PELAC Unit-linked Fund Performance Report Full Year 2018

PELAC
A subsidiary of Philam Life

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December 2018

Dear Valued Policyholder,

The world economy firmly grew 3.0% in 2018, albeit at a slower pace than in 2017. Asia remains to be the biggest contributor to world GDP, growing 6.3% in 2018. Meanwhile, the Philippine economy continues to display strength despite headwinds in 2018. Local economic growth registered 6.2% in 2018, slower than 2017's 6.7% growth rate.

The year 2018 was a challenging one for both global and local financial markets. It was a story of reflation and rising interest rates in the Philippine setting. The Build, Build, Build Infrastructure program by the government continued to buoy economic growth, resulting in stronger demand for imported raw materials and capital equipment, which contributed to a wider current account deficit and ultimately depreciating the value of the Philippine peso against the US dollar. Meanwhile, the increase in global oil prices and weaker local currency pressured Philippine inflation, which averaged 5.2% in 2018, breaching the Bangko Sentral ng Pilipinas' (BSP) 2.0 to 4.0% target. To abate rising price pressures, the BSP aggressively hiked policy rates by 175bps cumulatively to 4.75%. Given high local interest rates and peso depreciation amid escalating concerns in geo-politics and global trade, the Philippine Stock Index (PSEi) underperformed in 2018 at -12.8%.

The Bancassurance agreement between Philam Equitable Life Assurance Co. (PELAC) and BDO ended in September 2009. Consequently, while we are no longer issuing new policies at BDO branches and the PELAC investment fund pool has stopped increasing, we will continue to honor and service in force policies that we have previously issued. PELAC remains a stable, well-capitalized insurance company, with significant reserves capable of paying all financial obligations as they become due.

Philam Life owns 100% of PELAC and is part of the AIA Group Limited, the largest independent publicly listed pan-Asian life insurance group.

We would also like to take this opportunity to share with you Philam Life's overall performance in 2018 based on its audited financial statements:

- Total Assets of PHP249.6 billion
- Net Worth of PHP80.6 billion
- Paid up Capital of PHP2.0 billion
- Gross Premiums of PHP22.7 billion
- Net Income of PHP9.8 billion

Thank you for your loyalty and continued patronage. Should you have any inquiries, please do not hesitate to call us at (+632) 528-2000 or e-mail us at philamlife@aia.com. You may also visit our website at www.philamlife.com or go to the nearest Philam Life Customer Service Center for assistance.

GARY OGILVIE
Chief Executive Officer

General Market Overview

2018 was an eventful year.

The United States (US) central bank raised its short-term interest rates four times or a total of 100 basis points. The Philippine currency depreciated 5.3%. For the first time since 2004, the country's imports outpaced exports throughout the year.

The local Consumer Price Index was at the 'front and center' of uncertainties. Disruptions in food supply and the impact of new taxes pushed Philippine inflation to 11-year-highs. Dubai crude oil prices soared to US$79 per barrel in October, from US$55 per barrel 12 months before.

The local central bank adjusted its overnight lending rate, two months after the US Federal Reserve Bank, by an average of 25 basis points every month until November.

Trade disagreements between the world's key economies dampened manufacturing activity and slowed global Gross Domestic Product (GDP) growth to 3.6%, from 3.8% in 2017.

Notwithstanding, the Philippine economy grew faster than 6% for the seventh consecutive year, owing to robust domestic consumption and investment spend.

The bond and stock markets fell, with their benchmarks returning -5.2% and -12.8%, respectively.

The Local Economy

At 6.2%, Philippine GDP growth proved resilient, even as it moderated from 6.7% the year before. Domestic "drivers", namely, public and private construction, led growth, expanding 21.2% and 12.9%. Financial intermediation (banking, insurance and other institutions that mobilize savings) grew by 7.1%.

Employed persons increased 2.1% to 41.2 million – employment rose to 94.7% (+0.4-ppts). Real per capita income (US$3,580) improved 4.5%, despite the 5.2%-increase in consumer prices. Inflation accelerated steadily, from one month to the next until October, reaching 6.7%, from just 3.4% at the start of the year.

From the perspective of the supply of goods and services, output in the service sector grew 6.6% and accounted for nearly two-thirds of GDP growth. Retail trade, tourism, business process outsourcing (BPO), real estate, and finance were mainly responsible. Industry expanded 6.8%, where manufacturing and construction provided nearly 20% and 16%, respectively. Agriculture nudged 1%.

On the demand-side, investment spending rose 13.9%. Private consumption slowed to 5.6%, from 5.9%, supported by the 3% increase in workers' remittances (US$28.9 billion). Government consumption grew 12.8%, following higher spending on social services and the hike in salaries of government employees. Exports of goods and services recorded 11.5% growth, while imports (mainly investment and consumer goods) rose 14.5%.

Local Fixed Income Market

Interest rates, in lock step with inflation, rose steadily, from one month to the next until October. The 10-year Philippine government bond yield reached a high of 7.96%, from just 4.97% at the start of 2018. Concurrently, bond prices recorded year-on-year declines, month after month, throughout 2018, ending at 94.92, from 100.16 in December 2017.

To address accelerating inflation, the BSP hiked policy rates by a total of 1.75%, from 3% to 4.75%, throughout the year.

The higher-than-programmed cash deficit of the National Government (NG) likewise exerted upward pressure on interest rates. Expenditures exceeded revenues by PHP558 billion, from PHP350 billion in 2017. Spending on infrastructure and capital outlays of PHP235 billion (+41%) and the hiring and higher pay of government workforce of PHP179 billion contributed the most.

To cushion the bond portfolios' sensitivity to the rise in interest rates, the portfolios added to shorter tenors, mainly. Duration, or the time it takes for a bond to receive all payments or proceeds, shortened, tactically. Yield to maturity (or the discount rate at which all future payments equal the price of a bond) increased. Overall, uncertainty in the markets encouraged investors to favor bonds with shorter maturities to guard against higher rates.

On balance, interest rates are expected to trend lower in 2019 relative to 2018 levels. Inflation is expected to return to the 2-4% target range of the BSP as supply-driven factors have been addressed and ample market liquidity should sustain demand for fixed income assets.

Local Equity Market

Stock prices rose at the start of the year, as usual, but gave back all gains (and more) in February. By June, the benchmark fell to levels not seen even in 2017, bounced 6.6% in July, added 2.4% in August, lost 7.4% in September, and added 1.9% in October, before closing 2018 at 7,466, or -12.8% – its worst performance in the last 10 years.

The slowdown in economic activity, coupled with the 200-basis-points increase in discount rates, was the main cause of this negative performance. (Historically, economic growth has had the most significant impact on stock prices.) GDP growth decelerated, sequentially from 7.2% in September 2017 to 6.0% four quarters after. Return on capital (or how much traded companies were earning from investments) declined to 7.51% in 2018, from 7.55% in 2017 and 8.33% in 2016.

The country's ability to pay its loan obligations was not a contributory factor to the negative performance. In April, Standard & Poor's raised its assessment of the National Government from "Stable" to "Positive", which paved the way for an "upgrade" in credit rating. Recurring sources of money (in)flows – BPO and tourism industry – recorded US$16.4 billion and US$5.5 billion as of September, contributing to Gross International Reserves (US$79 billion) – equivalent to seven months' worth of imports and six times the country's short-term external debt.

To cushion the equity portfolios' sensitivity to the volatility in stock prices, the portfolios added to Cash, mainly. Tracking Error (or the difference in the behavior between the portfolio and Philippine Stock Exchange Index) declined tactically. The portfolio remains composed of high-quality securities and characterized by a high margin of safety. Uncertainty encouraged foreign-domiciled funds to reduce exposure in Philippine shares.

Global Fixed Income Market

The effects of the US Federal Reserve Bank's determination to raise policy rates throughout 2018 was felt in financial markets around the world, including the Philippines.

As US policy rates increased by 0.50% in the first half of 2018, prices of Philippine government-issued US dollar-denominated bonds declined. Further upward adjustments in US policy rates in the latter part of the year continued to put pressure on the bond market, with yields on 10-year ROP bonds reaching a high of 4.22% in October before closing the year at 3.74%. The US 10-year bond yield rose by 0.28% during the year to close at 2.68%, the highest level seen since 2013.

The Federal Funds rate ended the year at 2.50%, after adjustments of 0.25% every three months beginning in March.

To cushion the portfolio's sensitivity to the rise in interest rates, the portfolios adjusted the duration position closer to the benchmark. The portfolio remains composed of high-quality securities and characterized by a high margin of safety.

Going into 2019, global interest rates will continue to be driven largely by US monetary policy. Consensus forecasts predict additional hikes by the Federal Reserve, although not as aggressive as those made this year. Expect the Fed to remain data-dependent with respect to determining the direction of interest rates.

FUND MANAGERS

PELAC's unit-linked funds are managed by Philam Life's team of investment professionals who have 20 to 30 years of experience and expertise in the field of fund management. As of 31 December 2018 total assets under management reached over PHP53.3 million, excluding those of other Philam Life affiliates. Philam Life combines its expertise with the strength of its senior management to manage portfolios effectively in order to achieve favorable returns.

STATEMENT OF ASSETS AND LIABILITIES

In Original Currency	High-Water Mark Fund 2019
ASSETS	
Cash and cash equivalents	-
Financial assets at FVPL*	$1,074,886
Loans and receivables	-
Accrued income	-
Other assets	-
Total Assets	$1,074,886
LIABILITIES	
Accounts payable and accrued expenses	-
Total Liabilities	-
Net Asset Value (NAV)	**$1,074,886**

*Fair Value Through Profit or Loss

PELAC HIGH-WATER MARK FUND 2019
(or Preferred Dollar Yield Protect)
Fund Inception Date: 14 July 2009

Fund Description

The PELAC High-Water Mark (HWM) Fund 2019 is a USD-denominated single-asset fund that locks in the highest NAVPU of the fund at maturity. The fund is invested in a 10-year structured note issued by Barclays Bank PLC, which is exposed to various asset classes and markets, such as global and emerging market equities and bonds. On a daily basis, the note allocates its exposure between risky and risk-free assets to maximize returns while ensuring that the highest NAVPU is protected at maturity.

Fund Performance*

2018 Return	-0.65%
2017 Return	-1.35%
2016 Return	-1.20%
2015 Return	-0.05%
2014 Return	0.73%
2013 Return	-3.73%
2012 Return	5.06%
2011 Return	2.59%
2010 Return	1.96%
3 Years Return (annualized as of 31Dec 2018)	-1.07%
5 Years Return (annualized as of 31Dec 2018)	-0.51%
Return since Inception (annualized as of 31Dec 2018)	1.86%

* Fund returns are calculated based on Net Asset Value (NAV) per Unit (NAVPU). NAVPU is the market value of the fund divided by its total number of outstanding units. Past performance is not indicative of future performance.

PORTFOLIO STATISTICS (as of 31 Dec 2018)

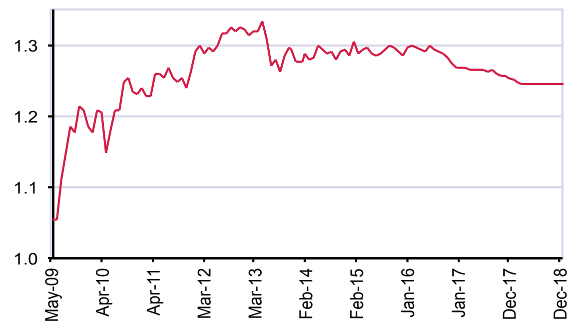
NAV in USD	1,074,886
NAVPU	1.1950
Remaining Life (in years)	0.36

* Based on Audited Financial Statement. NAV is net of 2.2% administrative charge.

PORTFOLIO MIX* (as of 31 Dec 2018)

Mutual Fund	% of Portfolio
Aberdeen Global World Equity Fund	35.00%
Aberdeen Global EM Equity Fund	7.50%
BlackRock Global Funds - Global SmallCap Fund	7.50%
Parvest US Dollar Bond Fund	16.00%
Pimco Total Return Bond Fund	16.00%
MFS Meridian EM Debt Fund	8.00%
PIMCO Funds Glb Investors - Glb Real Return Fund	10.00%

NAVPU SINCE INCEPTION



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Risk Warning: Past performance is not indicative of future results. Our investment management services relate to a variety of investments, each of which can fluctuate in value. The value of portfolios we manage may fall as well as rise, and the investor may not get back the full amount originally invested. The investment risks vary between different types of instruments. For example, for investments involving exposure to a currency other than that in which the portfolio is denominated, changes in the rate of exchange may cause the value of investments, and consequently the value of the portfolio, to go up or down. In the case of a higher volatility portfolio, the loss on realization or cancellation may be very high (including total loss of investment), as the value of such an investment may fall suddenly and substantially.

In making an investment decision, prospective investors must rely on their own examination of the merits and risks involved.

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