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Grand Heritage

# 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 Grand Heritage 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; and
- b) non-guaranteed benefits, in the form of terminal dividend.

In order to provide you with continuous protection and support the guaranteed financial obligation, a portion of your premium will be invested in reinsurance assets with good credit rating to match most of the guaranteed benefits.

After investment to reinsurance assets, the remaining premium from your policy are pooled together with those from the owners of other policies to form a participating fund and will be invested and managed internally by us. Your policy will then entitle you to a share of this participating fund in the form of remaining portion of guaranteed benefits and non-guaranteed benefits.

Upon termination, you may receive a terminal dividend and the amounts we pay you as terminal dividend 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 gains 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 terminal dividend which are not guaranteed. When your policy terminates, we expect to pay you terminal dividend, such that you can receive your fair share of the participating fund. However, if your guarantees exceeds your fair share, we may not pay the terminal dividend.

## How does a participating policy work?

After investment to reinsurance assets, the remaining premium from your policy are pooled together with those from the owners of other policies to 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 depends on factors including the premiums received (after investment to reinsurance assets), actual investment returns made 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 terminal dividend, 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 the remaining portion of guaranteed benefits not covered by the reinsurance assets, management fee and other costs of running the business, for example, distribution costs, policy administration expenses, servicing costs, relevant taxes and office rent, and the profit sharing from this participating fund.

### How does profit sharing work?

We have an interest in the participating fund and share part of the profit and loss of the participating fund. Profit and loss can arise from investment of the asset share, and will impact your asset share. We will receive our share of the profit and loss when we pay terminal dividend to your policy.

# What are our investment objective and strategy?

## **Investment objective**

The overall objective of investing the participating fund is to seek competitive 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.

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 for the terminal dividend. 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? (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

50% to 80% of your single premium will be invested into reinsurance assets and a majority of the remaining premium will be invested into Growth Assets\*. Under the plan, we predominantly invest in reinsurance assets with good credit rating to meet the guaranteed financial obligation. Growth assets are utilized to enhance the performance of the investment portfolio.

\* 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 terminal dividend?

When deciding the terminal dividend, 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 terminal dividend at least annually. The more assets allocated in the growth assets (e.g. equity), the more frequent we may adjust the terminal dividend. We may consider not adjusting the terminal dividend at all, but we may also adjust the terminal dividend 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 terminal dividend to be paid:

- a) the asset share;
- b) both the current and the expected future amount of the guarantees; and
- c) the returns we expect the participating fund to earn in the future.

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

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

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 terminal dividend.

It is also part of our aim to provide you with stable payout. 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.

To align our interest with yours, we aim to share with you 90% of the profit and loss from investment and the remaining 10% will be ours.

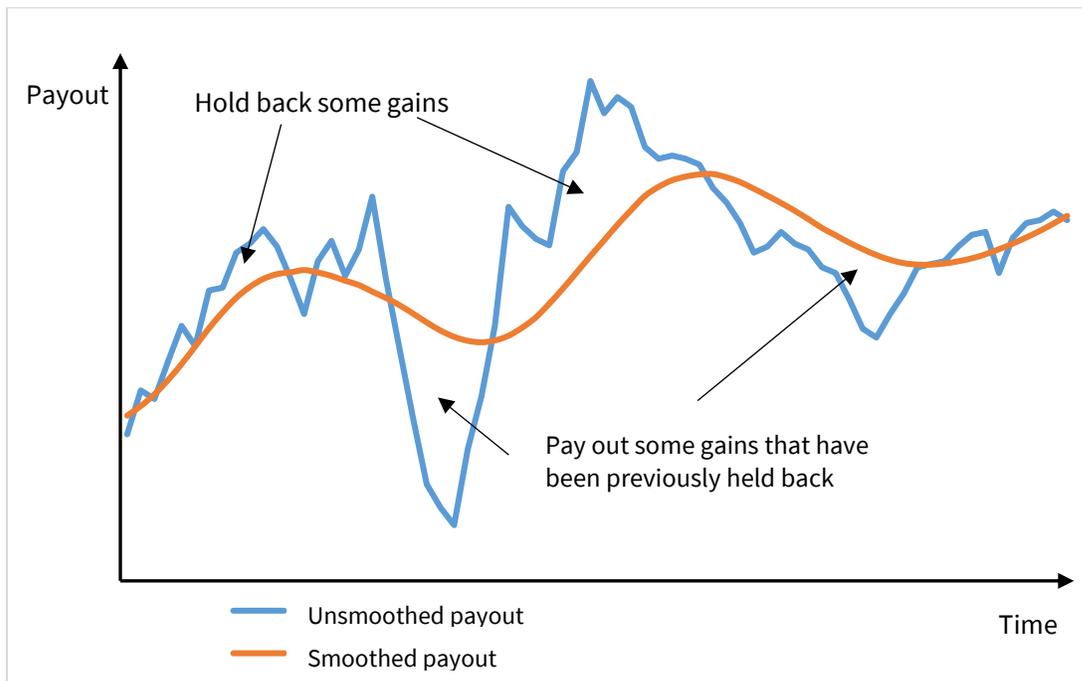
With all these in mind, our appointed actuary conducts a detailed analysis of the participating business and makes recommendation of the terminal dividend to be declared at least annually. To further safeguard your interest, we have designated committees to review and scrutinise the recommendation. Our 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 payout can remain stable against some short-term fluctuations in the returns on the participating fund. If there is no smoothing, your payout 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 payout. Instead of immediately adjusting the terminal dividend upon the asset share changes, we may choose to keep the terminal dividend unchanged or make a milder adjustment to the terminal dividend 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 payout 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.

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 payout, e.g. the death of the insured, policy surrender and maturity.

# What will affect your terminal dividend?

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

## **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 terminal bonus? (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 terminal dividend may be reduced.

The terminal dividend you are going to receive will also depend on:

### **Smoothing**

The terminal dividend 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 payout 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 terminal dividend, 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 terminal dividend 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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