You can refer to the product brochure and 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 include:

### Regular bonus

Regular bonus means the “reversionary bonus” in your policy. It may be declared to a policy on an annual basis. Once declared, the face value (for the reversionary bonus) will be guaranteed and we will not withdraw it. While it is our aim to add the regular bonus to your policy every year, there may be circumstances under which we decide not to declare any regular bonus in some particular years.

### Final bonus

Final bonus means the “terminal bonus” in your policy. When your policy terminates, we expect to pay you an additional bonus, such that you can receive your fair share of the participating fund. However, if the sum of your guarantees, regular bonus and the value of bonus lock-in account exceeds your fair share, we may not pay the final bonus.

### Interest on Bonus Lock-in Account

Starting from the 25<sup>th</sup> Policy Anniversary, you may choose to exercise Bonus Lock-in Option to transfer a portion of your policy’s cash value of non-guaranteed bonuses into the bonus lock-in account. We may pay interest on the bonus lock-in account. The interest rate is non-guaranteed and may change anytime, but once we pay the interest to your bonus lock-in account, the interest amounts will be guaranteed.

# How does a participating policy work?

The premiums from you and the owners of other policies pooled together will form a participating fund and will be invested. 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 is an accumulation of the premiums received and actual investment returns, net of investment expenses, deductions for the management of the participating policies and amounts for profit sharing with us.

The asset share tells us how much your share of the fund has earned. We will then determine the appropriate bonuses and interest, 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 policy benefits (including but not limited to surrender benefits, insurance benefits and guarantees), expenses (for example, distribution costs, policy administration expenses, servicing costs, relevant taxes and office rent), as well as charges that cover profits and other costs for operating this participating fund.

## **How does profit sharing work?**

We have an interest in the participating fund and share the surplus of the participating fund. The surplus of the participating fund after the deductions will be shared between you (and owners of other policies) and us through profit sharing. We aim to allocate 90% of the surplus to you, while 10% will become another part of our profits. We will receive our share when we declare and/or pay bonuses and interest to your policy and when you exercise the Bonus Lock-in Option.

# What are our investment objective and strategy?

## 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, achieve an efficient portfolio management and effective risk management or pre-invest partially or fully expected future premiums to reduce the uncertainty of future investment earnings.

Investment strategies may vary across plans depending on their features, as well as their levels of guarantees and required stability of returns. For Wealth Ultra, the strategic asset allocation will be determined dynamically over a wider range, and with reference to factors including but not limited to the prevailing market condition and surplus of the fund. 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 relatively 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 total return potential for the non-guaranteed bonuses. We also aim to generate stable income to fund the non-guaranteed interest rate of the bonus lock-in account. In this context, we 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? (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 Mainland China). Generally, we aim to match the currency of fixed income 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. Some specific strategies may embed a currency mismatch as 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.

# What are our investment objective and strategy? (cont'd)

## Asset allocations

You can find the current target asset allocations below:

(a) asset share (excluding the bonus lock-in account)

| Asset Class <sup>^</sup>   | Allocation*   |
|--|---|
| <b>Government bonds, corporate bonds and other similar instruments</b> | 30% - 85%   |
| <b>Growth assets</b>   | 15% - 70%<br>(primarily Hong Kong and emerging market equities) |

<sup>^</sup> The bond assets allocation includes sub-asset classes like (i) developed market investment-grade corporate bonds, (ii) emerging market investment-grade bonds, (iii) high yield bonds and (iv) developed market government bonds. The growth assets allocation includes sub-asset classes like (a) listed equities and (b) private equities, and may include (c) real estate and (d) hedge funds.

(b) asset share of the bonus lock-in account

| Asset Class <sup>#</sup>   | Allocation* |
|--|-------------|
| <b>Government bonds, corporate bonds and other similar instruments</b> | 100%        |

<sup>#</sup> The bond assets allocation includes sub-asset classes like (i) developed market investment-grade corporate bonds and (ii) developed market government bonds.

\* The total actual allocation will be equal to 100%, and there may be some holdings in cash. In addition, we may accept certain degree of deviation from the above targets across asset classes in order to manage the portfolio efficiently or to optimise the portfolio based on the prevailing market condition and views.

## How do we decide your bonuses and interest?

When deciding the bonuses and interest, we group your policy with other similar policies, based on various characteristics which may include the plan structure, currency and issue date, and consider them as a whole. 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 bonuses and interest at least annually. The more assets allocated in the growth assets (e.g. equity), the more frequent we may adjust the bonuses. We may consider not adjusting the bonuses and interest at all, but we may also adjust the bonuses and interest 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 bonuses and interest 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 regular bonus, interest and final bonus differently because of their different nature.

Your participating policy is designed to be held for long term. When we determine the fair share, and thus your bonuses, 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 bonuses and interest? (cont'd)

### **Regular bonus**

When we review the regular bonus, 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 regular bonus.

The addition of the regular bonus to your policy will increase the guarantees we promise to pay you, but may at the same time reduce the flexibility given to us in capturing attractive investment opportunities. If too much regular bonus is added, we may need to invest in relatively stable assets like bonds, and give up the opportunity to invest in more aggressive assets like equities that may potentially give you higher return.

In addition, it is also our aim to provide you with stable regular bonus every year.

Therefore, we may hold back some of the returns and carefully control the level of the regular bonus to be declared each year. Normally we will not distribute all the profits or losses through regular bonus in a single year. There may also be times that we decide not to declare any regular bonus.

### **Interest rate on the Bonus Lock-in Account**

When we determine the interest rate, we will look at:

- (i) total level of guarantees that we have offered as compared to the asset share;
- (ii) the past investment performance on asset share of the bonus lock-in account; and
- (iii) the future investment outlook on the asset share of the bonus lock-in account

## **How do we decide your bonuses and interest? (cont'd)**

Besides looking at these, we may also apply smoothing and make reference to the interest rates in the market.

While the stability of the payouts is one of our main concerns in deciding the amount of regular bonus and interest 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 final bonus.

### **Final bonus**

When we decide the amount of final 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, the regular bonus and the value of bonus lock-in account to determine the final bonus. If the sum of the guarantees, the regular bonus and the value of bonus lock-in account is greater than the fair payout you should receive, we may not pay any final bonus.

Compared to the regular bonus and interest, the final 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 participating 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 bonuses and interest.

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 your investment.

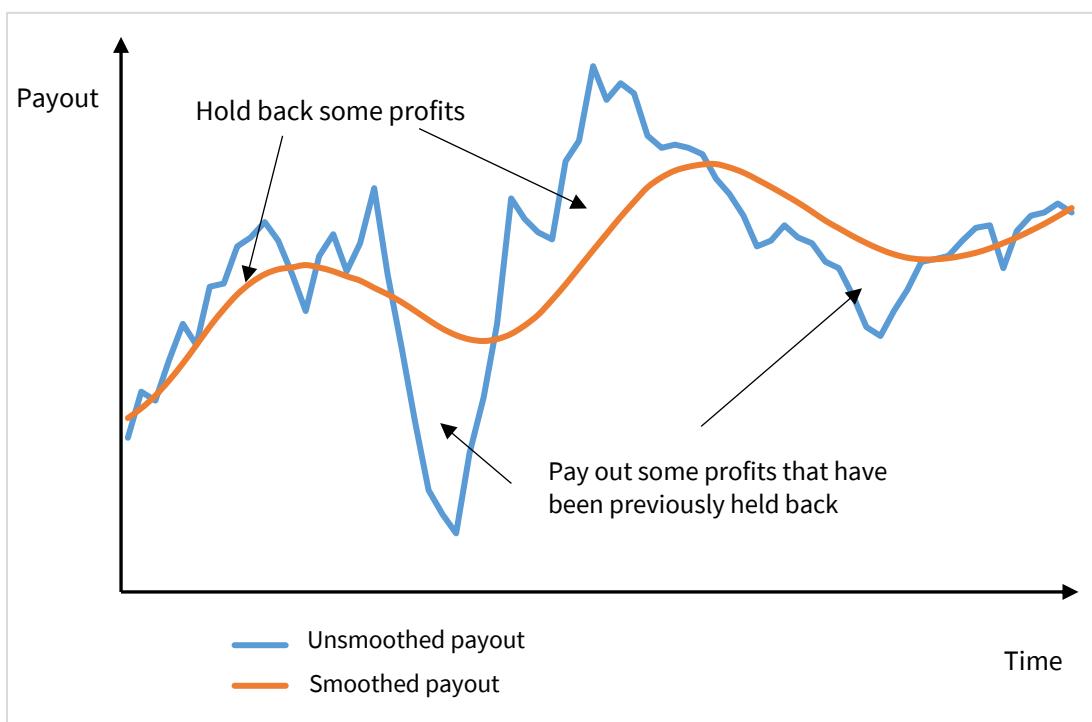
With all these in mind, our appointed actuary conducts a detailed analysis of the participating business and makes recommendation of the bonuses and interest to be declared at least annually. To further safeguard your interest, we have designated committees to independently review and scrutinise the recommendation. Our board of directors will then make the decision taking into account the appointed actuary's recommendation, with written declaration by the chairman of the board, at least one independent non-executive director and the appointed actuary that appropriate measures have been taken to manage potential conflicts of interest between its duty to policyholders and its duty to shareholders, particularly in relation to the declaration of bonuses and interest for policyholders.

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 bonuses and interest 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 either. 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 profit or loss from smoothing over time. Therefore, the accumulated profit 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 profits from smoothing, we will be able to protect you against a deeper drop in the investment.

As another example, if the asset value changes sharply, or there is large outflow from the participating fund, the net profit 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. exercise of Bonus Lock-in Option, the death of the insured, policy surrender and maturity.

# What will affect your bonuses and interest?

We consider the past performance and future outlook of these factors when determining your bonuses and interest and they may significantly affect your bonuses and interest.

## Investment return

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 bonuses and interest? (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 bonuses and interest may be reduced.

### Claims

These include the cost of providing death benefit and other insurance benefits under the participating life insurance plans. If the amount of benefit claims turns out to be higher, your bonuses and interest will be lower.

### Policy persistency

If Flexi Premium Option is exercised (if applicable), or policies lapse / are surrendered (whether in full or partially), profits or losses arise when the benefits paid out differ from the asset share of the terminated policies. Such profits or losses will be added to the asset share of the remaining policies.

### Exercising the Bonus Lock-in Option

Your bonuses and interest may be affected if any policyholder exercises the Bonus Lock-in Option and the bonus lock-in amount differs from the corresponding portion of the asset share after deduction of the profit sharing.

## What will affect your bonuses and interest? (cont'd)

The bonuses and interest you are going to receive will also depend on:

### **Smoothing**

The bonuses and interest 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 bonuses and interest, 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 bonuses and interest 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.

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