INVESTMENT APPROACH

HEALTHIER, LONGER, BETTER LIVES

Investment Objectives

The Company's primary investment principle is to achieve optimal levels of risk-adjusted return for policyholders and shareholders over the long-term while:

i) preserving capital;
ii) maintaining adequate solvency and liquidity levels;
iii) remaining in line with our risk management and asset-liability management objectives; and
iv) ensuring full compliance with applicable regulations and internal policies.

The Company aims to produce stable and sustainable income and returns, mainly through investments in long duration fixed income instruments. The Company also invests a portion of its portfolio in other asset classes, such as public equities, private equities and real estate as part of our strategic asset allocation process to generate sustainable long-term returns.

Based on the current business results and projections for the future, we expect our solvency and liquidity position to continue to remain healthy unless there are changes to the overall macro environment.

Below is a breakdown of our portfolio by asset type as at 31 December 2023 and the composition of our investment returns (includes investment income, realized and unrealized gains and losses).

	Life Funds (S$'m)*	Oversea Branch Insurance Operations (S$'m)	General Fund (S$'m)	Shareholders' Fund (S$'m)	Total (S$'m)
Investment Portfolio					
TYPE OF ASSET					
Equity securities	17,321	201	-	4	17,526
- Listed equity securities other than CIS	2,140	32	-	-	2,172
- Unlisted CIS	14,380	164	-	-	14,544
- Listed CIS	634	5	-	-	639
- Unlisted equity securities other than CIS	167	-	-	4	171
Debt securities	32,820	466	30	29	33,345
- Government debt securities	12,425	180	15	27	12,647
- Qualifying debt securities	18,590	265	8	2	18,865
- Other debt securities	1,805	21	7	-	1,833
Others	2,055	23	-	1	2,079
	52,196	**690**	**30**	**34**	**52,950**
Investment Returns#					
SOURCE OF RETURNS					
Equity securities	1,140	-	-	(4)	1,136
Debt securities	1,857	35	2	1	1,895
Others	153	-	-	(2)	151
	3,150	**35**	**2**	**(5)**	**3,182**

* Life Funds include Investment Linked Funds
\# Includes investment income, realized and unrealized changes due to market movements and FX

Policies and Processes

The Board bears the ultimate responsibility for the formulation, approval and establishment of the asset-liability management and corporate investment policy of the Company. The Company's Investment Committee (IC) is a management committee which the Board has delegated the authority to manage, maintain and monitor the investment assets of the insurance funds of the Company. The IC is also responsible for ensuring that the investment policy and the fund mandates of the Company are implemented in an appropriate manner.

The asset-liability management and corporate investment policy is formulated based on the needs of its insurance business and reflects relevant regulatory requirements. The formulation and implementation of the asset-liability management and corporate investment policy is an ongoing process, which includes a formal annual review by the Board on the asset-liability management strategies endorsed by the Asset-Liability Management Committee (ALCO), overall risk tolerance, long-term risk-return requirements and solvency position, following review and recommendation by the IC.

Strategic Asset Allocation (SAA) targets and Tactical Asset Allocation (TAA) ranges are proposed by the ALCO and approved by the Board. The SAA targets are set to reflect the long term investment objectives of the Company, while the TAA defines a range around the SAA targets within which investment managers can operate to reduce risk and / or benefit from market opportunities in the near term.

The Company only takes risks that it and the AIA Group understand and can manage effectively. Investment in any securities, financial instruments and other investment titles must follow the relevant policies, principles, processes and procedures for the respective asset class established by AIA Group Investment department and AIA Group Risk department. The Company will only invest in securities and geographic markets where it and the Group has the expertise, resources, systems and infrastructure to ensure that it is able to evaluate the risk, price and monitor each investment. Where it or the AIA Group does not have expertise or resources, the Company will outsource the management to a third party manager and the Company and AIA Group will ensure that it has the expertise and resources to evaluate and select the appropriate manager and carry out regular performance monitoring.

Derivatives for hedging and internal policies on use of derivatives

Derivative instruments are only permitted for the purposes of efficient portfolio management or to manage financial risks. Such derivatives transactions are only engaged when the underlying risk characteristics are fully understood and deemed in the best interests of AIA's shareholders and policyholders. These activities are governed by policies and standards issued by Group Financial Risk Committee and includes operational requirements and exposure limits.

When permitted by regulatory authorities, the Company may enter such transactions when deemed necessary to protect insurance and invested assets from adverse movements in foreign currency exchange rates, interest rates and equity prices. The more significant types of derivative arrangements in which the Company transacts are swaps and forward contracts.

Investment Valuation, Sensitivity and Accounting

Financial assets are carried at fair value. The fair value of listed financial instruments is based on the quoted market prices at the balance sheet date. The quoted market price used is the closing bid price.

The fair value of unlisted bonds is obtained from brokers' quotes and private pricing services while unlisted equities are based on the net asset values of the underlying investments.

As at 31 December 2023, a 10% rise/fall in equity prices would result in1.92% increase/decrease in the value of the Company's total assets (excluding investment linked contracts and excluding impact to insurance contract liabilities). A 50 basis point fall would result in 4.31% increase in the value of the Company's total assets (excluding investment linked contracts and excluding impact to insurance contract liabilities). A 50 basis point rise in interest rates would result in 3.88% decrease in the value of the Company's total assets (excluding investment linked contracts and excluding impact to insurance contract liabilities).

All investments are carried at fair value for both solvency (as mandated by the Insurance (Valuation and Capital) Regulations 2004) and financial reporting purposes, except for the investment in subsidiaries. Investment in subsidiaries is carried at fair value for solvency reporting (RBC) but carried at cost for both local financial reporting (SFRS) and group financial reporting (IFRS).