Participating Fund Statement for 2017

Thank you for choosing Manulife (Singapore) Pte. Ltd. (“Manulife”) for your financial and protection needs. As a policyholder of a participating policy from Manulife, we are pleased to inform you that we will be maintaining the same bonus rates for the year 2017.

This statement is an update of the performance of our Participating Fund (“Par Fund”) for the year 2017.

About Participating Policies and Bonuses

1. What is a participating policy and how does it work?

Premiums paid to participating insurance policies are pooled together to form a Par Fund. This fund invests in a range of assets, which are used to pay benefits to participating policyholders and to meet the expenses incurred in running the fund.

You are entitled to a share of the Par Fund’s profits, distributed to you by adding bonuses to your insurance policy. Bonuses once added to your policy are guaranteed.

The future performance of the Par Fund is determined by factors such as investment returns, claims on policies (death, critical illness and surrenders) and the expenses incurred by or allocated to the Fund. This future performance will determine bonuses to be paid in the future. Bonuses not yet distributed/declared are not guaranteed.

2. How are bonuses declared?

Bonuses are declared once a year. When declaring bonuses, Manulife aims to smooth the bonus allocations over time to avoid short-term fluctuations that can occur in year to year investment performance.

All recommendations on bonus declarations are prepared by the company’s Appointed Actuary and must be approved by the company’s Board of Directors. When making recommendations, the Appointed Actuary must ensure that:

- policyholders from all groups of participating policies are treated fairly and that no group is favored over others.
- bonuses which are allocated (and future bonuses) can be supported by the fund.

3. How do I know that my interest as a participating insurance policyholder is protected?

To prevent excessive distribution of profits to shareholders, the profit that can be paid to shareholders of Manulife is limited to a maximum of 1/9 of the value of bonuses allocated to participating policyholders. This means for every S$9 distributed to policyholders, only a maximum of S$1 is distributable to shareholders.

4. How would I know how much profit is allocated as bonus to me?

An anniversary statement will be sent to you on your policy anniversary date. Please refer to the anniversary statement for details on the bonus declared on your policy. If you wish, a full benefit illustration can also be made available to you upon request.

5. When will the bonus be allocated to my policy?

The bonus declared will be effective from 1 July 2018 and will be added to your policy on the anniversary of your policy in 2018.

About the Par Fund

1. How did the Par Fund perform in 2017?

The Fund (excluding endowment* listed below) registered higher than expected return at 12.7%.

The market yield for regular premium endowments (*EasiSaver/ProSaver/StarSaver) and single premium endowments (*ManuWealth Plus/Manu Fortune/ManuHarvest/Manulife Abundance/Manulife Boost Series) in 2017 were 1.7% and 5.1% respectively, and aligned with their expected returns.

The table below shows the actual investment returns and total expense ratio over the last 3 years. The Investment performance of the Par Fund has been volatile in recent years.

The current investment performance is not indicative of future performance.

Investment Return	2015	2016#	2017#
All Participating Policies excluding those listed below	-3.0%	4.8%	12.7%
EasiSaver/ProSaver/StarSaver	0.7%	1.9%	1.7%
ManuWealth Plus/ManuFortune/ManuHarvest/ Manulife Abundance/Manulife Boost Series	n.a.	3.6%	5.1%

^For Signature Income denominated in USD, the investment return is not available for 2017.

For Year 2016 & 2017, investment returns were derived based on policy assets basis which is aligned with industry's practice.

Note: The actual investment returns shown vary due to specific strategic asset allocation related to each group of participating policies.

Strategic Asset Allocation

The strategic asset allocation is determined by the design of the product. The investment strategy aims to maximize the long term returns required to meet all the projected benefits of the Par Fund. The objective is to maintain the solvency of the Fund at all times and meet the guaranteed benefits.

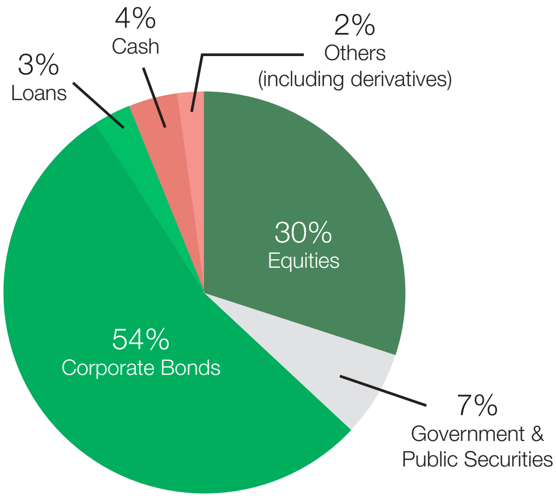
The target asset mix for each product category is indicated below.

	Fixed Income	Equities
All Participating Policies excluding those listed below	65%	35%
EasiSaver/ProSaver/StarSaver	100%	0%
ManuWealth Plus/ManuFortune/ManuHarvest/ Manulife Abundance/Manulife Boost Series	100%	0%
Par Fund denominated in USD	75%	25%

Note: The investment strategy and asset mix choice is at the discretion of the Company and can change from time to time.

2. What factors affected the Par Fund's performance in 2017?

As at 31 December 2017, the market value of the total assets in the Par Fund increased to S$5.99 billion from S$4.39 billion in 2016. This could have been the effects of the shift in corporate bonds to 54% (from 45.2%) and that corporate bonds remained particularly resilient in 2017.



- **Investment factors**

  The key factor for 2017's Par Fund performance was the investment return.

  i. Bonds

  US treasury and Singapore sovereign yields ended 2017 mixed with shorter term rates higher and longer term rates lower. This was mainly driven by the Federal Reserve (Fed) hiking its benchmark rate three times in 2017 in addition to commencing the unwinding of its USD $3.5 trillion balance sheet. Weaker than expected inflation figures as well as persistent demand in longer dated bonds held down longer term rates. On the domestic front, 2017 ended with investors continuing their search for yield pushing both the Singapore dollar and Singapore corporate bonds to end on a strong note. High quality Singapore corporate bonds remained particularly resilient in 2017.

  ii. Equities

  For the period under review, the recovery in global activity remained intact while inflation appeared to have peaked following the stabilisation in energy costs. The combination of steady growth and low inflation presented the "goldilocks" macro environment which fueled the performance in equity market. The Singapore equity market registered strong returns of 25.6%* and other key indices such as S&P 500 also registered double digits return. Market sentiment stayed buoyant through the year with buying interest concentrated on the cyclical sectors as we continued to see synchronized improvement in global Purchasing Manager's Indices (PMIs). The synchronised recovery in global growth is expected to continue into 2018 which provides a positive backdrop for equities.

  *MSCI Singapore total return

- **Non-investment factors**

  Other factors affecting the Par Fund's performance are claims, surrenders and expenses.Their impacts in 2017 are summarised in the table below.

Key Factors	Impact on Bonus
Mortality/Morbidity Claims - Lower	Positive
Surrender Claims - Higher	Positive
Expenses – Close to expected	Neutral

In 2017, benefits payments totaling S$260 million were made to policyholders from the Par Fund, while another S$49 million were paid as management expenses.

3. Top 5 Equity Holdings as at 31 December 2017

Top 5 Equity Holdings	% of Equity Holdings
ISHARES CORE S&P 500 UCITS E	21.4%
DBX EURO STX 50 (DR)	12.9%
VANGUARD S&P 500 UCITS ETF	10.1%
DBS GROUP HOLDINGS LTD	8.1%
OVERSEA-CHINESE BANKING CORP	6.3%

4. What is the future outlook for the Par Fund?

i. Bonds

Interest rates are likely to rise further in the US but we believe that the Fed will proceed cautiously. On a more cautious note, we expect the liquidity environment shifting significantly in 2018 as the Fed reduces its balance sheet and the European Central Bank (ECB) starts to taper its quantitative easing programme.

Given the above backdrop, we expect government bonds to perform less favorably. Moreover, the valuations in the Investment Grade space are also looking rich. We remain vigilant in the search for value in the fixed income space.

ii. Equities

The global economic upswing that began around mid-2016 has become broader and stronger. Global growth is expected to tick up to 3.95% in 2018 and next, supported by strong momentum, favorable market sentiment, accommodative financial conditions and investment recovery in advanced economies, and continued strong growth in emerging Asia.

In terms of asset class views, we believe that the earnings story will remain a positive for equities. This is supported by solid growth in the global economy along with higher but moderate inflation in 2018. However, we recognise that the tailwinds from accommodative global liquidity conditions are increasingly being challenged as key central banks tighten monetary policy.

Within equities, we expect pro-cyclical markets like Japan and emerging markets to offer marginally higher upside potential than the global index. Stronger global growth and trade should benefit the emerging world. This market also offers a valuation discount versus their developed peers. Furthermore, a relatively benign dollar environment provides an opportunity for the region to outperform.

On the US, Europe ex UK and Asia Pacific ex Japan, we expect these markets to perform in-line with global equities. Despite elevated valuations historically and relative to other markets, US equities remain competitive due to strong earnings momentum supported by the strength in the economy and fiscal stimulus package. Across the Atlantic, Europe ex UK equities still offer reasonable value compared to other developed markets. However, the currency remains a headwind to earnings growth, particularly with the ECB ending QE this year.

Meanwhile, we remain cautious on UK equities given uninspiring earnings growth. At the same time, uncertainty over the Brexit negotiations has also led to swings in the currency. Without a strong tailwind from currency weakness, the market is lacking the catalyst to drive outperformance.

Our Commitment to You

With the aim to safeguard your long-term interests, Manulife is committed to manage your investments diligently to give you the highest level of security on your policies while providing you with fair returns. With healthy solvency ratios that are well above local regulatory requirements, we are dedicated to maintain our financial strength to meet our commitment to you.

Manulife

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