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ILP Sub-Funds available for HSBC Life Goal Builder

AB American Income Portfolio (SGD and USD)

Investment and Market Review

In the fourth quarter of 2024, the American Income Portfolio (Class A) delivered negative absolute returns but outperformed its Benchmark, the Bloomberg1 US Aggregate Index,2 which returned –3.06%. Year to date, the Portfolio generated positive absolute returns and outperformed the Benchmark's return of 1.25% (all returns stated net of fees and in US-dollar terms).

During the quarter, the Portfolio's duration3 underweight contributed to relative returns as yields rose, though some of these gains were offset by the Portfolio's yield-curve positioning. An allocation to high-yield corporates and an underweight to agency mortgage-backed securities (MBS) also helped performance, while our off-Benchmark allocation to emerging markets (EM) was a more modest contributor.

In December, the Portfolio decreased in absolute terms but outperformed its Benchmark, which returned –1.64%. The Portfolio's duration underweight and yield-curve positioning contributed to returns as yields rose and the curve steepened. An off-Benchmark allocation to high-yield corporates also added to returns, while our underweight and selection within agency MBS helped more modestly.

The Portfolio Management Team would like to note that the Portfolio's strategy is benchmark agnostic, meaning that it is not constrained by its Benchmark.

In the fourth quarter, investors lowered their expectations for future rate cuts, given that inflation progress in many countries had stalled. Some central banks continued to cut interest rates over the quarter, including the Fed. The Fed's Summary of Economic Projections, the so-called "dot plot," earmarked that the Fed expects that the policy rate will be cut only twice in 2025.

In the US, investment-grade corporates decreased 3.04%, while US high-yield corporates rose 0.17%. EM hardcurrency sovereign bonds fell 1.94% per the EMBI Global Diversified Index, while EM hard-currency corporate bonds decreased 0.80% per the CEMBI Broad Diversified Index.

Market Outlook and Investment Strategy

The economic elephant in the room is if or when any new US tariffs are actually implemented and met with retaliation, and how much inflation increases as a result of any potential trade wars. Any further US trade tariffs and barriers will be the laser focus of politicians and investors in coming months. From an economic perspective, less free trade will reduce growth everywhere, mostly outside of the US, where increasing divergence among countries is already under way. We expect the US to outperform the global economy over the next few quarters, and our belief is that all major economies will continue to expand, albeit with below-par growth.

Government deficits will also be front and center with investors, as "bond vigilantes" pay close attention to some countries that do not make solid efforts to reduce government spending. In sharp contrast to most other major economies, the US has made a full recovery from the pandemic-induced recession. US GDP has not only regained but exceeded its previous upward trend. A positive supply shock to the labor market, in the form of a surge in net inward migration, has been an important contributor to the expansion, with newly arrived workers offsetting retiring workers. Restrictive immigration policies by the new US administration could unsettle the buoyant labor market, since the ongoing strength of the US labor market has supported consumption. We also expect positive momentum in US business investment.

The possibility of tax cuts could also boost sentiment, while US fiscal policy is unlikely to change meaningfully given the budget deficit and overall debt, since there are those in the US Congress that are opposed to raising the deficit. The US Treasury will run out of funds by mid- January, leading to tense negotiations between the US Congress and the new administration. The US Treasury has to refinance US$9 trillion of debt next year, along with finding buyers of new issuance. While there is no specific threshold beyond which we can assume that the US debt burden is too great, the larger it gets increases the risk of a US Treasuries buyers strike that could reverse US economic momentum.

Against this backdrop, a well-diversified barbell approach is critical. We diversify our exposure with credit (high-yield and investment-grade corporates, securitized assets, and EM) and government bonds. We increased duration during the quarter as longer yields moved higher. The bulk of the Portfolio's yield-curve exposure is focused on the intermediate part of the curve, which historically tends to offer the best protection per unit of duration during spread-widening periods. We also have curve steepeners, which should continue to benefit the Portfolio as the Fed cuts and shorter yields fall more. The Portfolio's government bond exposure is designed to help protect the Portfolio in times of stress.

Corporate fundamentals and balance sheets remain supportive of credit, but there has been some modest deterioration. We do expect this trend to continue as the economy slows and companies manage around greater interest expense. Although rates have come down, markets are forecasting a slower progression of rates moving to neutral, which may create additional headwinds for issuers. That said, leverage remains at the lower end versus long-term levels, and interest coverage is still above average. In 2024, high yield had more companies upgraded (307) than downgraded (252).

However, we do expect defaults to increase over the next 12–18 months to 3%–4% in both the US and Europe, slightly above median levels. Spreads have remained well supported by a strong technical backdrop and a resilient economy. Long-term valuations, as defined by yields, are still attractive. We believe that longer-term returns for high yield should be attractive, as the yield to worst, as measured by the Bloomberg US High Yield Index, is 7.5% and has historically been a good predictor of future returns. In addition to cash bonds, we have an allocation to synthetic high yield,4 which helps improve the Portfolio's liquidity profile.

Despite a turn in the credit cycle, we continue to remain comfortable with an allocation to banks. This positioning is skewed to larger national champion banks, which are better positioned to weather this slowdown and are still trading with a discount relative to similar quality industrials. Banks, in general, have progressively strengthened core balance-sheet metrics post-global financial crisis, have boosted net interest margins given the higher rates environment and are better capitalized under the more stringent regulation and stress testing. This is supportive of bonds and provides cushion to withstand any potential economic downturn to a better extent than other growth-sensitive sectors. Given this backdrop, we continue to look across the capital structure for the best opportunities, remaining selective with our additional Tier 1 capital allocation and skewed to the larger and better-quality banks.

Energy has been one of the best performing sectors over the last three years due to above-average oil prices and strong demand. We increased our midstream holdings during the quarter as they continue to benefit from elevated mergers and acquisitions activity and could see continued upside in the US from regulatory easing under the new administration. However, we remain cautious on the rest of the energy sector because it tends to be very volatile due to oil prices, and valuations today are not very attractive.

Among investment-grade corporates, the majority of our exposure is focused on BBB-rated5 bonds. We find that select BBBs can offer similar yields to what is currently available in the high-yield market. Additionally, fundamentals remain strong. Companies have increased their cash balances, and interest coverage (despite coming down from recent peaks) remains elevated.

Net issuance has been very strong in 2024 but has been extremely well absorbed by investors. These strong technicals have kept spreads tight. That said, historically, spreads have been below average most of the time and all-in yields still look very compelling. During the quarter, reduced some of our holdings in favor of agency mortgages.

We also rotated some of our holdings, mostly into the new issue market, but also took advantage of opportunities in the secondary market. Within EM, we are cautious given the macro backdrop. Over the past two years, we have reduced our EM sovereign exposure to limit the idiosyncratic risk. Our preference today is for corporates, given their attractive risk-adjusted returns as well as strong fundamentals versus some of their DM counterparts. We like multinational companies with revenue tied to the US dollar. We also see value in quasi-sovereigns, which may trade at levels similar to corporates but come with government support. We caution against taking concentrated risk in EM, and we diversify our allocation across over 30 countries and more than 90 corporates.

We maintain our conviction in securitized assets. Over the last year, we have added to our agency MBS allocation, which may provide an offset to our credit exposure in a risk-off environment. During the quarter, we increased this exposure given attractive valuations relative to investment-grade corporates. In the past, agency MBS have outperformed corporates in times of market stress. Looking forward to 2025, potential changes to the banking regulatory backdrop could lead to increased bank capital available for investment. This would likely benefit the asset class as banks have historically been large buyers of agency MBS. While we don’t expect rapid spread tightening given our expectations of continued near-term rate volatility, we expect agency MBS should benefit as growth slows and volatility stabilizes. We favor production coupon mortgages, which are more insulated from the quantitative tightening program.

Within collateralized loan obligations (CLOs), we focus on the highest-rated tranches (AAA), where we added throughout the period. Our allocation benefits from the spread pickup they offer over similarly rated corporates. Additionally, CLOs have credit enhancements, coverage tests that ensure sufficient funds to meet debt obligations on debt tranches, and several restrictions on asset holdings. However, we remain cautious on loan fundamentals given expectations for slower economic growth and the impact that elevated rates have had on company balance sheets. Interest-rate cuts, however, should help alleviate pressure on issuers’ interest coverage ratios. Loan downgrades remain a concern, and given the current macro backdrop, we favor lower-risk managers focused on higher-quality collateral.

The Portfolio Management Team remains committed to the American Income Portfolio’s credit barbell strategy, which has proven resilient through market dislocations and periods of stress in the more than 30 years since its inception.

Source: AllianceBernstein (Luxembourg) S.à.r.l.

AB International Healthcare Portfolio (SGD and USD)

Investment and Market Review

After reaching new highs following the US Federal Reserve's larger-than-usual 0.50% rate reduction at the end of the third quarter, global equities experienced mixed performance during the fourth quarter as uncertainty over the outcome of the US presidential election, shifting monetary policy expectations and ongoing geopolitical tensions weighed on sentiment. For the quarter, international equities, as measured by the MSCI All Country World Index (ACWI), declined 1.0%; for the year, the index has gained 17.5% (all returns in US-dollar terms).

Early in the quarter, US economic data, including solid third-quarter GDP fueled by resilient consumer spending, continued progress in lowering inflation, and the likelihood of additional rate cutshelped reinforce US soft-landing hopes.

But uncertainty about the upcoming US presidential election, concern over thirdquarter earnings of the Magnificent Seven stocks and rising bond yields sent stocks lower. International equities reversed course and rallied in November following the US election, which saw the Republicans winning the presidency as well as the majority in both the Senate and the House of Representatives. Market performance was supported by President-Elect Donald Trump's policy initiatives—including lower taxes and relaxed business regulations—and resilient US economic data.

International equities pulled back in December after 10-year US Treasury yields moved sharply higher as the postelection rally lost momentum amid concern that Trump administration policies would likely add to the federal budget deficit and reaccelerate inflationary pressures. Despite implementing a third consecutive rate cut, the Fed's Summary of Economic Projections amplified these concerns and offered a more cautious outlook for 2025, which included the potential for higher inflation and signaled a less aggressive rate-cut trajectory. Fed Chair Jerome Powell characterized the US economy as being in "a really good place" but called the Fed's latest rate cut a close call and emphasized the challenge of balancing economic growth and progress on inflation. However, uncertainty over potentially higher inflation, the Trump administration's policy initiatives and shifting monetary policy expectations contributed to rising Treasury yields, which dampened equity market sentiment and led to a subdued finish for the quarter. International healthcare stocks also declined during the quarter, with the MSCI World Health Care Index2 falling 11.4%, bringing returns for the year to 1.1%. During the quarter, subsector performance was entirely negative, except for healthcare technology, led by Healthcare providers and services.

Class A shares of the Portfolio decreased in absolute terms and underperformed the MSCI World Health Care during the quarter and for the year, net of fees. During the quarter, both industry and security selection detracted from relative performance. Security selection within pharmaceuticals and an underweight to healthcare equipment and supplies detracted the most, while selection in life sciences tools and services contributed, as did biotechnology.

Biotechnology company Regeneron Pharmaceuticals detracted from relative performance during the quarter on continued concerns around its ability to transition patients to its newer high-dose version of

Eylea. We note that Regeneron still does not have the most optimized version of the formulation on the market and ultimately still have confidence in its ability to transition patients. Regeneron also has a large, underrepresented pipeline, excellent balance sheet, and very good returns so we remain convicted and view the skew as attractive.

Elevance Health detracted as shares of the health insurer continued to be pressured by rising medical costs and a decline in Medicaid enrollment caused by the reintroduction of eligibility checks, which had been suspended during the pandemic. As a result, management lowered its earnings guidance despite reporting third-quarter revenue that exceeded expectations. Challenges in the Medicaid segment are expected to be temporary and abate over 2025 as higher Medicaid payments rates are negotiated. Zoetis, an animal health company, detracted after a sell-side report indicated mixed signals for Zoetis as strength in some key products may be offset by weak vet visits.

Gilead Sciences contributed after management released strong thirdquarter financial results that surpassed expectations, and raised full-year 2024 earnings guidance. Sales rose 7%, with adjusted quarterly profit of US$2.02 per share on revenue of US$7.5 billion, which was ahead of consensus estimates of US$1.55 per share and US$7 billion. Gilead's CEO Daniel O'Day partially attributed the revenue growth to a 13% increase for Biktarvy, thecompany's HIV drug.

Cencora, a global pharmaceutical solutions organization centered on providing access to treatments and healthcare products to improve the lives of humans and animals, contributed. The company raised its guidance for 2025 after announcing quarterly results that surpassed estimates. Separately, management announced plans to buy Retina Consultants of America (nonheld), a move that is expected to strengthen its presence in the market for specialty medicines. Intuitive Surgical, a US-based biotechnology company that develops, manufactures, and markets robotic products used in minimally invasive surgery, contributed. Shares rose throughout the quarter after the company posted a strong set of third-quarter numbers driven by growth in procedure volume and an increase in the installed base of systems for its newest surgical robotic product, the da Vinci 5.

Market Outlook and Investment Strategy

Equity market performance was strong in 2024, though healthcare lagged the broader MSCI ACWI. Sustained poor stock price performance outside of the immediate AI halo has resulted in valuation compression that can be easily confirmed by looking at sector weights. As an example, healthcare's weight in the S&P 5003 has touched single digits for the first time since technology surged at the peak of the internet bubble. Within healthcare, we continue to identify profitable compounders from a bottom-up basis— and we continue to assert that AI will eventually reward data rich incumbents across drug development, diagnostic and service companies.

Unfortunately, the assertion that the AI call option is not priced in has become an understatement. Though the strength of the economy may affect select subsectors of healthcare, we continue to believe that the sector's economic sensitivity remains low relative to other sectors, while the innovation potential remains high. Additionally, Treasury yields have pressed higher, bringing the attractive valuations and current profitability of many of our healthcare holdings, and more broadly sector's defensiveness, back into the market's favor. Ultimately, we remain confident in our long-held philosophy and process—with the goal of delivering consistent exposure to profitability and growth—which have proved successful for investors in the past.

Source: AllianceBernstein (Luxembourg) S.à.r.l.

AB Sustainable Global Thematic Portfolio (SGD and USD)

Investment and Market Review

Global markets, as measured by the MSCI1 All Country World Index2 (ACWI) fell 2.4% in December and declined 1.0% during 4Q:24 bringing returns for the year to 17.5%, in US-dollar terms. According to Bloomberg, nearly half (45%) of the 2024 MSCI ACWI return came from the Magnificent Seven (Mag 7) illustrating the uphill battle for stock picking in 2024. In a year that saw continued strength in AI momentum, it comes as no surprise that technology was the best performing sector over the 12-month period. Close behind were the communication-services and financials sectors. Materials was the only sector to post negative performance for 2024, but healthcare and energy also disappointed, lagging the broader market.

Global equity markets watched for the long-awaited results of the US presidential election, which ended in a victory for Donald Trump, who will commence his second term in January 2025. After much anticipation, the US market reacted positively to the Trump win with a big rally as expectations for stronger economic growth, higher corporate profits and an improved regulatory environment flowed through to equity prices. However, outside of the US, the majority of countries experienced declines, with China and Taiwan in particular selling off during November as tariff uncertainty proved to be a headwind. With the exception of Microsoft, the Mag 7, led by electric vehicle company Tesla (non-held), rose. Indeed, since the election, the Mag 7 returned 1.6%, while in aggregate the remaining holdings in the MSCI ACWI declined 1.6%.

Class A shares of the AB Sustainable Global Thematic Portfolio decreased in absolute terms and underperformed the MSCI ACWI in December and during the quarter, though they rose and underperformed the Benchmark for the year, net of fees.

History doesn’t always repeat itself, but our quality growth Portfolio is experiencing a sense of déjà vu. Portfolio performance during 4Q:24 broadly mirrored 4Q:16, with the Portfolio lagging in the weeks following both Trump elections. In both cases, we have seen our underweight allocations to more cyclical areas, such as discretionary and traditional banks, serve as an initial performance headwind. While the market concentration is a new dynamic for Trump 2.0, investors have once again sought safety in these large-cap stocks.

ICON, NextEra Energy and Monolithic Power Systems (MPS) were the leading held detractors from relative performance during the quarter. ICON, the outsourced contract research organization (CRO), is facing some near-term headwinds, including lower research-and-development spend at some large pharma customers and slower decision-making by biotech companies overall. The current end-market pressures may persist for the next several quarters, and the timing of a rebound in biotech funding activity is unknown. Shares declined further around the potential impact of Trump’s appointees on medical research (particularly vaccines).

CRO peers have also reported elevated trial cancellations in 4Q:24, though ICON has experienced this to a lesser degree. US energy company NextEra Energy detracted during the quarter. Despite rising 40% through the first 10 months of the year, NextEra's share price fell as the company was hit negatively by higher interest rates and concerns over potential changes to the inflation reduction act that might add pressure to the business.

MPS detracted during the quarter despite the power semiconductor firm reported a strong quarterly result that saw its AI power segment moderate its growth. Shares declined further on reports of an increased failure rate of some of its chips on NVIDIA server boards in customer data centers. Management maintains that its relationship with NVIDIA remains strong and, looking into 2025, expects growth drivers to diversify away from NVIDIA with new product ramps in both the communications and auto segments. MPS's unique process design enables more energy-efficient power solutions and has allowed it to outgrow the industry by 10%– 15% per year for the past several years.

Key held contributors to relative performance during the quarter included Flex, On Holding and Visa. Flex, an outsourced manufacturer whose products include server racks for data centers, benefited from the rally in companies providing solutions for the increased energy needs of the AI infrastructure build-out. While there have been modest headwinds for Flex in the auto and industrials segments, the company posted strong earnings growth as data center and power products carry a higher margin. Additionally, Flex was included in the S&P 400, which also boosted the share price during the quarter. Switzerland-based provider of sports apparel products On Holding contributed after posting a strong set of results that saw solid sales growth. The company is benefiting from strength in the running shoe category and accessing underpenetrated wholesalers.

On Holding has guided for another year of growth in 2025 with updated and new product lines. Visa contributed as the global payment processor and payment card provider was boosted by the post-election Trump bump, which was viewed as supportive for financial names. There is also optimism that the Trump administration will make Visa's legal battle easier over the next couple of years and bring a swifter conclusion. Visa also reported solid earnings during the quarter—driven by accelerating payment volume growth and operating margin expansion—and announced decent guidance for 2025.

Market Outlook and Investment Strategy

As we move into 2025, investors will be seeking clarity on several key issues for the markets. We'll witness how much of the campaign rhetoric will be translated into policy by the Trump administration, particularly around tariffs and immigration. We'll also see if some of the more controversial cabinet picks get confirmed and how much of the status quo will be disrupted once those individuals take office, particularly related to healthcare. In light of the inflation risks associated with incremental tariffs, we expect the Fed's stance to remain hawkish and maintain a keen eye on US debt and deficit concerns. We'll also be watching for signs of continued momentum in the AI race, as tech giants weigh "if you build it they will come" versus the need to see a return on investment for all this capex. Finally, we're eager to see if clarity on a number of these fronts serves as a catalyst for diversification away from the perceived safety of the Mag 7's big balance sheets and relative earnings stability.

Despite uncertainty in the backdrop, we take some comfort in the fact that we've been here before. When Trump was elected to the White House for the first time back in 2016, investors bid up perceived "winners" with enthusiasm, assuming much of the campaign rhetoric would translate into prompt action. Many of our holdings were under pressure as they lived outside the focus areas of the initial exuberance. In 2017, however, reality set in and much of the newly elected president's ambitious agenda took longer to accomplish than expected. Our Portfolios, which lagged initially, recovered nicely as our secular themes and associated quality growth companies delivered on their promise, delivering durable earnings growth. We enter 2025 under a similar backdrop, and our relative valuation versus the market is even more compelling than it was at the start of 2017. We're also not standing still and added to our financials exposure, in particular, during the quarter. Key additions included Fiserv, a financial technology business that provides services to the secular growth area of digital payments; Jefferies Financial Group, a beneficiary of a favorable capital markets cycle; and an insurance firm (name withheld as trading recently completed) whose focus on life reinsurance positions it well for attractive compounding. These businesses all exhibit high-quality fundaments and are exposed to attractive secular growth opportunities. We funded these positions with profit-taking in technology and cash on hand.

As we reflect on 2024, like you, we're frustrated by the relative price performance of our holdings. Underneath this price performance, however, we're encouraged by the robust fundamentals our Portfolios demonstrated throughout the year, as seen by our superior earnings growth versus the market. The net result of this dynamic is a set of Portfolios that's trading at or near the most attractive relative valuations we've seen in the last 11 years. We've been here before. And the last time we reached these levels (2017), the Portfolios went on to have a strong relative move compared with the market. Until this relative value is unlocked, we'll continue to focus on what we can control—developing unique thematic insights, owning high-quality businesses levered to secular growth themes and maintaining disciplined Portfolio management.

Source: AllianceBernstein (Luxembourg) S.à.r.l.

abrdn Pacific Equity Fund (SGD and USD)

Investment and Market Review

Investment and Market Review

Asian equities posted decent gains despite a volatile 2024, on the back of a challenging macro backdrop of a weak China economy, lowered expectations of US monetary policy easing amid a strong US economy and increasing geopolitical noise and uncertainty ahead of the US presidential election in November. Following a period of multi-decade-high inflation, the tighter monetary policy environment by central banks around the world proved effective as inflationary pressures began to ease.

Early in the period, sentiment was weighed down by concerns about China's stalled recovery amid continued property woes and the Chinese authorities implemented various measures through the review period to support sentiment, financial markets and the broader economy. Its aggressive stimulus package in September then lifted a mainland market as it signalled a shift towards a pro-growth stance. While there are still concerns about the possibility of further US tariffs and sanctions, investor sentiment towards the mainland China market improved towards the end of the period.

The US Federal Reserve's shift towards a more dovish stance supported markets but also introduced volatility as investors adjusted their expectations. Global economic growth held up better than expected, though US recession fears heightened in the latter half of the period before subsiding somewhat. In addition, the global artificial intelligence (AI)-driven strength in technology stocks also boosted stocks across Asia, particularly in Taiwan. All this offset concerns over the potential impact of new US president-elect Donald Trump's tariff policies on the region.

As noted above, the technology-heavy market of Taiwan was the top performer in the region as investors judged that the semiconductor cycle was nearing its trough and responded to rapid developments in artificial intelligence (AI). Indian equities also made strong gains thanks to the buoyant economy, growth in the corporate sector and substantial foreign capital inflows, as investors shrugged off initial concerns about the uncertain outcome of the general election.

By contrast, South Korea was the weakest market, as political turmoil towards the end of the year, due to the short-lived imposition of martial law followed by the impeachment of the then-president Yoon Suk Yeol, resulted in extreme market volatility.

In terms of Fund performance, 2024 marked a year of two halves for the Fund, which returned 12.11% in Singapore dollar terms, underperforming the benchmark index by 201 basis points. This underperformance mainly came from the first half of 2024, where the continued market rotation to value created a stylistic headwind for our quality-focused portfolio. Encouragingly, the Fund's performance stabilised in the second half of 2024. This reflects the positive impact of investment process enhancements that have flowed through in better performance. The Fund outperformed its benchmark six months to December with the underperformance in China and Hong Kong narrowing significantly following some significant repositioning of the Fund's exposure to those markets.

Delving deeper in the key performance drivers, China, including Hong Kong, was the key detractor from relative performance. Our exposure to consumer-related stocks like Kweichow Moutai and Yum China hurt performance, as concerns over a slower-than-expected consumer recovery and a struggling property sector weighed on sentiment. In Hong Kong, our heavier-than-benchmark exposure detracted due to weak macro sentiment and foreign outflows, with key detractors being AIA Group and Budweiser APAC.

Entering the second half of 2024, we rigorously assessed our China exposure and repositioned the Fund towards names with the highest earnings visibility over the short term, as the mainland macro backdrop remained challenging. Specifically, we consolidated our consumer exposure and exited Budweiser APAC, Kweichow Moutai and Aier Eye Hospital. These companies are good-quality companies, and we will revisit them as the domestic growth backdrop improves on the back of further policy stimulus.

While AIA was among the biggest detractors from performance, with its share price impacted by fund flows, we maintain our high conviction in the insurer. AIA continues to deliver strong fundamental results, and we believe that its quality is mispriced. Its management has also been receptive to our engagement efforts with announcements of additional share buybacks and an enhanced capital management plan.

As part of the Fund's repositioning, we also expressed more conviction in names where we see highest earnings visibility, such as Tencent, CATL and Trip.com, which were also among the top contributors to relative performance.

As a result, the Fund's China exposure proved positive in the second half of 2024, with a performance turnaround (+40bps) from a relative underperformance in the first six months. Despite being underweight to China, the Fund also benefited in September, when both onshore and offshore Chinese equities rallied following China's policy pivot with a spree of stimulus measures, albeit more supply side and monetary focused, towards the end of the month.

Elsewhere, our stock holdings in Taiwan, Thailand, Singapore and South Korea added to the Fund's performance over the year, mitigating the China impact. Hence, despite a tough macro backdrop, we continued to see opportunities to add to performance through our stock picking in Asia.

In Taiwan, we saw our holdings in the tech supply chain perform solidly. Taiwan Semiconductor Manufacturing Co (TSMC) was the top performer. TSMC posted better-than-expected results and was more positive on the AI supply chain. Delta Electronics also stood out. We had added to the position earlier in the year because we thought that the market was undervaluing the company's structural growth from the upgrading of data centres driven by rapid AI development and the need for cloud computing. This was given Delta's market leadership in the power supply business, where power supply would need to be upgraded with each subsequent iteration of more powerful chips and servers. Accton Technology, the other AI beneficiary given its exposure to datacentre switches and AI accelerators, also benefited from similar demand strength.

Elsewhere, Thailand's Advanced Info Service rose on steady earnings, supported by capable management and an ability to control costs effectively.

In Singapore, DBS Bank contributed positively, as its results continued to exceed market expectations. The bank announced a S$3 billion share buyback over the next one to two years and raised its dividend guidance, reflecting confidence in sustained profits despite an upcoming interest rate cut cycle.

Meanwhile, the technology sector detracted due to weak stock selection, with mixed returns from holdings. Samsung Electronics was weighed down by concerns over weak demand for smartphones and legacy memories, and the risk of entering the high-bandwidth memory (HBM) market late. We believe Samsung's investment in HBM capacity reflects its view of HBM visibility, and we are monitoring developments closely. The lack of exposure to SK Hynix for much of the period also weighed on returns; we initiated a position in the stock towards the end of the review year. SK Hynix is benefiting from growing demand for HBM for AI processing and is developing energy-efficient chips and investing in greenhouse gas reduction technologies. Losses were mitigated by positive contributions from TSMC, as mentioned above.

Our semiconductor equipment exposure through the Netherlands, meanwhile, detracted due to industry challenges and restructuring of business and capex by large customers. While our holdings here remain quality companies, we have cut the portfolio's risk exposure to the semiconductor and technology hardware sectors and concentrated on names where we see the strongest visibility in view of the tariff uncertainty and volatility as we head into 2025.

In terms of portfolio activity, we have continued to use earnings visibility and cash flow generation as our key focus points, With this in mind, we have exited where we expect any fundamental weakness to persist for the next few quarters, and held on, or even added to holdings where fundamentals have remained resilient. As such, adjustments have been stock specific, not related to broad themes or sectors. We have resisted making wholesale changes and in some cases, we believe that sticking with our favoured long-term positioning has proved to be the right call.

Among the key trends, China has remained the major challenge for performance and our positioning. We have continued to monitor our holdings closely and exited positions in Aier Eye Hospital, Alibaba, China Tourism Group Duty Free, Glodon, Sungrow Power Supply and Wuxi Biologics on concerns over their earnings visibility. In their place, we introduced consumer-related stocks that have quality and a strong competitive edge in their markets. An example would be Trip.com. This leading online travel agency (OTA) in Asia displays a level of dominance in both China and India, the two most populous nations. We see a long runway for growth, with the international and domestic accommodation segment boosted by rising penetration in the core markets, and additional growth coming from outbound travel and trip.com.

We also introduced Meituan and Midea in China. Meitian operates a super app that caters to a wide range of consumer lifestyle needs, especially in food delivery. Over the longer term, we see its services, especially core food delivery, as having a long growth pathway with profitability set to rise from growing scale and improving efficiency. Midea is a leading home appliance group in China. It is well managed, has a broad product portfolio, good brand equity and a track record of strong execution. We expect the company to benefit from stable growth in China's home appliance market, along with growing taste for premium products. Another example was China Merchants Bank (CMB), the highest-quality lender on the mainland as evidenced by various financial ratios, including return on equity. China's banking market remains a structural growth story and CMB has capitalised on this through impressive execution over the years which is testament to the management's track record. In recent years, CMB has not only maintained its retail focus but has also been investing heavily in digital capabilities and growing its high-margin wealth management business.

Meanwhile, we retain our favourable view of India, which is a high-conviction market for us, and continued to increase our exposure to the country, where we have found quality companies that are well placed to capitalise on a favourable economic and policy backdrop. Among new holdings initiated here were Bajaj Auto, one of the largest two-wheel manufacturers in the world that we see can benefit from structural growth in demand in India as more people in India move out of very low-income groups and their purchasing power increases; Bharti Airtel, a leading telecommunications service provider with a pan-India reach and sophisticated customer base with higher-than-average mobile spending; Indian hospital operator Fortis Healthcare was added given compelling valuations relative to the rest of the sector, and as its hospital business continues to do well, while its diagnostics segment is expected to recover gradually; Indian Hotels (IHCL), India's largest hospitality company, which is well placed to tap on the hotel industry's multi-year upcycle with demand growth likely to surpass supply growth for the next few years; Info Edge (India), one of the strongest domestic internet companies; NTPC, an Indian state-owned energy enterprise that has a clear pipeline of both thermal and renewable energy; Pidilite Industries, a high-quality consumer and specialty chemicals business; Phoenix Mills, a leading retail-led developer and operator across India that has quality malls in top-tier and state capital cities as well as a good pipeline of new assets to be launched over the next few years; and lastly, Tata Consultancy Services, which continues to see new deal wins, showcasing its best in class capabilities in IT services. Against these we exited Hindustan Unilever and Infosys.

We continue to be positive on the longer-term structural growth outlook of Asia's technology sector. In particular, Taiwan and South Korea are at the cutting edge of the global technology boom, especially in semiconductors and AI. Within this context, we invested in pure-play memory semiconductor company SK Hynix as mentioned above. We also added a position in Taiwan's Hon Hai Precision Industry which is emerging as a key beneficiary of rising AI server demand, as it transitions from being an iPhone assembler to a vertically integrated AI server manufacturer.

We also initiated two holding in Vietnam over the period – FPT Corp, a diversified technology group with a fast-growing software outsourcing business, a name that we have known for many years. FPT also owns a telecoms unit, an electronics retailing company, and has interests in other sectors, such as education. More broadly, Vietnam is rising up fast as an alternative supply chain option amid geopolitical uncertainty, and with foreign direct investments (FDI) pouring into higher technology sectors, especially automotive and electronics. Joint Stock Commercial Bank For Foreign Trade Of Vietnam (Vietcombank) is among the highest-quality banks in Vietnam. It benefits from scale, a strong deposit franchise and a good long-term track record. The bank has been able to manage through multiple cycles and deliver growth over time. As for fundamentals, it leads its peers in profitability and efficiency, with a higher return on equity, lower cost-to-income ratio and lower cost of funding versus its domestic rivals.

Market Outlook and Investment Strategy

Sentiment appears volatile around Asia over the short term given the looming inauguration of Donald Trump as US President on Jan 20 and what that might mean in terms of tariff risks especially for China. The implications of Trump 2.0 for the broader region are complex. Trump is likely to drive uncertainty and volatility, which could create opportunities for long-term investors. Higher tariffs and trade barriers are expected, hurting China and prompting aggressive domestic growth efforts. Export markets may face pressure from higher tariffs and limited US rate cuts. Geopolitical tensions remain challenging, with potential shifts in Asia if Trump follows his first-term playbook. This period of change and volatility will affect multiple fronts. However, Asia's diversity means the entire region should not be painted with a broad brush. Economies like India, driven largely by domestic factors, may benefit from supply diversification away from China, which is also benefiting ASEAN. Intra-regional trade remains strong, and Asia lacks the macro imbalances seen in the West, ensuring resilience and growth. Quality companies should remain well-positioned.

From a portfolio perspective, we believe we are well prepared for a Trump presidency due to our quality-focused stock picking approach. We have tightened quality characteristics, adding names with greater near-term earnings visibility and steady cash flow generation, while reducing and exiting names with less visible earnings. We have managed down our exposure to tariff-related risks. For our China exposure, we have focused on each holding’s ability to defend and grow market share, expand overseas with limited tariff risks, and deliver shareholder returns through dividends and buybacks. We have also reduced our technology exposure. We maintain our conviction in our holdings and their ability to navigate market crosswinds, given their quality and fundamentals.

Finally, Asian earnings have shown resilience, even amid global economic uncertainties. Current valuations are relatively cheap, presenting attractive opportunities for investors. Historically, quality stocks in Asia have outperformed during market recoveries. Under a Trump presidency, this trend could continue, as his policies often focus on economic growth and deregulation, benefiting high-quality companies with strong balance sheets and consistent earnings growth. The inherent strengths of the Asian market, such as robust domestic consumption, technological innovation, and a growing middle class, further support the case for quality stocks. These factors drive economic growth, ensuring sustained demand for products and services from quality companies. In summary, the combination of resilient earnings, attractive valuations, and a supportive policy environment under Trump suggests that quality stocks in Asia could be poised for a significant comeback, offering stability and growth for investors.

Source: abrdn Asia Limited.

Allianz China A-Shares (SGD and USD)

Investment and Market Review

The Fund slightly lagged the benchmark in November. Positive stock selection in the Industrials and Consumer Discretionary sectors was offset by some weakness in Financials and Materials.

At a single stock level, a key detractor last month was Luxshare Precision Industry, a leading smartphone and consumer electronic component producer and a key supplier to a multinational technology giant. The share price saw a pullback after the US election results amid concerns about the potential impact of higher tariffs. We believe Luxshare will be able to mitigate this risk if required, for example by transferring production to other countries. Longer term, the company continues to gain market share in the afore-mentioned technology giant’s supply chain by enhancing its ongoing vertical integration and supplying a broader range of capabilities.

Conversely, a leading contributor was a company specialising in the development of high-tech auto parts such as chassis systems, intelligent driving and anti-vibration systems. The company is a key supplier to an American electric vehicle manufacturer, and the stock saw a big rally post the US election results. The share price was also supported by positive Q3 results. Longer term, we believe the company has good growth prospects underpinned by new product opportunities and expansion into humanoid robots.

Market Outlook and Investment Strategy

Recent weeks have seen China equities consolidating somewhat after the very strong rally at the end of September/early October, which was spurred by a significant change in government policy focused on stabilising the economy as well as financial markets.

This has resulted in China equities being one of the better performing global asset classes year-to-date, delivering double-digit gains in US dollar terms in both onshore and offshore markets.

A key market concern since the US elections has been to what extent higher US tariffs, which weighed heavily on sentiment in China equities in 2018, will again become a major risk. Our view is that the “shock factor” of a Trump presidency will be somewhat less the second time around, and that China authorities will react with further domestically focused stimulus measures in the event of a major hike in tariffs.

Indeed, it was noticeable how China equities reacted positively in the final week of November in response to an announcement by President-elect Trump that he would impose an additional 10% tariffs on China goods on top of all existing levies. This would suggest that, to some extent, the expectation of higher tariffs is already discounted in share prices.

Looking ahead to next year, a further key issue will be concrete signs that China's policy package is working, which would then potentially outweigh tariff concerns. While high frequency economic data has certainly improved so far in Q4, there are still questions as to the sustainability of this improved economic momentum.

In particular, China's export momentum – a key driver of growth this year – will likely fade in 2025. As such, an improvement in domestic demand will be needed to achieve the expected gross domestic product (GDP) growth target of 4.5 - 5.0%. Unlike in other global economies, Chinese consumers have been in "saving" rather than "spending" mode since the end of COVID. Retail cash levels are close to record high levels – household deposits in banks, for example, have reached the equivalent of two times the entire market capitalisation of China A-shares.

Much of the reason for the higher savings rate, in our view, is related to fears of future income prospects and the erosion of wealth as house prices have fallen. As such, stabilising the property market will be key to start rebuilding confidence and ultimately reversing this cycle.

Notwithstanding the uncertainty regarding what the Trump presidency will bring, overall our view is to be more optimistic on the outlook for China equities. The government has sent strong signals that it will step in to support the China A-shares market in particular, which should help limit downside risks. With the likelihood of more supportive government measures to come, and with market valuations still reasonable, our view is to buy the dips rather than to sell the rallies.

In terms of portfolio activity, given our more constructive outlook, we have added to stocks which are more sensitive to an improvement in the domestic economy and financial markets. These include financial services companies such as investment banking and mutual fund management businesses, as well as consumption-related stocks. Conversely, we have trimmed exposure to previous outperformers such as large banks and selective semiconductor companies.

The portfolio continues to have relatively close-to-benchmark sector allocations. At month-end, the largest sector overweight is Consumer Discretionary (+3.2%), while the largest underweight is Information Technology (-4.5%).

Source: Allianz Global Investors

Allianz Global Artificial Intelligence (SGD and USD)

Investment and Market Review

US shares rallied strongly over November, spurred by Donald Trump's decisive victory in the presidential election, as it boosted hopes of tax cuts and looser regulations. The S&P 500 Index closed the month at a fresh high, although the Nasdaq failed to regain its post-election peak. Meanwhile, US smaller companies soared, with the Russell 2000 Index touching a record high for the first time in three years. However, threats of tariffs weighed on the performance of other markets, particularly in Europe, Japan and many emerging markets.

The US Federal Reserve (Fed) cut rates by 25 basis points (bps), slowing the pace of its easing after September's 50-bps reduction. Minutes of the meeting revealed that policymakers are considering scaling back future rate cuts if inflation fails to be tamed. While jobs growth was far weaker than expected in October, elsewhere the US economy appears solid. In contrast, the growth outlook darkened in Europe, ramping up pressure on the European Central Bank (ECB) to cut rates further. Meanwhile, speculation grew that the Bank of Japan (BoJ) may raise rates again before year-end.

Oil prices closed the month little changed, with Brent crude trading around USD 72 per barrel. Israel's ceasefire with Lebanon's Hezbollah allayed fears over potential supply disruptions in the Middle East. The Organisation of the Petroleum Exporting Countries plus (OPEC+) next meets in early December amid rumours that a planned production increase may be postponed given oversupply concerns in 2025. Gold eased from the record high hit at the end of October as the US dollar strengthened.

From a sector perspective for the MSCI All Country World Index, performance was led by Consumer Discretionary,followed by Financials. The Materials and Health Care sectors were the top laggards over the period.

Market Outlook and Investment Strategy

We continue to have a constructive mid- to long-term outlook for equity markets given the earnings growth potential from continued AI innovation and adoption over the coming years. We recognise that short periods of volatility may occur, as markets digest changes in the timing of future rate cuts by the Fed and unexpected announcements from the upcoming Trump administration, especially around geopolitics and global supply chain. We continue to maintain a balanced portfolio positioning for the upcoming Trump presidency, which should be similar to his past administration. Overall corporate earnings have been relatively resilient year-to-date, although there have been pockets showing some softness given the lag effect of higher rates. As we have done in periods of volatility, we will opportunistically look to upgrade select names and add to our highest conviction ideas to better position the portfolio for improved performance.

Since inflation is now moving towards the Fed target of 2% and employment conditions have moderated, the central bank is now in a more comfortable spot to normalise policy. From the most recent Federal Open Market Committee (FOMC) meeting in November, Chair Jerome Powell highlighted that the central bank continues to pursue interest rate cuts as monetary policy is still restrictive. Minutes from the meeting indicated that the Fed recognises that inflation continues to ease towards the 2% target and the economy remains resilient and supports gradual rate cuts in the near future. An easier monetary backdrop should be constructive for the economy to regain its footing, but it may take time for effects to take hold.

As for what's next in the ongoing generative AI innovation wave, we expect the robust capital investments in "Phase 1" AI infrastructure to continue and the industry to enter the "Phase 2" AI applications wave that leverages this infrastructure to develop new generative AI capabilities in software to drive greater value and automation opportunities. We are also seeing early signs of "Phase 3" AI-enabled industries demonstrating effective use of generative AI. Many companies outside of the Technology sector are increasing investments in generative AI to train one's own industryspecific model on its proprietary data or knowledge to compete better and innovate in the future. A backdrop of emerging AI beneficiaries underappreciated for their potential creates a significant opportunity for alpha generation in the years ahead.

AI infrastructure: The developments around generative AI and large language models further demonstrate that the demand backdrop for AI infrastructure companies should remain strong given the computing requirements for training complex AI models and subsequent inference needed for edge intelligence. More companies are now motivated to build out their own domain-specific generative AI capabilities through continuous training and refinement. As these launch for broad-based use, demand should also expand to networking and storage infrastructure to support the explosive growth in new AI workloads. Investment also appears to be expanding to smaller cloud providers, governments and corporations in more countries around the world, which should be supportive of the ongoing build-out of critical AI infrastructure in the coming years.

AI applications: A new wave of AI applications is emerging that infuse generative AI capabilities into their software to drive greater value and create more monetisation opportunities. Generative AI appears to be evolving into its next phase with the emergence of AI agents. These applications are customisable and run 24/7, and can mimic human decision-making capabilities. This can take a lot of costs out of businesses and dramatically improve productivity. As these AI agents roll out for broader distribution, AI applications companies can open up many new monetisation opportunities and create value for users.

AI-enabled industries: AI is helping to reinvent digital transformation, introducing new generative AI possibilities that can significantly boost productivity and reduce costs. As more processes go digital, the opportunity for AI to react to new information or unexpected changes can revolutionise every industry. Many companies in AI-enabled industries are increasing investments in generative AI to train one's own industry-specific model on its proprietary content or knowledge to compete better and innovate in the future. We are witnessing an increasing number of companies across Automotive, Consumer, Health Care and Finance sectors leveraging proprietary datasets that could yield differentiated AI models and applications that are difficult to replicate and can handle tasks better than general purpose AI. We believe this is just the tip of the iceberg as companies become more comfortable with AI's potential to drive greater efficiencies and automation across every part of their business.

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advances in – and the deployment of – AI. We believe these changes will drive meaningful growth for companies that can take advantage and drive disruption within their respective industries. Our view is that the compounding effect from AI disruption will create massive opportunities for innovative companies across every sector. Stockpicking will be essential to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change. As we have done since the launch of the Fund, we remain focused on identifying the companies that leverage AI to deliver the most shareholder value creation over the long term. Compared to the technology innovation ahead of us, humanity is still on day one of our journey through the AI revolution.

Source: Allianz Global Investors and Voya Investment Management

BlackRock Asian Tiger Bond Fund (SGD and USD)

Investment and Market Review

Asian credit, represented by the JPM Asian Credit Index (JACI), returned -0.80% in December 2024. Of this, 0.46% was from carry, -1.28% was from duration and 0.02% was from credit. UST yields rose through the month as market expects less rate cuts in 2025.

The Federal Reserve (Fed) cut rates by 25 basis points but signaled a more cautious approach to rate cuts ahead. Persistent inflationary pressures continued to hinder the broader easing cycle that markets had been expecting.

In China, the Politburo meeting was held, which announced the need to implement more proactive fiscal policy and a moderately accommodative monetary policy, along with enriching the policy toolkit, boosting consumption and improving investment efficiency. Promoting technological innovation and stabilizing the real estate market are also top priorities. The Central Economic Work Conference followed the policy guidance set out in the Politburo meeting. Official targets for GDP growth and fiscal deficit will only be confirmed in March next year.

In South Korea, President Yoon Suk Yeol briefly imposed martial law, which was later rescinded, followed by his subsequent impeachment. While stable fundamentals are expected to continue supporting South Korean credits, domestic policy uncertainty now adds to the existing challenges in the external trade environment. Financial regulators have indicated their readiness to implement market stabilization measures if required.

In Frontiers, Moody’s upgraded Sri Lanka’s foreign currency issuer rating to ‘Caa1’ from ‘Ca,’ and Fitch raised its long-term foreign currency rating to 'CCC+' from 'restricted default,' reflecting progress after creditor approval of the country's $12.55 billion debt restructuring plan.

Asian credit, represented by the JPM Asian Credit Index (JACI), returned 3.69% in November 2023. Of this, +0.52% was from carry, +2.15% was from duration and +1.01% was from credit. Asian credit staged a comeback this month due to lower UST yields, news of Chinese policy support and general positive sentiment.

n terms of manufacturing activity, China’s manufacturing Purchasing Managers Index (PMI) slowed in December, though both the official and Caixin figures remained slightly above expansion territory at 50.1 and 50.5 respectively. Elsewhere, Japan, Taiwan, Indonesia and Thailand showed notable improvements in manufacturing performance. In terms of services, China’s Caixin General Services PMI rose to 52.2, up from 51.5 in November, marking the fastest expansion since May 2024.

On the local market front, the Reserve Bank of India (RBI) left rates unchanged at 6.5%, and the policy stance was left unchanged at “neutral”. Sanjay Malhotra was appointed as the new RBI governor, marking a shift in tone with an upcoming rate cut being increasingly likely. Bank Indonesia and Bank of Thailand maintained their policy rates as part of prioritizing currency stability for the former and preserving policy space for the latter. Bangko Sentral ng Pilipinas cut policy rate by 25 bps, though reiterating that any future monetary easing would be “measured” to ensure price stability.

Asia saw 2024 supply amount to around US$162 billion across IG and HY (a 51% year-on-year increase), and 2025 supply is forecasted to remain relatively flat at US$170 billion. The primary market slowed as we headed into the holiday season in December, but issuance is likely to pick up in January which is traditionally a busy month.

Fund Performance

In December, the BGF Asian Tiger Bond Fund (A2 shareclass) returned -1.07% net of fees while its benchmark, the JACI, returned -0.80%.

Active credit returns were close to flat relative to benchmark. Our largest contributors came from select positions in Sri Lanka, security selection in India HY, security selection in Indonesia HY and in Financials. Other notable contributors include off- benchmark Middle East and overweight in China HY Industrials.

On the other hand, select positions in Hong Kong IG detracted slightly due to idiosyncratic issuer news and developments. Other detractors include select positions in China property and underweight in Indonesia sovereigns.

Ex-ante credit beta remains stable at 1.06.

The fund added to select Australian names, off-benchmark middle east, select names in China TMT and smaller additions elsewhere.

On the flip side, reductions were made across credit hedges, off-benchmark convertible bonds, select positions in financials and smaller reductions elsewhere.

On the rates front, we added a small JPY short duration position and increased our USD duration slightly.

Market Outlook and Investment Strategy

USD Duration: Long

Hard Currency Credit:

• The fund has an IG-tilt with 60.7% in IG (including cash) as of end December and a BBB- average rating.

• APAC IG: This segment remains a resilient source of short-dated carry, has a strong presence of sovereign/quasi sovereign issuers, shorter duration than global IG counterparts and absorbable issuance pipeline. We are comfortable with some Indonesia renewable operators in the private utility space, select India names with dominant market positions and strong balance sheets that we expect should weather through near-term inflation and macro headwinds, and select Thai corporates names. We are underweight regions and sectors with tighter valuations.

• China: As of end December, ATBF has a 16.6% allocation to China - a 14.7% underweight compared to its benchmark. At the same time, we still find a number of attractive opportunities in China. The backdrop of (1) stable fundamentals for most of the Chinese companies, coupled with (2) the lack of issuance due to alternative funding channels onshore and (3) strong demand from Chinese investors is keeping volatility for large segments of the market low and the backdrop for Chinese fixed income favourable. In China offshore state-owned enterprises (SOEs), fundamentals are stable overall, and technical are strong due to limited supply and supportive onshore banks. While we are selectively positioned in some strategic SOEs, we have an underweight overall in the sector on the back of tight valuations. Within private-owned enterprises (POEs), we like the technology, media, and telecom sector due to improving credit trends and the sector remains strategic to China's national interests. Within financials, we find select attractive opportunities, reflecting a combination of systemic importance, strong shareholders, strong company fundamentals and event-driven trades. As for the China real estate sector, it is now an immaterial component of JACI (less than 2%).

• Non-China HY: In India HY, we like renewables, steel companies, infrastructure credits and select non-bank financing companies. There has been pickup in growth, improved access to domestic liquidity and stable credit profiles. In Indonesia HY, we like names in energy, renewables and real estate. Macau gaming is another interesting sector, which has been technically well-supported by the increase in travel, improving fundamentals, and stable credit profiles. We like select opportunities in Philippines, Hong Kong, Singapore (including in SGD), and smaller issuing countries on a name-by-name basis. For Frontier sovereigns such as Pakistan, Sri Lanka and Mongolia, we are selectively positioned with a focus on curve selection.

• APAC Financials: Asian financials' profitability has been improving due to the higher rates environment. Asset quality has not shown much deterioration from higher funding costs as economy recovery continues. We are currently underweight names with tighter valuations, mostly in China Hong Kong, and South Korea, but remain comfortable with the fundamentals in the sector overall. For example, Chinese asset management companies' systemic importance has been illustrated through Huarong's bailout led by Citic Group. Other financial holdings in countries such as Hong Kong, Malaysia and Thailand are mostly in top banks with good fundamentals and/or parental/ government support that would help them weather through macro uncertainty.

• Middle East, Japan and Australia: Off-benchmark allocation to Middle East USD credit provides attractive carry and limited supply risk. We have also built-up positioning in Japan, largely in short-dated financials with attractive carry and ESG profiles. We also have Australian bank positions with strong fundamentals, capitalization and profitability ratios.

Source: BlackRock (Luxembourg) S.A.

BlackRock European Equity Income Fund (SGD and USD)

Investment and Market Review

- European equity markets were slightly down by -0.5% during December, though finishing the year up 8.6% (MSCI Europe, in EUR).

- Key macroeconomic events during the month included the European Central Bank (ECB) lowering interest rates by 25bps for the fourth time in 2024. The ECB noted that the disinflation process is on track and projects headline inflation averaging 2.1% in 2025 and 1.9% in 2026. Additionally, improved activity in the services sector provided some support with Eurozone Services PMI rising to 51.4, up from 49.5 in November. On the political stage, we witnessed the expected no-confidence vote against Chancellor Scholz in Germany which leads to new elections in February 2025.

- Cyclical sectors drove market performance with consumer discretionary, technology and financials delivering the strongest returns during December. As US bond yields moved higher, real estate as well as more defensive sectors such as healthcare and utilities lagged the market.

- The fund was slightly behind its benchmark, largely due to its more defensive positioning.

- The fund’s underweight allocation to healthcare and energy was positive during the month, as was an overweight allocation to financials.

- A lower weight to technology was negative as the sector saw a rotation following a couple of weaker months, although this was offset by positive stock picking.

- Our underweight exposure to consumer discretionary was also negative, as improved consumer demand, especially in the US, moved the sector higher.

- The fund’s recent addition in luxury group Richemont was the single largest contributor to active returns during the month. The sector benefitted from improved consumer sentiment, especially in key markets like the US with demand picking up post US election uncertainty. At the same time, the Chinese consumer looks to be stabilising following a sharp deterioration over the summer, which was seen as a positive sign for the overall luxury sector. We believe Richemont is well-positioned in the luxury space, with less exposure to China than its peers, and benefits from Cartier's strong brand momentum in the highly attractive hard jewelry category.

- Stock picking was also favorable within the technology sector. Shares in Swedish Hexagon performed well following the announcement of a highly regarded new Chairman with an excellent track record of creating shareholder value joining the company. Björn Rosengren, who will become the new Chairman of Hexagon in 2026, has previously served as CEO of ABB and Sandvik. His extensive experience in leading major industrial companies positions him well to guide Hexagon. Shares in German software name SAP also performed strongly.

Within industrials, Ferrovial also contributed positively following news that one of their key projects, the 407 ETR highway in Canada, increased fees following a four-year rate freeze. This was taken positively by the market.

- A number of European banks aided to returns during the month, finishing the best year for the industry since 2010. KBC, Unicredit, HSBC and Caixabank all contributed positively during December. Since 2022, European lenders' profits have been boosted by higher interest rates. Even as central banks began cutting rates this year, many banks’ successful structural hedging protected their profitability. This allowed them to return record levels of capital to shareholders, a significant reversal from 2020 when the ECB froze dividends and share buybacks. Looking ahead, European banks may further turn to mergers and acquisitions to find cost savings and economies of scale.

- Elsewhere within financials, insurer AXA showed strong performance, while shares in peer Tryg weakened despite a solid Capital Markets Day. In a month favoring cyclical shares, Tryg experienced a slight decline.

- On the negative side, a few shares including CRH and Experian weakened slightly following strong performance and on no stock specific news.

- A position in Novo Nordisk also fell after the company released trial results for its follow-on drug, Cagrisema. The trial showed a 22.7% weight loss, below the expected 25%, leading to a volatile share price reaction. Despite this, the result remains market leading. We would note that the trial's design allowed patients to stop at any dose, which may have influenced the outcome and could suggest that patients might have stopped due to the rapid weight loss. Novo plans another trial in H1 2025 to explore optimal dosage. Generally, we remain optimistic about Novo' obesity drugs. The shares' underperformance in December was a market overreaction in an otherwise quiet December and we marginally added to the position.

• During December, we added insurer Zurich to the portfolio as we believe it stands to benefit from favourable market conditions, particularly in its property & casualty (P&C) exposures and commercial lines. The life business is also progressing well, shifting towards higher-margin products. Zurich offers a strong proposition with over 9% EPS CAGR, a robust ROE, as well as good yield. Zurich's cash generation and capital allocation priorities, including dividends, organic growth, and buybacks, further support our decision. Additionally, their rollout of digital/AI tools should enhance sales capacity, claims, and expenses management.

• We added SGS to the portfolio after their recent Capital Markets Day. This Swiss company specialises in testing, inspecting, and certifying products, projects, processes, and raw materials. SGS serves a diverse range of end-markets, with a focus on resources and consumer goods. The industry remains resilient due to increasing regulations, standards, and product complexity. SGS is well-managed, with improving cash conversions and margins, and offers a healthy dividend yield of around mid-3%.

• Elsewhere, we completed our switch from LVMH, which has now left the portfolio, in favour of Richemont. We also sold Segro due to limited near-term catalysts and upside potential.

Market Outlook and Investment Strategy

• At the end of the month, the largest portfolio overweights were in industrials and financials while the most significant underweights were in consumer staples, energy, healthcare and consumer discretionary.

Source: BlackRock (Luxembourg) S.A.

BlackRock Global Allocations Fund (SGD and USD)

Investment and Market Review

• Stocks and bonds each fell during the month, following the Federal Reserve's December meeting. The Fed's revised outlook for rates caused investors to sell risk assets on the conclusion that U.S. monetary policy was likely going to remain more restrictive than expected in the new year. Global stocks, as measured by the MSCI World Index, fell -2.6% in December. Bond prices also declined in reaction to the less accommodative rate outlook by the Fed. Long duration government bonds, in both the U.S. and overseas, experienced the largest price declines across the asset class. Lower duration segments, such as U.S. high yield, generally experienced less substantial losses. Meanwhile, outside the U.S., developed market sovereign and emerging market bond prices were further weighted down by a sharp rise in the U.S. dollar of more than 2.7%.

• Over the month, the fund's equity weighting decreased from 66% to 63% as markets weakened heading into year-end on expectations of a less accommodative U.S. monetary policy than previously expected. Our 2025 base case is that stocks have the potential for another year of growth on the back of strong NGDP and earnings growth, even if rates continue to edge higher. That said, the team is mindful of volatility in the near-term following the strong risk-on rally and looked to manage the fund's beta going into year-end.

• The bulk of the overweight exposure remains oriented towards secular growth companies in technology and technology- related segments that are cash flow generative with consistent profitability. This positioning is balanced with exposure to consumer discretionary and financials given economic resilience, attractive valuations relative to other sectors as well as potential deregulation to serve as a catalyst for growth.

• Outside of a slight increase in communication services and consumer discretionary, exposure across sectors fell over the month, with the largest decreases in information technology, financials and energy.

• Within technology, the team pared back exposure across select semiconductor companies where valuations appeared stretched. We maintain an overweight to the sector, with exposure primarily in select software and cloud computing companies that we feel could benefit from proliferation of AI-related growth. Broad decrease in exposure also the result of index put options bought to manage the overall risk of the fund, with mega-cap technology companies representing a large % of index exposure.

• Increased overweight to communication services with positioning concentrated in select mega-cap internet and e-commerce companies that are positioned to benefit from a more stable digital advertising environment, with additional demand from cautious consumers given price discovery and promotional activity offered. We are less constructive on the tower space given ongoing potential for mergers across the primary operators.

• From a regional perspective, our largest overweight remains in the U.S. given the relative strength of its economy and prominence of quality companies. We remain cautious on Europe given ongoing growth challenges, with existing exposure diversified and largely idiosyncratic.

• Within derivatives, the team continues to rely on option strategies to manage the overall risk of the fund at both the index and single name level. As market uncertainty returned in December, the team employed index put options to decrease the beta as well as stock replacement strategies in segments where valuations appeared stretched.

• Duration remained at 2.0 years as of December month-end vs. a benchmark duration of 2.3 years. Positioning remains tactically managed through the use fixed income derivatives, notably bond futures.

• From a regional perspective, the Fund's underweight to duration is driven by underweight exposure in the U.S. and Japan, with a modest overweight in Europe and Latin America.

• Within rates, U.S. exposure remains concentrated at the front of the yield curve given attractive absolute yields. We remain underweight long-dated treasury bonds given the potential for episodic back-up in rates on elevated Treasury issuance due to structural budget deficits.

• We continue to find value in spread assets with exposure in a diversified basket of credit, securitized debt, and various duration hedges. The aggregate exposure of the portfolio's off-benchmark fixed income asset classes represented ~12% of AUM and is a key differentiator vs. traditional "60/40" portfolios. We believe the high nominal yields that these bonds offer more than offset the narrow credit spreads that currently accompany them and serve as a complement to risk assets.

• Over the month, we reduced exposure to European government bonds, notably in Spain to manage our spread duration.

• Most of the fund's credit exposure remains in high yield, given the overall health of issuers from a credit perspective as they have termed out their debt and find the absolute level of yields compelling (vs. a view on spreads). In addition, the supply of high yield bonds relative to investment grade and treasuries, remains much lower. Exposure is diversified across the U.S., Europe and Asia. For the non-U.S. securities, in addition to the absolute yield, there is potential for incremental income via the currency translation (swapping underlying euro exposure back to dollar).

• The fund's exposure to gold-related securities remained essentially unchanged at 2%. We remain constructive on gold and believe it's perceived as a store of value in an environment of rising deficits and warrants inclusion in a diversified risk-aware mandate.

• Exposure to cash increased to 9.4%, from 5.8% largely from reduced exposure in equities. In an environment where traditional hedges such as long-term bonds remain less effective, the team continues to rely on a combination of cash, along with income, derivatives, gold and FX positioning to manage the fund's overall risk profile.

• Over the month, brought some of the larger active positions in line, notably by reducing the overweight to U.S. dollar to fund a slight increase, largely vs. the euro (thereby reducing the underweight).

• U.S. Dollar continued its rally following the less accommodative tone from the Fed around the extent of additional interest rate cuts. Despite near-term strength, we remain of the view that the dollar could remain challenged longer-term in an environment where short-term interest rates are broadly declining, albeit at a slower pace than previously expected. As a result, the team continued to take a diversified approach with other currencies as well as gold as an alternative store of value.

• Remain underweight the euro (12% vs. 13% benchmark weighting) given the weaker growth environment and likelihood for the ECB to be more aggressive in monetary easing than the Fed. Historically, declining interest rates have served as a headwind for the currency.

• Reduced exposure to the Japanese yen to a neutral position and maintained a modest overweight to the Swiss Franc (+0.3%), to diversify exposure across reserve currencies during times of elevated uncertainty.

• The fund's remained underweight the Chinese Yuan and Hong Kong Dollar due to ongoing weakness in mainland China's economy due to lingering troubles in the country's large real-estate sector and scepticism on implementation of government stimulus.

Market Outlook and Investment Strategy

• Asset allocation (as % of net assets*): Equity: 63%, Fixed Income: 26% Precious Metals: 2%, Cash Equivalents: 9%.

• Looking ahead, we believe that U.S. economic growth, powered by a strong U.S. consumer, is likely to remain robust. We believe an environment of mid-single nominal GDP growth is supportive of low double-digit earnings growth. While we remain constructive on the U.S. economy, we expect a more volatile equity market in 2025 than investors enjoyed in 2024. We suspect that U.S. fiscal imbalances, if left unaddressed, have the potential to cause periodic spikes in long-term Treasury yields. Sharp rises in the U.S. risk-free rate have historically been accompanied by elevated levels of equity market turbulence. In this environment, we believe that equities have the potential to appreciate, albeit with periodic volatility. Within equities, we maintain overweights in long-term secular growth companies that are cash flow generative. This positioning is balanced with cyclical exposure across financials that could benefit from potential de-regulation under the incoming Republican administration, as well as consumer discretionary given strength of the US consumer. Across fixed income, we continue to tactically manage our duration exposure. Within U.S. rates, the bulk of our exposure remains at the front to intermediate part of the U.S. yield curve. Looking beyond Treasuries, nominal yields remain compelling, with access to an attractive level of absolute income that could augment equity positioning. As a result, the bulk of our fixed income exposure remains in a diversified basket of corporate credit and securitized assets. In-line with the fund's risk aware mandate, we hold exposure to an array of portfolio hedges (in addition to duration), including derivatives, cash, commodity- related and FX positioning.

* All exposures are based on the economic value of securities and is adjusted for futures, options, and swaps (except with respect to fixed income securities) and convertible bonds. Numbers may not sum to 100% due to rounding.

Source: BlackRock (Luxembourg) S.A.

BlackRock Global Equity Income Fund (SGD and USD)

<u>Investment and Market Review</u>

The A2 share class returned -2.96% net of fees over the month, underperforming the benchmark by -0.59%.

Stock selection in Financials, Health Care and Consumer Discretionary were the main detractors during the month. From are gional perspective, stock selection in the US, and stock selection with an overweight position to Europe also detracted from relative performance.

Stock selection in Information Technology and Materials were the biggest contributors to relative performance during the one-month period. Stock selection in Emerging Markets also contributed to relative performance.

Novo Nordisk, the Danish pharmaceutical company detracted the most during the period. A disappointing Phase 3 read-out for key drug "Cagrisema" resulted in weak performance for the shares. Whilst Cagrisema had been expected to achieve >25% weight loss, only 23% was achieved in the trial - although this was seemingly more a result of nuances of trial design, rather than a real shortfall in efficacy of the drug. Whilst this update is disappointing and has optically worsened Novo's competitive position versus Eli-Lilly, we do continue to expect both companies to dominate the obesity market for the foreseeable future. We are anticipating additional Cagrisema data early in 2025.

UnitedHealth Group, a health insurance and services company, detracted during the period. Following the assassination of Brian Thompson, CEO of UnitedHealthcare (the group's Insurance company), there has been heavy scrutiny of the profitability and willingness to pay claims from both the public and politicians raising concerns about future regulation or further market interventions. During December, legislation was also introduced to reform Pharmacy Benefit Manager's (PBMs) drug rebates. In our view, this is unlikely to be material for the company given this is a LSD share of both revenue and profitability, whilst we expect the legislation to have a neutral effect.

The fund's lack of exposure to Tesla, the American automotive and clean energy company, detracted from relative performance. Tesla performed well during the period primarily due to a significant rise in its stock price, which surged by 37% following the recent presidential election and Elon Musk's new role in the Trump administration, on anticipation that tariffs on foreign-made cars could boost Tesla's competitive position, that removal of green subsidies would cement Tesla's position within the EV space, and on anticipation of deregulation around self-driving vehicles.

Broadcom Inc. - the semiconductor manufacturing company, contributed the most to relative performance during the period. The company reported FY24 results in December, with both AI revenues ($12.2bn +220% yoy) and Networking (+45% YoY) materially ahead of consensus. Broadcom also announced a design win in ASICs with Apple, strengthening their credibility in this field and our thesis that 'Phase 2' of AI will require greater usage of ASICs. During the earnings call, CEO Hock Tan also referred to AI revenue serviceable addressable market of $60-90bn by 2027.

Taiwan Semiconductor Manufacturing Company ("TSMC") also contributed. In December 2024, TSMC solidified its position as a leading global semiconductor foundry, achieving record-high stock prices driven by strong sales and positive expectations surrounding Nvidia's announcements at the Consumer Electronics Show ("CES") 2025. The company's growth was underscored by the struggles of competitors like Samsung and Intel, with TSMC's CFO expressing confidence in robust growth fuelled by AI and an anticipated broader market recovery. Strategic increases in wafer prices were implemented to reflect the value TSMC provides, while advancements at its Arizona fab approached volume production, indicating rising capital expenditures due to strong demand.

LVMH Moët Hennessy Louis Vuitton, a global leader in luxury goods, also contributed to returns. Shares saw a recovery following a torrid year. In spite of limited company-specific news flow, shares rebounded on optimism that valuations have normalised, the US market could benefit from a Trump boom and China datapoints could improve with renewed stimulus announcements.

Market Outlook and Investment Strategy

We have a constructive view of markets entering 2025, with an expectation that the US will continue to outperform other regional markets. In our view, focus is likely to be on the new Republican administration's policy agenda. Following another year of material US outperformance in 2024 led by large-cap technology stocks, signs of the 'pro-business' environment of low taxes and a less regulated operating environment will be key to sustaining the rally. In our view, the outlook for US Consumers remains strong given a supportive employment backdrop, manageable levels of personal debt and easing inflation.

There are two areas of risk we remain watchful of – inflation and valuations within the technology sector. In our view, the market is pricing a benign macro-economic environment for the US, with just two or three further rate cuts currently expected for 2025,given the strong employment environment and manageable inflation dynamics. Any rebound in inflation would risk higher short and long-term yields. We see a number of factors that could result in higher inflation expectations - President elect Trump has indicated potentially higher tariffs and more strict immigration controls which have the potential to be inflationary, whilst the proposed fiscal stance also implies higher levels of government debt.

The narrowness of performance experienced in 2024 also poses a potential risk to the market performance. We note that many large-cap technology stocks are trading at all time highs after a period of very significant market outperformance in 2024,particularly in areas like Software and related to Artificial Intelligence (AI). Within the technology sector, whilst we have material exposure to AI in funds, recognising it as a structural long-term growth trend, our focus is on those companies where we believe they can tangibly generate revenues and cashflows from growth in AI investment. Our process emphasizes fundamental valuation, which we believe will be key to stock picking in this environment.

Outside the US, we generally expect a more muted growth environment given the persistence of a strong US dollar and high Federal Reserve rates. Two areas of macroeconomic uncertainty are China and Japan.

Given recent stimulus announcements in China, we remain watchful given the broader potential consequences of a recovery in the Chinese economy. In our view, the measures so far announced are unlikely to be sufficient to address the deep-rooted nature of issues within the property market which are impacting local government finances and broader consumer confidence. However, we recognise that a more comprehensive package of measures could impact Energy and Materials markets. We would expect further policy measures to be announced with China’s March 2025 economic plenum, following greater clarity overtrade protection measures from the US.
For Japan, we have been cautiously positioned for economic recovery resultant from monetary policy normalisation. In our view, a higher US rate environment for longer may give the Bank of Japan further time to normalise their policy rate environment – we would expect a further rate hike of 25bps in 1Q25.
We continue to see high levels of valuation dispersion across the market, with materially different economic expectations priced into stocks with similar characteristics. We continue to focus on the long-term potential of businesses and look to take advantage of short-term market noise to make investments at attractive valuations. We believe that quality companies offer resilience and are most likely to continue to grow in a volatile environment. Their well-invested brands, pricing power and intellectual property

Source: BlackRock (Luxembourg) S.A.

BlackRock Global High Yield Bond Fund (SGD and USD)

Investment and Market Review

• Per J. P. Morgan, the Global HY market returns were -0.31% over the month. High-yield bond yields reached a four-month high in December, driven by the Federal Reserve's hawkish rate cut and a mix of stronger growth and inflation data.

• From a rating perspective, CCCs outperformed single Bs and BBs bonds over the month of December.
• Global high yield risk premiums widened 5 bps in December, representing a final period-end spread of T+329 bps, a yield-to-worst of 7.49%, and an average market-weighted price of $ 92.97.

• The fund returned -0.16% in December (net), outperforming its benchmark by 0.02%.

• Within high yield credit, underweight allocation to Foreign Agencies and Cable & Satellite sectors and security selection within Chemicals (o/w Herens Holdco) sector contributed to the performance results.

• Conversely, security selection within Wireless (o/w Kenbourne Invest), Building Material (o/w PCF) and Media & Entertainment (u/w IHeartcommunications) sectors detracted from performance results.

• Broadly, there were no significant changes to the fund's investment themes or positioning in December.

• The fund’s portfolio risk decreased over the month (beta was 1.01)

• Overall, the fund continues to favor more measured risk-taking in today's environment.

• From a ratings standpoint, the fund increased exposure to CCC and B rated names while decreasing exposure to BB and D names; from a sector perspective, the fund added names to the Banking, Cable & Satellite and Building Materials sectors while reducing risk in the Leisure, Chemicals and Technology sectors over the month.

<u>Market Outlook and Investment Strategy</u>

• The fund’s core issuer/credit biases remain centered on cash-flow views, determination of a specific catalyst, and/or idiosyncratic characteristics; top issuer overweight include Cloud Software Group (Technology), Hub International (Property & Casualty) and Allied Universal Holdco (Consumer Cyclical Services).

• From a credit standpoint, we remain underweight BB-rated credits and overweight BBB and B-rated names and select BBB-rated names with improving credit positions or attractive yields.

• In addition to credit, we’ve favored positions in equity and equity-like (preferred and convertible) instruments to enhance the fund’s total return profile but will tactically implement hedges to mitigate this risk when markets warrant. We also hold a tactical allocation to CLOs.

• Generally, the portfolio remained well-diversified with 558+ issuers, an average issuer-level position of roughly 17bps, with the top 25 names constituting 20.10% of the portfolio.

Source: BlackRock (Luxembourg) S.A.

BlackRock World Gold Fund (SGD and USD)

<u>Investment and Market Review</u>

The BGF World Gold Fund fell -9.0% in December, outperforming its benchmark, the FTSE Gold Mines Index, which declined -9.6%.

Fund performance in US dollar terms and net of fees for the A-share class.

• Gold equities significantly lagged broader equity markets in December, with the MSCI All Country World Index returning -2.4%.

• The gold price declined by -1.3%, as the rising strength of the US dollar and increasing real interest rates acted as headwinds.

• For reference, the DXY index increased from 105.7 to 108.5 and real interest rates rose, with the US 10-year real interest rate rising from 1.9% to 2.2%.

• Physically-backed gold ETFs recorded slight outflows in December, resulting in total holdings decreasing from 2,584 tonnes to 2,577 tonnes.

• Meanwhile, net length in the Comex gold futures markets rose 23.4Moz to 24.8Moz.

• Performance for the non-gold precious metals was weak, with the silver, platinum and palladium prices falling -1.3%, -2.8% and -7.5% respectively.

• Our off-benchmark position in De Grey Mining was the largest positive contributor to relative performance during the month, as the stock increased following Northern Star Resources' bid to acquire it.

• Our underweight position in Agnico Eagle Mines was the largest detractor from performance, as the company continued to deliver operationally.

• Additionally, our off-benchmark position in the royalty company Franco Nevada contributed positively to relative returns given its more defensive nature. During the month, we added back to Pan American, taking advantage of the weaker price.

• We continued to reduce our position in Newmont due to ongoing operational risks, which could potentially lower cash flow estimates.

Market Outlook and Investment Strategy

Our base case for gold for the next 12 months is that is continues trading gradually higher. The structural factors supporting gold over the past 20 years are especially pertinent today: high government debt necessitating lower nominal yields, inflation reducing the purchasing power of fiat currency and elevated geopolitical risk. That said, investor positioning has moved more positive on gold, especially in the futures market, which increases the risk of a near-term pull back. We would, however, be buyers on such a move and look to increase risk.

Turning to gold equities, production costs rose significantly through 2021 – 2024, which held back their performance relative to gold. However, we are excited about the outlook for margins from here, given high gold prices and costs appearing to stabilize. The outlook for costs does vary across the sector, however, increasing the need to be selective and active in our view. Despite recent strong performance, gold producer stocks still appear unloved amongst generalists and they look attractive relative to gold and their historic valuations. M&A activity has increased and we expect further consolidation given issues the sector faces such as relevance for generalists and declining reserve lives. We believe gold producers delivering on free cash flow and capital discipline could be a catalyst to re-rate the space over the next 12 months. Government intervention represents a risk which we are seeking to manage, notably permitting issues in Australia, increasing royalties in Africa and anti-mining sentiment in Mexico.

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In terms of the other precious metals, we continue to like the outlook for silver but are avoiding the platinum group metals given concern around global automotive demand and capital discipline from producers.

Source: BlackRock (Luxembourg) S.A.

Capital Group Global High Income Opportunities (LUX) (SGD and USD)

Investment and Market Review

US bond markets rose for the year. The Bloomberg US Aggregate Index gained 1.3% as the Federal Reserve ended its aggressive tightening campaign. The US Treasury yield curve steepened after being inverted since 2022. The two-year yield fell 1 bp to 4.24% while the 10-year yield rose 69 bps to 4.57%. The Bloomberg US Corporate Investment Grade Index and the Bloomberg US Corporate High Yield 2% Issuer Capped Index rose 2.1% and 8.2%, respectively. Historically tight credit spreads tightened further, with US high yield spreads tightening by 36 bps over the year.

Within emerging markets (EM) debt, US dollar-denominated debt returned 5.7% as measured by the JPMorgan EMBI Global Index. Local-currency debt, as represented by the JPMorgan GBI-EM Global Diversified Index, returned 5.3% in local currency terms and -2.4% in US dollar terms.

The US dollar appreciated against most developing world currencies, including the Mexican peso, the Brazilian real and the Turkish lira. While many central banks cut interest rates ahead of the US rate cuts this past year, Brazil raised its rates to fend off inflation.

The allocation to high yield corporates was the primary driver of the fund’s positive total return. The technology and communications sectors contributed the most. At an issuer level, Frontier Communications and CommScope Technologies were among the largest contributors.

Returns across emerging markets were mixed but in aggregate contributed to returns. Within EM, corporate bonds had the largest positive impact. The basic industry sector contributed the most, largely driven by our holding in First Quantum Minerals. This was fuelled by improved investor sentiment on the back of various balance sheet measures to address liquidity concerns and strengthen the company’s financial position, evaluation of potential investments by strategic investors, and the implementation of cost management measures. Meanwhile, the communications sector detracted from returns, particularly Mexican Telecommunications company America Movil.

EM hard-currency government and agency bonds also contributed on an absolute basis. Argentina and Egypt were the biggest contributors here. Egypt’s government prioritised fiscal reforms, (including subsidy rationalisation and VAT reform), helping to secure IMF funding and external financing.

EM local-currency nominal government bonds and inflation-linked bonds detracted from returns, largely driven by our holdings in Brazil and Mexico. While the Brazilian economy remains fundamentally strong (with GDP and productivity growing and the current account deficit low and manageable), uncertainty around fiscal policy and the un-anchoring of inflation expectations have driven the currency and local rates market’s underperformance. This has created a negative feedback loop as concerns around the fiscal performance caused the central bank to raise interest rates, further raising debt costs. Mexican bonds struggled in 2024 following the country’s general elections in June. South Africa, however, was a notable contributor. South African local markets have generally seen strong inflows following general elections at the end of May as markets expect structural reforms to boost GDP growth and pave the way for the country's bonds to regain their investment grade status.

Market Outlook and Investment Strategy

Global growth is expected to remain positive, and central banks are likely to continue easing monetary policy, offering favourable tailwinds for credit markets across the ratings spectrums. Combined with attractive yields that are likely to stay elevated, the prospects for income-seeking investors looks attractive. For high yield corporates, we expect fundamentals to remain stable and technicals to support valuations while remaining mindful of idiosyncratic risks. We believe that high yield corporate bonds are attractive from a yield perspective, and for their diversification benefits.

We maintain a constructive outlook for EM economies due to their higher growth rates and more favourable growth-to-debt dynamics than developed markets. Fundamentals across many emerging market economies remain relatively healthy with good ability to service debt thanks to continued reserves accumulation. Inflation has moderated substantially from 2022 peaks and is generally on a downward trend amid continued restrictive monetary policy stances. Fiscal indicators are generally the weak spots, but most of the major EMs have lengthened the maturity profile of their debt and are issuing more debt now in local currency. In the hard currency space, solid macro fundamentals in EM economies but mixed valuations require greater selectivity. Fundamentals within EM corporates look to be in better shape as EM corporate treasurers have for the most part taken a more prudent approach to borrowing.

The portfolio has a modest overweight in overall duration driven by positioning in EM local currency and EM corporates. At an asset class level, the portfolio maintains a small underweight within high yield corporates.

Within high yield corporates, the portfolio is defensively positioned across a broad range of industries, including consumer cyclicals and capital goods; but constructive on select names within sectors such as brokerage/asset managers/exchanges, insurance and REITs.

Within EM local currency, the portfolio is constructively positioned in the higher-yielding countries in Latin America as well as South Africa. It is underweight in parts of Asia, particularly Thailand and China.

Within EM hard currency, the portfolio is selectively invested. It is constructively positioned in Egypt, Hungary and Romania. It is defensively positioned in Indonesia and Saudi Arabia.

Source: Capital Group

Capital Group New Perspective Fund (LUX) (SGD and USD)

Investment and Market Review

- Global stocks rallied, generating double-digit gains for the second year in a row. Driven by enthusiasm for rapid advancements in artificial intelligence (AI), U.S. stocks soared — lifting the MSCI World Index to a gain of more than 18%. Other major developed markets, including Europe and Japan, generated mostly moderate increases while Chinese stocks bounced back strongly from a rough 2023.

- Markets advanced despite intensifying geopolitical risks, including ongoing conflicts in Ukraine and the Middle East. The November victory of U.S. President-elect Donald Trump further boosted U.S. stocks but hurt some trading partners amid concerns about higher tariffs. Information technology and communication services stocks led markets higher. Materials was the only sector to post negative results for the year.

Relative detractors

- A below-index stance in **NVIDIA** proved costly. Shares soared 171% as it unveiled new graphics processors to support AI and continued to benefit from soaring demand for advanced chipsets, with hopes of further strong growth to come. NVIDIA also announced a 10-1 stock split and a significant increase in its quarterly dividend.
- An above-index position in **Novo Nordisk** was a drag as shares fell 10%. Shares gave up earlier strong gains, after data from a late-stage clinical trial for its next-generation weight loss treatment, CagriSema, suggested it lagged the amount of weight loss achieved by rival Eli Lilly's drug Zepbound. Separately, Novo Nordisk's revenue guidance for 2025 fell short of analysts' high estimates. The pharmaceutical firm nevertheless reported strong revenue growth for the first nine months of 2024 driven by surging sales of its diabetes and obesity care drugs.
- A below-index holding in **Apple** also hurt on a relative basis as shares gained 31% against strong financial results and positive sentiment on its AI strategy. Quarterly earnings and revenue beat analysts' estimates, with Apple announcing a new share buy-back plan and hiking its dividend. In June, the technology giant unveiled its AI offering, Apple Intelligence: the new system is designed to bring AI benefits to users of its iPhone, iPad and Mac devices. Apple also benefited from positive sentiment around the September launch of the iPhone 16.

Relative contributors

- **Broadcom** was a bright spot as shares surged 110% to trade at record highs on well-received results and better-than-anticipated guidance given soaring demand for generative AI infrastructure. Broadcom saw a rapid acceleration in revenue from AI products and infrastructure software, with the latter buoyed by the increasing number of firms adopting Broadcom's VMware to build private clouds. It forecast the strong momentum in AI to continue as more hyperscale customers deploy its Jericho3-AI chip. Broadcom announced a ten-for-one forward stock split.
- An above-index holding in **Taiwan Semiconductor Manufacturing Company** (TSMC) also added relative value. Shares rallied 84% to trade at record highs on better-than-anticipated results, a return to revenue growth and further signs the chipmaker was benefiting from higher demand for the advanced chips used in AI. Sentiment on the outlook was buoyed by TSMC's strategic global expansion alongside investor enthusiasm over its AI exposure and product pipeline to satisfy growing requirements for more advanced chips. The US Department of Commerce separately finalised a US$6.6 billion government subsidy in support of TSMC's expanding chip production in Arizona.
- Holding **Meta Platforms** was another plus. Shares climbed 66% on improving sentiment around the outlook for the online advertising industry, investor enthusiasm on Meta's exposure to AI technology and strong financial results. The social media group announced further share repurchases and initiated a quarterly dividend.

<u>Market Outlook and Investment Strategy</u>

- The world's major economies are headed down divergent paths in 2025, and the US' role as the chief driver of global growth figures could expand even further.
- With US labour markets healthy, profit growth solid and business investment picking up, the International Monetary Fund (IMF) raised its 2025 forecast for US economic growth to 2.2%. That projection offsets downward revisions for other advanced economies, including the largest economies in Europe.
- Strength in the US economy could potentially lift the rest of the world. The IMF is predicting robust economic growth of 6.5% in India as that country benefits from efforts by US companies and others to diversify supply chains. And surging demand for semiconductors and other technology driven by the artificial intelligence boom is bolstering growth in other Asian economies.
- As a result, equity market concentration could be about to broaden in the next cycle alongside other factors such as:
    - A new economic regime with higher, more volatile inflation and interest rates, plus geopolitical tensions.
    - Major structural changes like digital disruption, healthcare innovation, and an industrial boom could drive earnings across a broader range of companies.
- The portfolio remains well-balanced by geography, sector, style, theme and characteristic of underlying companies. It is deliberately not positioned for a single outcome or 'type' of short-term market environment. As a result, if and when the market does broaden out, the portfolio is well-positioned to potentially benefit from the shift in equity market leadership.

Source: Capital Group

First Sentier Bridge Fund (SGD)

Investment and Market Review

Asian equities rose over the year. Taiwan was among the top performing markets as it continued to benefit from AI-related spending. Singapore rose, with the three local banks continuing to perform well amid expectations of interest rates staying higher for longer. South Korea declined due to downward revisions and weak performance from Samsung and battery-makers. Indonesia declined due to net foreign outflows.

Despite the first rate cuts by the Fed, resilient US economic data and Trump's election win led investors to temper expectations of the path of future cuts, putting an upward pressure of rates. Asian Credit fundamentals have remained stable, the negative net bond supply of Asian USD credit caused by low issuances, redemptions and maturities led to tighter credit spreads over the first half of the year, while the second half of the year saw some revival in the primary issuance market. In China, policy accommodation to support the property sector and boost consumer sentiment remained in place.

Market Outlook and Investment Strategy

The uncertainty that was prevalent across Asian and global markets in 2024 looks set to continue into the new year. With Trump's election win in the United States, the general consensus is that US policy will be negative for emerging markets – particularly as the president-elect has already raised the spectre of more protectionism and higher trade tariffs. But instead of trying to second-guess geopolitics or macro policy, the Fund is focused on finding high-quality companies to invest in and expects to deliver decent returns in the long run.

In Asia, high carry is a tailwind, and fundamentals remain sound despite pockets of weakness. Bond supply in 2025 will remain modest, thereby supporting demand-supply technicals. Asian bonds has not been a beneficiary of investment inflows, particularly in 2022-2023, but there are signs that the positive turn in sentiments for the region towards the end of 2024 could spill over to 2025. Should interest rate differentials between the US and Asia narrow and/or China's story improve, Asia could also see the largest upside in returns.

Source: First Sentier Investors

Franklin Biotechnology Discovery Fund (SGD and USD)

Investment and Market Review

Global equities collectively posted strong gains for the first quarter of 2024 (1Q24) as they extended a five-month rally. Better-than-expected fourth-quarter 2023 (4Q23) earnings reports, growth opportunities tied to artificial intelligence (AI) and optimism about an economic soft landing in certain regions bolstered investor sentiment. Meanwhile, expectations for interest-rate cuts in the United States and Europe diminished amid cautious central bank comments, along with some higher-than-anticipated US inflation data. As measured by MSCI indexes in US-dollar terms, developed market equities collectively reached a new record high and modestly outperformed a global index, while emerging market and frontier market equities significantly underperformed it. Global growth stocks outpaced global value stocks. The recovery in health care equities that began in late 2023 generally continued.

Enthusiasm about artificial intelligence (AI) helped drive collective gains in global equities during the second quarter of 2024 (2Q24), particularly in the United States. Renewed optimism about an economic soft landing in many regions, an interest-rate cut in the eurozone, and investor expectations for potential rate cuts in the United Kingdom and the United States during the second half of this year also aided investor sentiment. As measured by MSCI indexes in US-dollar terms, emerging market equities outperformed a global index, while developed and frontier market equities underperformed it. Global growth stocks significantly outperformed global value stocks. Health care equities lagged the broader stock market averages but still ended 2Q24 in fourth place out of 11 sectors globally; a modest June rally lifted their standing after the group spent the first five months of 2024 in the back half of the rankings. Biotechnology and pharmaceuticals companies led the sector higher in the spring quarter. In contrast, the life sciences tools and services industry fell into negative territory despite collectively rising to 2024 highs in mid-May, and this subgroup is still sitting well below the all-time highs reached in September 2021. Overarching investor sentiment played a role as health care stocks, often viewed as defensive, were not favoured by those who preferred large-capitalisation growth stocks, particularly AI plays. There were important competing factors within the sector, too—some of the underperformance was linked to disruption as the excitement around a new class of blood sugar management and weight-loss drugs (GLP-1s, or glucagon-like peptide-1 agonists) has created a divide, with drug innovators seeing significant gains while providers of traditional treatments for diabetes and obesity have come under pressure. Several companies in the sector have what many analysts believe are weak fundamentals, with biotech companies generally rising against the contention of downside catalysts, including the delay of expected interest-rate reductions and the US Federal Reserve's higher-for-longer stance (lower interest rates tend to spur investment in the industry). However, there were some positive company-specific developments, especially in the areas of weight loss and antipsychotic medications, backed by promising clinical trials. More broadly, sentiment is being buoyed by the shift in biopharma business activity as reports underscored a 2024 surge in IPOs (initial public offerings) and M&A (mergers and acquisitions), which investors welcomed. Some of this uptick can be attributed to companies that are exploring new strategies and products to offset potential revenue losses linked to patent cliffs and the implementation of the US Inflation Reduction Act.

Global equities ended the third quarter of 2024 (3Q24) collectively higher as they recovered from bouts of heightened volatility, including a market selloff in early August following an interest-rate hike by the Bank of Japan, as well as the release of a weaker-than-expected employment report in the United States, which led to recession fears. However, stock markets rebounded as resilient economic reports and a continued disinflation trend in the United States reignited hopes for an economic soft landing. Interest-rate cuts by the US Federal Reserve, the European Central Bank, the People's Bank of China and other central banks further bolstered equities worldwide. As measured by MSCI indexes in US-dollar terms, emerging market equities outperformed a global index, while developed market and frontier market equities underperformed it. Global value stocks significantly outpaced global growth stocks. During the period, health care equities collectively advanced in July and August to outperform most other global equity sectors, then fell to the back of the pack in September as they generally gave up some of their summer gains.

During the fourth quarter of 2024 (4Q24), global stocks were pressured by investor concerns about economic growth, persistent inflation in some regions and the likelihood of further interest-rate cuts in 2025. While Donald Trump's presidential victory and the potential for additional tax cuts and expansionary fiscal policy supported US equities, investors outside the United States were concerned about the president-elect's tariff plans and their implications on global trade. As measured by MSCI indexes in US-dollar terms, developed market equities fared better than a global index, while emerging market equities underperformed it.

Market Outlook and Investment Strategy

The portfolio continues to be overweighted in mid-, small- and micro-capitalisation biotechnology stocks as these market-cap tiers are where we see some of the best value. We also continue to emphasise selectivity, favouring what we believe to be clinically or commercially "derisked" assets.

Our positive outlook is based on what we consider to be generally strong fundamentals and appealing valuations backed partly by innovation in new drug modalities, an accommodative FDA, the resumption of what we see as a strong merger-and-acquisition (M&A) cycle, and relatively stable Medicare drug reimbursement.

Conversely, we remain cognisant of risks to biopharma innovation and stock performance linked to the persistence of inflation and the potential for only minimal interest-rate reductions in the United States in 2025. We are also concerned about a worse-than-expected 2025 impact from the implementation of Inflation Reduction Act (IRA) drug pricing measures in the United States. That said, we don't want to overstate the risk because the IRA pertains to US revenues and only Medicare revenues therein, which means drugs that skew towards older populations.

The current US drug reimbursement scenario is undergoing significant changes, particularly with the introduction of new models for cell and gene therapies (keeping in mind that gene therapy investments are a relatively small percentage of the health care sector and the fund's portfolio mix). The US Centers for Medicare & Medicaid Services has proposed increasing the new technology add-on payment for these therapies, which could potentially improve the profitability of biotech companies involved in developing such treatments. Moreover, the industry is also facing challenges due to dynamic pricing pressures and the need for novel payment mechanisms that reflect the full value of transformative therapies. While there are efforts to improve the reimbursement landscape for innovative therapies, which could benefit biotech companies, there are also significant challenges that could impact profitability. The industry must navigate these changes carefully to maintain a balance between innovation, patient access and financial sustainability.

Big drugmakers want to deepen their product pipelines as the approaching "patent cliff" and policies linked to the IRA threaten a portion of their future revenues, with an estimated US$200 billion in annual patent-related revenue at risk through 2030. The Medicare Drug Price Negotiation Program embedded in the IRA legislation could cause a big drop in the prices at which drugs are reimbursed, creating a "functional" patent expiration. These dynamics are increasingly driving large pharma companies' ambitions to fill looming revenue holes through bolt-on acquisitions of late-stage drug developers and commercial biotech companies.

The recent uptick in health care sector M&A activity could potentially continue to provide a tailwind as capital constraints put pressure on smaller or early-stage companies and intensifying drug reimbursement pressures and patent-exclusivity losses impact larger commercial enterprises. We anticipate an industry consolidation-driven inflection point resulting from these pressures. These and other market-volatility factors hold the potential to increase the cost required to develop new products and could have significant implications for commercial and portfolio strategies going forward.

Biotech IPO (initial public offering) volume is improving but still isn't where it was before the 2022–2023 biotech stock downturn. In conjunction with depressed private equity and venture capital funding, biotech remains in a rough patch as investors are holding out for more proof-of-concept and clinical trial results. We believe these capital constraints are leading small-cap and start-up companies to seek funding and growth opportunities through other avenues, such as M&A activity with larger firms.

The road ahead for biotechnology and pharmaceuticals may be different from that of prior years, but these industries are not lacking innovation prospects despite consolidation. We are enthusiastic about progress in the areas of radiopharmaceuticals and antibody drug conjugates. We also see how further progress in the fields of cell therapy, gene therapy and gene editing can allow the industry to address diseases in areas of significant unmet medical need. GLP-1 (glucagon-like peptide-1) agonists and weight-loss treatments are another area of interest as the consumer fervour around these drugs rapidly expanded the market in 2023, with sales accelerating again in 2024. Recent shortages of these novel diabetes and obesity medications have been largely resolved, and they are now more widely available than ever.

Alongside the biotech and pharma spheres, we are encouraged by what we are seeing in background processes, as novel discovery tools and the adoption of artificial intelligence (AI) and machine learning (ML) technologies are enabling faster and more rational drug discovery and development. While still in the early stages, the adoption of AI/ML tools in drug discovery is expected to grow rapidly in the near term. We believe AI/ML offers the potential to identify novel targets that were previously thought to be "undruggable," as well as improve drug design by simulating molecular behaviour and interactions.

We believe that, over the long term, investment in the biotechnology industry should lead to a potentially strong performance. The biopharmaceutical business model benefits from wide intellectual property moat (i.e., competitive advantage over other firms), strong pricing power and high profit margins. Global pharmaceutical expenditures are growing at an above-GDP (gross domestic product) rate and are relatively insulated from fluctuations in the business cycle. This is supported by the ageing of developed country populations and the dynamic that older individuals consume far more pharmaceuticals than younger ones. Lastly, innovative new drug platforms and technologies are broadening the market opportunity in areas that still have significant unmet medical needs, outpacing the loss of revenues to patent expirations and legislated price cuts.

Source: Franklin Templeton

Franklin Technology Fund (SGD and USD)

Investment and Market Review

Global equities collectively posted strong gains for the first quarter of 2024 as they extended a five-month rally. Better-than-expected fourth- quarter 2023 (4Q23) earnings reports, growth opportunities tied to artificial intelligence (AI) and optimism about an economic soft landing in certain regions bolstered investor sentiment. Meanwhile, expectations for interest-rate cuts in the United States and Europe diminished amid cautious central bank comments, along with some higher-than-anticipated US inflation data. As measured by MSCI indexes in US-dollar terms, developed market equities collectively reached a new record high and modestly outperformed a global index, while emerging market and frontier market equities significantly underperformed it. Global growth stocks outpaced global value stocks. Although information technology (IT) and communication services stocks began to slip towards the back of the global equity sector rankings in March as the rally broadened in scope to include previous laggards, they retained their distinctions as the top two performers (out of 11 sector groups in total) for the entire quarter. The standout industry-level performers in IT were semiconductor, semiconductor materials/equipment, and systems software companies, while tech hardware makers and IT services firms were notable laggards. Overall support stemmed from demand for generative AI (genAI) that has gone parabolic, with many equity analysts attempting to reset their valuation targets and earnings forecasts across the widening AI ecosystem. One thing remained certain: No one knows for sure just how high the demand for AI will go if this boom continues, just as it was implausible for many analysts in early 2023 to perceive how an AI-driven semiconductor company like NVIDIA (held by the fund) would soon be generating successive quarters of triple-digit percentage revenue and earnings-per-share growth.

Although June political developments in Europe pressured results in that region, enthusiasm about artificial intelligence (AI) helped drive collective gains in global equities during the second quarter of

2024 (2Q24), particularly in the United States. Renewed optimism about an economic soft landing in many regions, an interest-rate cut in the eurozone, and investor expectations for potential rate cuts in the United Kingdom and the United States during the second half of this year also aided investor sentiment. Global manufacturing activity expanded in June for the fifth consecutive month, and flash reports for June indicated services activity expanded in many regions. As measured by MSCI indexes in US-dollar terms, emerging market equities outperformed a global index in 2Q24, while developed and frontier market equities underperformed it. Global growth stocks significantly outperformed global value stocks. After selling off sharply in April, information technology (IT) stocks returned to the top of the global sector rankings in May and June. Their resurgence was attributed to several key factors, including (1) operational improvements, as many tech companies have implemented cost-cutting measures to rightsize their rapidly evolving businesses, which have led to higher profitability; and (2) signs of increased computing infrastructure investment amid ongoing enthusiasm and expectations around pivotal longer-term advancements in generative AI (genAI), partially offsetting the debate around the pace of AI adoption, and the resulting return on investment. In this environment, there was a wide disparity in the IT sector's 2Q24 results at the industry level; returns were led by semiconductor, tech hardware and data storage companies foremost, while the software industry was comparatively weak and IT services companies were outliers to the downside. Communication services sector companies weren't far behind their IT counterparts, having ended the spring quarter in second place out of 11 major sectors worldwide.

Global equities ended the third quarter of 2024 (3Q24) collectively higher as they recovered from bouts of heightened volatility, including a market selloff in early August following an interest-rate hike by the Bank of Japan, as well as the release of a weaker-than-expected employment report in the United States, which led to recession fears. However, stock markets rebounded as resilient economic reports and a continued disinflation trend in the United States reignited hopes for an economic soft landing. Interest-rate cuts by the US Federal Reserve (Fed), the European Central Bank, the People's Bank of China and other central banks further bolstered equities worldwide. As measured by MSCI indexes in US-dollar terms, emerging market equities outperformed a global index, while developed market and frontier market equities underperformed it. Global value stocks significantly outpaced global growth stocks.

During the fourth quarter of 2024 (4Q24), global stocks were pressured by investor concerns about economic growth, persistent inflation in some regions and the likelihood of further interest-rate cuts in 2025. While Donald Trump's presidential victory and the potential for additional tax cuts and expansionary fiscal policy supported US equities, investors outside the United States were concerned about the president-elect's tariff plans and their implications on global trade. On the economic front, global manufacturing activity contracted in December after stabilising in November, while global services activity expanded in November for the 22nd consecutive month and flash reports for December showed continued strength in many regions. As measured by MSCI indexes in US-dollar terms, developed market equities fared better than a global index, while emerging market and frontier market equities underperformed it. In terms of investment style, global growth stocks significantly outperformed global value stocks.

Market Outlook and Investment Strate

We expect a generally favourable broader market backdrop in 2025. Stable to accommodative monetary policy, potential deregulation, and AI-driven productivity gains could add to an already healthy economic picture in the United States. In our view, this should support continued investment in digital transformation and the multiyear GenAI investment cycle.

As it pertains to the technology space, we believe we could see another strong year of earnings growth in 2025, driven by three factors: (1) a steady progression up the GenAI adoption curve; (2) an improving earnings growth trajectory outside of the "Magnificent Seven," a group of leading technology-focused companies; and (3) what we consider reasonable valuations on an earnings growth-relative basis. At year-end 2024, the IT sector's price/earnings-to-growth (PEG) ratio was just slightly above the five-year average.

GenAI adoption should show substantial progress in 2025, in our view, aided by agentic AI (unlike chatbots, which gather information to answer questions, AI agents require data on the way tasks are performed, including the sequencing of actions and the reasoning behind them). Calendar year 2024 was largely about building the foundation for current and future AI demand. This involved substantial capital investment to build AI infrastructure and improve AI model capabilities, experimentation with new use cases, enterprise investment in data preparedness and IT modernisation, and building in-house knowledge and skills. We think all of this hard work should translate to strong adoption in the coming years, which can benefit various industries in the IT sector. While GenAI's value has already been proven in areas like software development and customer support, we see a much wider spectrum of use cases in the years ahead. In recent months, the industry has coalesced around the concept of AI agents capable of executing a complex task on one's behalf. At work, an AI agent could analyse customer purchase histories and automatically select and deliver personalised email promotions designed to boost sales. At home, an AI agent might help plan and book travel, tutor one's children in math, or create the weekly family meal plan, including coordinating the purchase and delivery of groceries. We believe this shift towards AI agents will be bolstered by the advances we've seen in large language models (LLMs) throughout 2024, as they become much more capable of reasoning through complex problems.

We expect to see greater market breadth across the IT sector in 2025. In 2024, the Magnificent Seven collectively grew earnings per share faster than the "rest of tech" (based on our analysis of the MSCI World IT Index with Magnificent Seven constituents excluded). We expect this scenario to likely reverse in 2025. While the Magnificent Seven should still grow earnings at a strong clip, we think the rest of tech, especially those within the IT sector, can see its own acceleration for several reasons. First, given the GenAI adoption expectations outlined above, we expect a more extensive mix of AI beneficiaries in the months ahead. Additionally, some areas of IT, particularly those with less exposure to the initial AI "build" phase, contended with cyclical headwinds in 2024. Growth across many enterprise software companies slowed due to tight IT budgets, as corporations dealt with uncertainty surrounding the US elections, the pace of interest-rate cuts, macroeconomic indicators, and how to properly resource their GenAI initiatives. We expect many of these headwinds to fade in 2025, potentially supporting an acceleration in overall sector growth. Second, the outcome of the US elections may bring lower corporate tax rates and deregulation, which could support corporate IT spending and small-business formation. With the election uncertainty resolved, businesses can resume their investments with greater visibility into policy impacts, which could flow into IT budget growth. A third area of increased breadth potential exists in semiconductor companies not exposed to AI data centres, but rather to the automotive, industrial, smartphone and PC industries, most of which faced pressure throughout 2024 as these markets were in a downcycle lull. According to our analysis, recent signals point to a stabilisation in business activity and a clearer path towards reacceleration in several of these market segments.

IT sector valuation, in our analysis, remains reasonable on an earnings growth-adjusted basis. After two years of strong performance, tech valuations have been highly scrutinised by investors. While we see stretched valuations in select IT pockets, in aggregate we think the sector's current valuation is reasonable in the context of expected above-market earnings growth. As stated above, the MSCI World IT Index's PEG ratio stands just slightly above its five-year average. This context is important to us, as we believe above-market sector earnings growth has been one of the key contributing factors to IT outperforming the broader global equity market in nine of the last 10 years (2022 was the sole exception).

With the Republican Party's victory in the US presidential election, one key driver of market uncertainty is now behind us. We believe the IT sector may benefit from the incoming US administration's potential policies in a few ways. First, we anticipate an improving corporate IT spending as US businesses may see lower tax rates, which can flow into industries like software. Second, IT can potentially benefit from what could be a lighter regulatory burden, including changes in leadership at the US Federal Trade Commission. This could help the country's biggest tech-focused companies, which are subject to considerable antitrust scrutiny under the current administration, as well as "small" tech, which may benefit from a more active setting for mergers and acquisitions. We also think Republicans may lighten GenAI regulation to help ensure the country sustains its global leadership in this critical technology. On the other hand, we may see even more scrutiny around the exports of leading US semiconductors and semiconductor equipment to China, as well as some impact from new tariffs on goods coming from China, in markets like e-commerce and consumer electronics. Overall, while our focus remains on long-term secular drivers and finding what we regard as high-quality businesses, we view the election outcome as a minor net positive for the IT sector and believe the fund is positioned appropriately for the new political regime in the United States.

Potential risks we are monitoring include the timing and magnitude of GenAI demand; while optimistic, we acknowledge that near-term data may disappoint relative to market expectations. This dynamic was evident in the stock reactions following earnings reports from some companies widely considered to be "AI winners." Our other main areas of concern involve (1) GenAI disruption (e.g., incumbent companies that fail to keep up with technological change, new AI model architectures that may change infrastructure requirements, etc.); (2) geopolitical risks, particularly around advanced-technology export restrictions imposed on China and the extent to which these restrictions accelerate China's homegrown efforts to compete effectively in advanced semiconductors, hardware design and manufacturing; (3) regulatory risks, both from an antitrust perspective (i.e., elevated antitrust activity against mega-capitalisation tech firms) and from an AI perspective as new regulatory/policy frameworks are being established rapidly, though we would note this risk—at least from a US perspective—may decrease under the new Trump administration; and (4) risks around expectations for decelerating global economic growth and the extent to which any slowdown impacts technology spending.

We maintain our long-term orientation. The fund remains positioned to potentially benefit from robust long-term secular growth drivers such as AI, cloud computing, and our other eight digital transformation subthemes: new commerce; fintech and digital payments; digital media transformation; digital customer engagement; electrification and autonomy; IoT (Internet of Things); cybersecurity; and the future of work.

Source: Franklin Templeton

Franklin Templeton Investment Funds – Franklin Income Fund (SGD and USD)

Investment and Market Review

US stocks rose significantly during the first quarter of 2024, advancing for five consecutive months, as stronger-than-expected fourth-quarter 2023 earnings reports, enthusiasm about artificial intelligence, ongoing economic resilience and hopes for interest-rate cuts drove the S&P 500, Dow Jones Industrial Average, and NASDAQ Composite Index to reach new record highs. Equity market gains were broad-based, as 10 out of 11 S&P 500 sectors rose. This performance was led by the communication services, energy, information technology (IT) and financials sectors, with real estate the only sector declining. Overall, large-capitalisation stocks generated the largest gains, followed by mid- and small-cap stocks.

During the second quarter of 2024, all three major US indexes reached new record highs. While the Dow Jones Industrial Average ended the period with losses, fervor for artificial intelligence lifted the S&P 500 Index and NASDAQ Composite Index to solid quarterly gains. Optimism that the US Federal Reserve (Fed) might begin cutting interest rates in September also boosted stocks. Out of the 11 sectors in the S&P 500, information technology (IT) and communication services performed strongly, while materials and industrials were among the six sectors that experienced negative results. Large-capitalisation stocks collectively rose and outperformed mid- and small-cap stocks, both of which generally declined.

US equities collectively advanced during the third quarter of 2024. The S&P 500 and Dow Jones Industrial Average both reached new highs multiple times in September, while the NASDAQ Composite Index struggled to return to its record high posted in early July. After bouncing back from a rocky market environment in July, when many investors rotated away from large-capitalisation technology-related stocks, US equities declined again in early August as investors worried about a potential recession with the releases of weaker-than-expected July employment and manufacturing reports. However, generally solid economic data and corporate earnings reports, along with continued cooling in the annual inflation rate, eased investor concerns. In September, a rate cut from the US Federal Reserve (Fed) further bolstered US stocks. Against this backdrop, 10 out of the 11 S&P 500 sectors traded higher, with energy the only decliner. Small- and mid-cap stocks outperformed large-cap equities.

US stocks collectively rose in the fourth quarter of 2024 despite retreating in December. Donald Trump's victory in the presidential election andthe Republican Party's success in gaining a majority in both chambers of the US Congress led to investor optimism about a more market-friendly and economic growth-focused administration. Consequently, US stocks rose significantly following the election in early November and through the first two weeks of December, with the S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index reaching new record highs. However, some investors expressed concerns about the potential impacts of threatened tariffs on various industries and trade relationships with other countries, as well as on inflation and the US Federal Reserve's (Fed's) interest-rate easing path. In this environment, equity market performance was mixed, with four out of the 11 S&P 500 sectors rising. Returns were led by consumer discretionary and communication services, while materials and health care saw the largest declines. Large-capitalisation equities generally outpaced their mid- and small-cap counterparts.

Market Outlook and Investment Strategy

Economy: The economic growth outlook has been a major area of focus for the fund, as central banks around the world pivoted towards easing monetary policy to finish out 2024 and look to take cues from inflation and employment data, as well as incoming policy impacts, to determine the path forward. The US economy remains resilient, largely driven by strong consumer spending on both goods and services, and while the labour market has incrementally cooled, unemployment levels are still low on a historical basis. We continue to monitor financial conditions as a leading indicator of future economic performance and Fed policy.

Equities: Following two years of narrow market breadth, we started to see a broadening out of market leadership in the second half of the calendar year. While index level valuations are still elevated, opportunities are available below the index levels, which we feel favours active management. We have found select opportunities within the consumer staples, industrials, health care and energy sectors. We remain selective in engaging with equities, given current valuations in some sectors. As income-focused investors, our asset allocation mix is driven primarily by bottom-up security selection, with a focus on company fundamentals as opposed to the direction of the broader equity market. While the capital return story differs by sector, our holdings are focused on businesses that show an ability to support attractive dividend yields and grow them over time.

Treasuries/Government-Backed Bonds: The front end of the yield curve has declined amid the Fed's interest-rate cutting cycle. Meanwhile, the intermediate part of the yield curve has remained volatile as the outlook for deficit spending, as well as longer-term economic growth and inflation expectations, has had an impact on the belly of the yield curve. Government securities continue to provide an attractive investment opportunity, in our view, as yields remain elevated based on recent history. We believe they continue to offer good diversification potential and can serve as a ballast to help hedge portfolios during market volatility.

Investment-Grade Corporate Bonds: We retain a balanced view of the corporate investment-grade sector as the attractiveness of higher-quality assets has increased over the past 24 months. While absolute yield levels are still attractive for an income-generating strategy, credit spreads have contracted materially over the past year, which has decreased the attractiveness of investment-grade corporate bonds, in our assessment.

High-Yield Corporate Bonds: While the high-yield market offers attractive yields, we remain balanced and selective due to the potential for higher refinancing costs impacting companies' fundamentals. The potential for growth deceleration necessitates a vigilant approach to security selection within our high-yield portfolio, so our preference continues to be companies that have a greater degree of flexibility to deal with upcoming maturities.

Source: Franklin Templeton

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Franklin U.S. Opportunities Fund (SGD and USD)

Investment and Market Review

US stocks rose significantly during the first quarter of 2024, advancing for five consecutive months, as stronger-than-expected fourth-quarter 2023 earnings reports, enthusiasm about artificial intelligence (AI), ongoing economic resilience and hopes for interest-rate cuts drove the Standard & Poor's 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index to reach new record highs. At its January and March meetings, the US Federal Reserve kept the federal funds target rate unchanged at a 23-year high but maintained its outlook for three rate cuts in 2024. Large-capitalisation stocks generated the largest gains, followed by mid- and small-cap stocks, with growth outpacing value in all three market-cap tiers.

Major US indexes reached new record highs during the second quarter of 2024. While the Dow Jones Industrial Average ended the period with losses, fervor for artificial intelligence (AI) lifted the Standard & Poor's 500 Index and NASDAQ Composite Index to solid quarterly gains. The US Federal Reserve (Fed) kept the federal funds target rate unchanged at a 23-year high at its May and June meetings, reducing its projected number of rate cuts for 2024 from three to one. Large-capitalisation stocks collectively generated gains, while small- and mid-cap stocks generally declined, with growth faring better than value in all three market-cap tiers.

US equities collectively finished the third quarter of 2024 with record-high performance, helped by encouraging data showing cooling inflation, resilient job growth and improved consumer sentiment. The US Federal Reserve's (Fed's) robust interest-rate cut was another positive catalyst that drove stocks higher. Over the quarter, value stocks generally outpaced growth stocks while small- and mid-capitalisation stocks outperformed large-cap equities as many investors rotated away from large-cap technology-related stocks.

US stocks collectively rose in the fourth quarter of 2024, with the S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index reaching new record highs. Donald Trump's victory in the US presidential election and the Republican Party's success in gaining a majority in both chambers of the US Congress led to investor optimism about a more market-friendly and economic growth-focused administration. However, some investors expressed concerns about the potential impacts of threatened tariffs on various industries and trade relationships with other countries, as well as on inflation and the US Federal Reserve's (Fed) interest-rate easing path. By market capitalisation and investment style, large-cap equities generally outpaced their mid- and small-cap counterparts, with growth stocks outperforming value stocks in all three capitalisation tiers.

Market Outlook and Investment Strategy

The US economy appears to be firing on all cylinders heading into 2025, with no signs of a major slowdown. Backed by a fairly steady consumer spending, a healthy labour market and generally lower inflation, the country's economic outlook continues to be positive. While equity valuations could stay higher for longer, we view the risk/reward profiles of many companies at current stock-price levels as balanced, and we expect corporate earnings growth—rather than investors' willingness to pay higher valuation multiples—to fuel stock returns in 2025. Conversely, potential policy changes such as higher tariffs under incoming President Donald Trump could lead to higher inflation, which could alter the Fed's plans and trigger market volatility. But given our positive outlook for long-term growth, we would view short-term market swings opportunistically.

The rotation we have seen since the Fed's initial interest-rate cut in September could signal broader market participation, creating an opportunity for active managers who are able to look beyond the benchmark indexes. We see 2025 as a year when market breadth can expand and small-, mid- and large-cap companies can all take the spotlight.

In terms of sectors, we think IT could potentially continue to be a huge area of opportunity. With the buildout and advancement of generative AI, we are at the beginning of a transformational shift. Holistically, we think the IT sector should continue to benefit from increased investment, as companies use the technology lever to lower costs and increase productivity.

We continue to see significant growth potential in the industrials sector, fuelled by trends including reshoring of US manufacturing, electrification and meaningful infrastructure investment. Our long-term outlook for health care remains bullish. Looking past the noise, we see wide-ranging innovation (genomics, robotics, personalised medicine) and meaningful demographic shifts that support our convictions.

Deregulation could positively impact the energy sector, with higher fossil fuel production and a streamlined permitting process for oil, natural gas and coal, as well as increased support for offshore drilling and nuclear power. The financials sector could also benefit as deregulation and lower taxes could help boost profits. With a potentially stronger economy and lower regulatory burden, banks may see an increase in lending activity, and fintech innovation may surge.

We will be closely monitoring the economy and are mindful of geopolitical risks that could potentially impact markets and portfolios. That said, we are bottom-up fundamental investors, and our primary focus is investing in what we regard as great businesses positioned to potentially benefit from secular growth. This approach results in a portfolio that generally emphasises both quality and value over a long-term horizon.

Source: Franklin Templeton

FSSA Dividend Advantage Fund (SGD and USD)

Investment and Market Review

Key contributors to performance included Taiwan Semiconductor Manufacturing, as growth has remained strong at a time when demand is generally weak. Tencent rose as it continued to develop new functions within WeChat (such as Video Accounts and Mini Shops) to slowly improve monetisation and enhance the quality of the franchise. On the negative side, Samsung Electronics declined after media reports suggested that the company would continue shutting its production lines as part of its efforts to reduce costs. China Resources Beer fell as weak demand led to a decrease in beer sales volumes.

The Fund purchased Netease, the second-largest gaming company in China. The company has a portfolio of games with loyal users and a strong pipeline of new games that should support decent growth prospects. The Fund also bought Shenzhou International, a leading sportswear manufacturer which could gain market share as clothing brands become more conscious about their supply chain.

The Fund sold JD.com and China Resources Land to consolidate the portfolio into higher conviction ideas.

Market Outlook and Investment Strategy

The uncertainty that was prevalent across Asian and global markets in 2024 looks set to continue into the new year. With Mr Trump's election win in the United States (US), the general consensus is that US policy will be negative for emerging markets – particularly as the president-elect has already raised the spectre of more protectionism and higher trade tariffs. But instead of trying to second-guess geopolitics or macro policy, the Fund is focused on finding high-quality companies to invest in and expects to deliver decent returns in the long run.

Source: First Sentier Investors

FSSA Regional China Fund (SGD and USD)

Investment and Market Review

Key contributors to performance included Taiwan Semiconductor Manufacturing, as growth has remained strong at a time when demand is generally weak. Tencent also added to performance as it continued to develop new functions to improve monetisation and enhance the quality of the franchise. On the negative side, CSPC Pharmaceutical reported weaker-than-expected sales, as legacy drugs were impacted by volume-based procurement (VBP) price cuts. Silergy fell amid a challenging demand environment and increased competition from its Chinese peers.

Significant new purchases included H World, a multi-brand hotel group in China. The company has scale, strong brands, advanced IT systems and good cost control. Branded hotels are expected to gain market share and benefit from the growing spend on travel and leisure activities. The Fund also bought Fuyao Glass Industry, a leading auto-glass maker with a large export business. The Fund divested China Resources Land and Sino Biopharmaceutical to consolidate the portfolio.

Market Outlook and Investment Strategy

The Chinese economy is undergoing difficulties. Overall corporate earnings growth has been under pressure while domestic demand is likely to remain weak. As bottom-up* investors, the Fund looks for companies which can grow earnings in a sluggish growth environment. Perhaps they are gaining market share, monetising existing businesses or simply have stronger pricing power in a more consolidated industry. Chinese companies are also becoming more proactive in returning cash to shareholders, through increased dividends and buybacks. Meanwhile, even though overall demand is weak, there are still certain secular growth trends in China, such as travel. By sticking to its investment philosophy, the Fund still expects to find pockets of growth and deliver decent returns in the long run.

Source: First Sentier Investors

HGIF - Asia Pacific ex Japan Equity High Dividend (SGD and USD)

Investment and Market Review

MSCI AC Asia Pacific ex Japan gained 1.20% over second half 2024 (SGD term). In terms of geography, Singapore was the best performing country while China also outperformed while Korea was the worst performing country. In terms of sectors, Financials was the top performing one while Energy underperformed.

China's outperformance was driven mainly by the strong performance in September due to hopes for more stimulus. On the other hand, Korea was the worst performing market on the back of political volatility.

The fund underperformed against the benchmark on a 6-month basis. Positive stock selection effect in India and Materials positively contributed to performance, partially offset by the unfavourable stock selection effect in Indonesia as well and Information Technology.

In terms of positioning, we are most overweight to Korea and Information Technology. On the other hand, we are most underweight to India and Industrials as of end December 2024.

Market Outlook and Investment Strategy

While the US election event uncertainty has peaked, the macro and policy implications of the elections are still yet to unfold and policy uncertainty has risen which could likely result in volatility in the equity markets. However, Asian regional valuations are generally attractive, earnings are stabilizing and positioning is light. which enables us to maintain a constructive view on Asian equities. It is also worth noting that valuation dispersion among stocks has increased in various global markets – suggesting higher alpha than beta markets currently, and benefits active equity managers like ourselves.

Source: HSBC Global Asset Management

HGIF - Global Equity Climate Change (SGD and USD)

Investment and Market Review

The fund returned -2.5% from 30 Jun 2024 to 31 Dec 2024, in line with the overall climate theme. Uncertainty around the US presidential election combined with hawkish commentary from the Fed, led to climate equities declining in 2H24. Renewable Energies was strongly impacted by the Trump election given an unfriendly policy agenda, causing renewable exposed stocks to fall including EDPR, First Solar and Enphase. Green Buildings also underperformed due to weak US non-residential construction data (e.g. ABI Index and Dodge Momentum) affecting companies like Carlisle and Trane Technologies. In contrast, strong Q4 earnings for the portfolio surprised positively with 66% of stocks beating earnings estimates compared to 54% for the MSCI ACWI. Some of these were top contributors to performance, including Core & Main, Smurfit Westrock, Deere and Azbil.

Market Outlook and Investment Strategy

2025 looks sanguine for the climate solutions theme. The energy transition is inevitable. The IEA estimated that 96% of newly installed, utility-scale solar and onshore wind capacity had lower generation costs than new coal and natural gas plants in 2023. Adopting clean technologies has become compelling economically. The cleanest energy is that we don't use. The rise of AI and its intensive energy usage makes energy efficiency all-the-more important. Companies in the energy efficiency eco-sector

are driving down energy needs in AI data centres. We see growing opportunities at the intersection of AI and the energy transition. Historically low valuations and sentiment, makes us confident in the medium-term outlook for the strategy.
Source: HSBC Global Asset Management

HGIF - Global High Income Bond Fund (SGD and USD)

Investment and Market Review

The strategy delivered positive absolute performance over the period gross of fees. Overall the fund saw positive contribution to return across all asset classes with Euro Credit the best performing segment followed by US and EMD while Securitized Credit lagged somewhat.

The second half of the year began with a combination of weaker economic data and a more dovish Fed tone in July which gave way to a more dramatic shift in sentiment in August, as risk assets sold off while treasury yield move sharply lower as a weaker than expected jobs report sparked worries about the strength of the economy and the potential for a more serious recession. Q4 saw a jump in rates as markets reacted to solid US economic data as well as risks associated with the US elections while risk assets rallied post-election. Risk assets sold off in December as markets reacted to weaker US data, higher rates, and a more hawkish Fed tone.

The US treasury curve normalized somewhat in the second half of the year. The 2, 5, 10 and 30 year saw yields move by -0.51%, 0.01%, 0.17% and 0.22% respectively to finish December at 4.24%, 4.38%, 4.57% and 4.78%.

Market Outlook and Investment Strategy

Although market sentiment began the year less negative than it ended 2024 some uncertainty remains around the incoming Trump administration's domestic and foreign policy initiatives and their impact on the global economy. The Fed's less dovish tone following its December rate cut also caused uncertainty, perhaps implying that this rate cutting cycle may be closer to its end than the market had previously thought. Global Credit yields remain attractive above historical averages although spreads look light at current levels. Credit fundamentals remain solid however and supportive of current spreads. Demand technicals are expected to remain supportive with yields at currently high levels but may be somewhat offset by strong supply. We are tactically positioned with a somewhat neutral bias in the short term, remaining selective between regions, sectors and issuers based on their fundamentals and relative value.

We continue to skew higher quality in anticipation of an economic slowdown, however soft in nature it may be. We continue to maintain attractive carry vs the universe by taking advantage of what is still a relatively flat yield curve. With regards to allocation and positioning changes, we shifted from some idle cash and EMD to Securitized Credit. This allocation along with adjustments elsewhere also flattened the headline duration of the fund to neutral, bringing it down to 4.4 years, in line with the investment universe. We continue to have a small curve steepener position with an overweight to shorter dated bonds and an underweight to the longer end of the curve.

Source: HSBC Global Asset Management

HGIF - Global Short Duration Bond (SGD and USD)

Investment and Market Review

Over H2, the fund's value increased by 4.05%, outperforming the benchmark by 80bs (gross).

The positive impact from Asset Allocation and Security Selection was mainly driven by Securitised Credit and Corporate Financials. Our allocation to Corporates more broadly as credit spreads tightened was also positive.

Rates and Duration positioning contributed overall, having a period of two halves: in Q3 these positions contributed, when global rates fell as markets priced-in the prospect of cooling economic growth. In Q4 they detracted, when yields rose in response to upwardly revised inflation projections and fewer expected rate cuts for 2025.

In FX, our short USD position was a positive to performance (especially over Q3). Our long EUR and KRW positions and our short CNY and JPY positions detracted.

Market Outlook and Investment Strategy

The fund maintained its duration overweight position over the period, with overweights predominantly in US, Euro and UK. To a lesser extent, the fund was overweight New Zealand and Brazil (local rates). We maintained our underweight duration positioning in Japan and China.

Our overweight credit risk position was relatively unchanged, although we reduced it somewhat towards the end of the year as a defensive move given market uncertainty about the new US administration taking office in January 2025. Our overweight is in predominantly high quality corporates and we prefer EUR versus USD credit given valuations. We continue to believe credit fundamentals will not materially deteriorate against this soft-landing back drop and remain constructive on overall credit.

In FX, we added long AUD vs NZD in Q3 due to a less dovish Australian Central Bank. We continue to have this position which contributed over the period. In Q3, we also added a long KRW vs USD to take advantage of the carry. In December we unwound this trade at a small loss. In Q4, we added a short EUR vs USD position after the US elections; Trump announced policies generally seen as USD-positive and there is a US yield advantage. We maintain this position into 2025. We also maintain a long NOK vs SEK, given divergences on Central Bank expectations (Swedish Central Bank more dovish), as well as valuation.

Source: HSBC Global Asset Management

HGIF – India Equity Fund (SGD and USD)

Investment and Market Review

The S&P IFCI/India Gross Index lost 2.47% over the second half of 2024 (SGD term). In terms of sectors, Healthcare was the top performing one while Energy underperformed.

India underperformed the region in the second half of year with underperformance concentrated in 4Q24 on the back of waning earnings momentum, domestic growth concerns and a depreciating rupee.

The fund outperformed the benchmark on a 6-month basis. Positive stock selection effect in Financials and Industrials were the largest contributors to performance. On the other hand, unfavourable stock selection effect in Consumer Staples and Energy were the largest detractors to strategy performance.

The largest stock contributor over 2H24 was Multi Commodity Exchange India while the largest stock detractor was Exide Industries.

In terms of sector positioning, we are most overweight to financials and real estate and most underweight to Utilities and Industrials as of December 2024.

Market Outlook and Investment Strategy

We expect India to remain relatively resilient in 2025 underpinned by its macro stability, mid teens earnings growth expected in 2025 / 2026 led by structural growth drivers (rise in discretionary consumption and capex cycle), as well as a reliable source of domestic risk capital providing support to the market. India's correlation with emerging markets have also decreased in recent years.

Potential risks in the next 6-12 months to the Indian equity market include China policy announcements in 2025 and whether that would drive foreign investor rotation between the two markets, in addition to risks related to President elect Trump, though India's risk are relatively limited vs other markets in the region. Near term domestic growth is also a risk

Source: HSBC Global Asset Management

HGIF - Managed Solutions – Asia Focused Income (SGD and USD)

Investment and Market Review

The fund achieved a positive return over the 6-month period against a volatile market backdrop, mainly contributed by our position in our core Asian fixed income exposures. Asian equities were flat over the period, and our tactical trades into single Asian equity countries were mixed. Exposures to India, Taiwan, Singapore were additive, while this was offset by exposures to Japan, EM value, and China. On the fixed income front, Asian investment grade bonds, Asian high yield bonds, and Asian local currency bonds. This was further supported by contributions from emerging market debt, both hard and local currency.

Market Outlook and Investment Strategy

We expect falling inflation, resilient growth, and robust corporate profits to persist in 2025, allowing the global rate cutting cycle to continue. This supports our base case for a soft landing of the economy, with inflation stabilising around 2% while economic growth is expected to stay positive, albeit below trend.

Global conditions are supportive of further market gains in 2025, but rising policy uncertainty is likely to translate to a more volatile market environment. Converging global growth gives neglected parts of global stock markets outside the US an opportunity to catch up. Emerging markets continue to trade at a valuation discount and have the potential to deliver strong returns. For emerging markets, the US dollar outlook is key: it is hard to forecast a materially weaker dollar in 2025, but a stronger dollar may not be guaranteed.

Source: HSBC Global Asset Management

HGIF - Singapore Dollar Income Bond (SGD and USD)

Investment and Market Review

Throughout the second half of 2024, the Singapore sovereign yield curve shifted lower while the US Treasury yield curve steepened. Meanwhile, economic data releases during the 6-month period were mixed. In July, the core CPI print released remained unchanged MoM and slightly below expectations, with headline inflation falling to a three-year low YoY. Manufacturing production came in weak, with non-oil domestic exports (NODX) declining for the fifth consecutive month. For August, manufacturing production in July was up, driven mainly by electronics. NODX in July advanced on a MoM basis, supported by strong demand from the US and Asia. The final Q2 GDP print indicated a healthy recovery, although some unevenness in growth was noted. September saw continued disinflation trends, with core CPI rising in August but at a softer pace. NODX moderated slightly, primarily due to a contraction in pharmaceutical exports, although electronics exports remained resilient. In October, Singapore released Q3 GDP print and it grew QoQ at a higher-than-expected pace, thanks to the recovery in goods producing sector. Services output also grew steadily. However, headline CPI inflation slowed in September due to lower transportation inflation, while core CPI rose YoY, driven by increases in healthcare and education prices. NODX grew in September but fell short of expectations, primarily due to weaker electronics exports. In November, there was a significant upward revision of Singapore's Q3 GDP, making it the second fastest-growing economy in ASEAN. Headline CPI inflation moderated YoY in October, falling below expectations due to softened rental inflation, while core CPI also decelerated on the back of broad-based cooling of price pressures. NODX again fell short of expectations, driven by declines in core and pharmaceutical exports, despite an increase in tech exports. By December, we saw headline CPI rebounded slightly YoY in November due to higher transportation inflation, while core CPI slowed and exceeded market consensus. Industrial Production (IP) rose YoY but was below expectations, mainly due to weakness in biomedical production. NODX rebounded in November thanks to the expansion in core exports.

Market Outlook and Investment Strategy

The disinflation trend in Singapore is firmly established, with recent CPI reports indicating a slowdown in inflation rates. Core CPI for November was recorded at 1.9%, below expectations, aligning with the Monetary Authority of Singapore's (MAS) projections for a gradual easing in inflation. As we approach the upcoming Monetary Policy Committee (MPC) meeting, there is a growing sentiment that MAS may consider easing its policy stance. The potential for a slight reduction in the policy slope is on the table, allowing for a mild appreciation of the Singapore Dollar (SGD) while still addressing inflationary pressures. Historical patterns suggest that MAS typically adopts a cautious approach, making incremental adjustments rather than abrupt changes. Overall, the 2025 outlook remains cautiously optimistic, with expectations for continued disinflation and a measured response from MAS to maintain economic stability. Additionally, the Monetary Authority of Singapore (MAS) has indicated that outstanding Singapore Government Securities (SGS) bonds are expected to grow at a slightly faster rate in 2025 compared to 2024, supported by improved global financial conditions. The supply outlook remains favourable for SGS, as MAS can adjust the issuance sizes of each bond based on current market demand and liquidity conditions. SGD yields should continue to track UST yields closely albeit being more stable. Looking ahead, the overall expectation is for SGD rates to gradually align more closely with USD rates, particularly as the outlook for USD rates remains lower.

The fund holds a meaningful proportion of SGD denominated investment grade bonds. At the same time, it also diversifies into the USD Asian credit market which offers a wider selection of bonds across the credit rating spectrum than the SGD bond market. As of this month, we are underweight in SGD bonds, while overweighting Asia USD HY bonds given the tightening in spreads and lower rates sensitivity. From a sectoral standpoint, the fund prefers corporates over sovereigns and agency bonds. The fund has a major allocation to Singapore REITs for their stable income. We also favour bank subordinated debt such as those from Europe, North America and broader Asia Pacific region given their relatively defensive nature and attractive yields. Also, the fund overweight Japan and Hong Kong financials sectors. Moreover, it holds a certain exposure to high quality quasi-sovereign names in Singapore for yield carry.

Source: HSBC Global Asset Management

HSBC Portfolios - World Selection 1 (SGD and USD)

Investment and Market Review

During the second half of 2024 global markets continued to gain, with strong positive returns across both fixed income and equity markets. Global equities were up 5.5%, helped by supportive earnings in the Tech sector and beyond, US elections outcome and strong economic data and rate cuts. Global bonds also delivered 3.5%, as the Fed began the interest cut cycle. Higher yielding areas of the fixed income market outperformed lower risk bonds, helped by continued policy easing across developed and emerging markets. Alternatives posted mixed performance, with Commodities and Style Factor Hedge Funds neutral over the period while Trend Following strategies registered negative returns.

As a result of the market performance, all five World Selection Portfolios delivered positive absolute returns in both the second half and over the whole year.

Market Outlook and Investment Strategy

Over the next 6-12 months we anticipate global asset markets to be driven by three key themes, we have positioned our portfolios to capture these opportunities.

Defensive optimism: Equity market momentum remains intact, and the economic picture is still resilient. We are tilted towards equity markets and focus on areas where economic performance and company profitability is likely to be strongest. We prefer developed markets over emerging markets.

• Tilting towards US sectors: US Communication Services remains more attractively valued compared to US Tech, and offers exposure to AI related advancements. US Financials as a good hedge to US resilience, while US Quality offers exposure to companies with resilient balance sheets amid some economic and political uncertainty.

• Tilting towards Infrastructure, away from Property and credit;

• Increased exposure to Gold as a hedge to economic and geopolitical risk.

Selective cyclical strength: Within the global economy, certain regions and sectors remain poised to benefit from cyclical economic strength and resilience amid a more nuanced global landscape.

• Within emerging markets, we prefer Taiwan as a play on AI theme, China given its recent policy pivot and more measures introduced to stabilise growth; and Turkey, which benefits from good economic momentum and political backdrop

• Within Europe, we prefer Spanish equities given strong economic growth in the region, and European Banks, on favourable valuations and momentum

Selective global government exposure: The Fed interest rate cutting cycle continues, as inflation is falling back to target and labour markets are cooling. Further rate cuts and concerns about downside growth risks should support the performance of bonds, with improved returns on longer-term exposure, which we continue to favour via Treasuries and Gilts. We also like Australian bonds on a relative value basis versus German bunds, and we are tilted away from Japanese bonds.

Source: HSBC Global Asset Management

HSBC Portfolios - World Selection 2 (SGD and USD)

Investment and Market Review

During the second half of 2024 global markets continued to gain, with strong positive returns across both fixed income and equity markets. Global equities were up 5.5%, helped by supportive earnings in the Tech sector and beyond, US elections outcome and strong economic data and rate cuts. Global bonds also delivered 3.5%, as the Fed began the interest cut cycle. Higher yielding areas of the fixed income market outperformed lower risk bonds, helped by continued policy easing across developed and emerging markets. Alternatives posted mixed performance, with Commodities and Style Factor Hedge Funds neutral over the period while Trend Following strategies registered negative returns.

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Source: HSBC Global Asset Management

HSBC Portfolios - World Selection 3 (SGD and USD)

Investment and Market Review

During the second half of 2024 global markets continued to gain, with strong positive returns across both fixed income and equity markets. Global equities were up 5.5%, helped by supportive earnings in the Tech sector and beyond, US elections outcome and strong economic data and rate cuts. Global bonds also delivered 3.5%, as the Fed began the interest cut cycle. Higher yielding areas of the fixed income market outperformed lower risk bonds, helped by continued policy easing across developed and emerging markets. Alternatives posted mixed performance, with Commodities and Style Factor Hedge Funds neutral over the period while Trend Following strategies registered negative returns.

As a result of the market performance, all five World Selection Portfolios delivered positive absolute returns in both the second half and over the whole year.

Market Outlook and Investment Strategy

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• Increased exposure to Gold as a hedge to economic and geopolitical risk.

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Selective global government exposure: The Fed interest rate cutting cycle continues, as inflation is falling back to target and labour markets are cooling. Further rate cuts and concerns about downside growth risks should support the performance of bonds, with improved returns on longer-term exposure, which we continue to favour via Treasuries and Gilts. We also like Australian bonds on a relative value basis versus German bunds, and we are tilted away from Japanese bonds.

Source: HSBC Global Asset Management

HSBC Portfolios - World Selection 4 (SGD and USD)

Investment and Market Review

During the second half of 2024 global markets continued to gain, with strong positive returns across both fixed income and equity markets. Global equities were up 5.5%, helped by supportive earnings in the Tech sector and beyond, US elections outcome and strong economic data and rate cuts. Global bonds also delivered 3.5%, as the Fed began the interest cut cycle. Higher yielding areas of the fixed income market outperformed lower risk bonds, helped by continued policy easing across developed and emerging markets. Alternatives posted mixed performance, with Commodities and Style Factor Hedge Funds neutral over the period while Trend Following strategies registered negative returns.

As a result of the market performance, all five World Selection Portfolios delivered positive absolute returns in both the second half and over the whole year.

Market Outlook and Investment Strategy

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• Tilting towards Infrastructure, away from Property and credit;

• Increased exposure to Gold as a hedge to economic and geopolitical risk.

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• Within Europe, we prefer Spanish equities given strong economic growth in the region, and European Banks, on favourable valuations and momentum

Selective global government exposure: The Fed interest rate cutting cycle continues, as inflation is falling back to target and labour markets are cooling. Further rate cuts and concerns about downside growth risks should support the performance of bonds, with improved returns on longer-term exposure, which we continue to favour via Treasuries and Gilts. We also like Australian bonds on a relative value basis versus German bunds, and we are tilted away from Japanese bonds.

Source: HSBC Global Asset Management

HSBC Portfolios - World Selection 5 (SGD and USD)

<u>Investment and Market Review</u>

During the second half of 2024 global markets continued to gain, with strong positive returns across both fixed income and equity markets. Global equities were up 5.5%, helped by supportive earnings in the Tech sector and beyond, US elections outcome and strong economic data and rate cuts. Global bonds also delivered 3.5%, as the Fed began the interest cut cycle. Higher yielding areas of the fixed income market outperformed lower risk bonds, helped by continued policy easing across developed and emerging markets. Alternatives posted mixed performance, with Commodities and Style Factor Hedge Funds neutral over the period while Trend Following strategies registered negative returns.

As a result of the market performance, all five World Selection Portfolios delivered positive absolute returns in both the second half and over the whole year.

<u>Market Outlook and Investment Strategy</u>

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Selective global government exposure: The Fed interest rate cutting cycle continues, as inflation is falling back to target and labour markets are cooling. Further rate cuts and concerns about downside growth risks should support the performance of bonds, with improved returns on longer-term exposure, which we continue to favour via Treasuries and Gilts. We also like Australian bonds on a relative value basis versus German bunds, and we are tilted away from Japanese bonds.

Source: HSBC Global Asset Management

Janus Henderson Global Technology Leaders Fund (SGD and USD)

<u>Investment and Market Review</u>

The fourth quarter saw some strong gains for the technology sector, which was propelled by a very supportive backdrop in the US.

While volatility increased as the US election approached, a decisive outcome in favour of the Republicans and Donald Trump buoyed investor sentiment, with expectations for pro-growth policies focused on deregulation and digitalisation.

The US Federal Reserve continued to ease monetary policy. Two consecutive earnings reports showed ongoing share gains for technology companies, and provided some early evidence that the quantum of artificial intelligence (AI) investment would be justified by enhanced future growth. While the capital expenditure (capex) demands for AI are significant for the hyperscalers in particular, accelerating top-line growth and improved efficiencies are becoming more apparent.

The US economic outlook was also boosted by two more 0.25% interest rate cuts.Portfolio review

Broadcom, Alphabet and Marvell were the largest positive contributors to fund performance.

Our positioning within companies that tend to benefit from the broadening spend on AI infrastructure was rewarded. Broadcom reported strong results and positive commentary around its future AI infrastructure opportunity, as hyperscale customers develop custom chip programs for networking that look set to expand the market over the next three years.

Similarly, Marvell Technology's share price continued to do well as the company's optical and custom compute semiconductor products are required for customers upgrading their technology infrastructure.

Alphabet's share price was driven higher by investors shifting their perspective on the balance of risks from ongoing regulatory concerns versus the opportunity for its underlying technology portfolio and underlying profitability. This shift in perspective was catalysed by Alphabet showcasing its leading Willow chip for quantum computing, ongoing announcements on the commercialisation of Waymo, and its new CFO starting to meet with investors.

Uber and Advanced Micro Devices (AMD) were the main detractors from fund performance.

Concern over Tesla's advances in Full Self Driving and Robotaxis continued to undermine the growth story at Uber. While controversy remains, we remain convicted in our belief that as an aggregator Uber should benefit from increased autonomy in driving, and we think it has the potential to build upon its strong market positioning in ride sharing globally.

AMD shares continued to see some weakness after the company announced its results. While we think the company remains well placed to benefit from the AI compute cycle, its product roadmap could create some volatility with weak PC demand continuing to weigh negatively on near-term momentum.

It was an active quarter for trading and we added several new positions: Firstly, we added a position in Spotify given its new product pipeline and high free cash flow leverage. We also used market volatility to take advantage of what we saw as an attractive valuation to purchase Snowflake, a leading data platform that is at the heart of the new stack of information technology (IT) infrastructure. We also bought shares in Impinj, a holding that we have held previously but which we exited due to its higher valuation. Its valuation had retraced to what we saw as a more attractive level. Within AI infrastructure we added a position in Ciena, the optical leader that we expect could be a long-term beneficiary of large AI clusters being built both between and within data centres.

In terms of sales, we exited Adobe following the company's weak fourth quarter results announcement that raised concerns around its future growth potential. We also exited the position in Western Digital given our preference for Micron and DRAM, and the complexity emerging around the NAND memory spin at Western Digital.

Market Outlook and Investment Strategy

We remain enthused about AI as another great wave of technology innovation and continue to see a very favourable environment for active stock-pickers ahead. We believe the build-out of infrastructure and applications for generative AI will take place over a multi-year period, as has been the case for prior technology waves.

Prior waves, such as the internet and mobile compute, have also required significant investment to realise potential, but more disruption in more sectors across the broader economy has ensued. As the generative AI wave matures, disruption across many other sectors is likely to accelerate, just as it has in the past. The technology sector continues to leverage its balance sheet strength advantage to invest heavily in future research and development, supporting its capability to generate attractive returns for investors.

As this AI wave matures into 2025, we believe that active fund management will be more important than ever. The cost of capital is likely to fluctuate further, but interest rates are unlikely to be returning to zero. Hence, in our view, valuation discipline will be an important feature of determining returns again. Typically, periods of technology inflection are notable for changes in market leadership, and therefore we believe relying on indices that are heavily weighted to the winners of the last wave may prove challenging.

Our focus remains on finding leaders across the sector by navigating the hype cycle, and we believe that a focus on stock fundamentals can help to drive consistent returns. As generative AI matures, we believe it will enhance the ability of technology to take more share from the wider economy. We believe that investors will be well served to remain focused on the companies and sectors that are driving, rather than experiencing, disruption

Source: Janus Henderson

JPMorgan ASEAN Equity Fund (SGD and USD)

Investment and Market Review

The ASEAN Markets were largely flat in 2023, while the ASEAN Equity fund lagged marginally on weak stock selection. Stock selection was particularly weak in Materials, albeit names in Consumer Discretionary were helpful. At the country level, stock picking was strong in Indonesia and Philippines, although was not enough to offset the drag from Singapore and Thailand.

On the positive side, In Indonesia, the underweight to Gojek was the largest contributor as the company battled with increasing competition and continued to report quarterly losses. However, the company ended the year with positive news on its collaboration with TikTok. Indosat (Indo telco) was another contributor as the company released good quarterly results, raising their full year guidance on strong cost savings. Within Indo financials, quality banks BCA and Rakyat continued to deliver strong results. They continue to be key indirect beneficiaries of the robust FDI flows going into Indonesia, particularly in the EV related space. The banks have very health loan growth momentum and trading at robust ROE levels. In Philippine, overweight to Ayala Land helped as reported profits grew strongly and the management aims to double earnings over 5 years to 2028. In Thailand, underweight to Energy Absolute helped as the sector sold off on electricity tariff cuts. In Vietnam, off-benchmark exposure to Gemadept (seaport operator) did well on improving fundamentals. FPT (technology solutions provider) rallied double digits and traded at an all-time high on strong balance sheet and high operating efficiency. In 3Q24, they also announced a partnership agreement with Nippon Seiki in Japan, which is a global tier-1 supplier of meters and head-up displays (HUD) for motorcycles and autos.

On the negative side, In Thailand, overweight to SCG Packaging, Global Power Synergy, CP All and underweight to AIS all dragged for their individual reasons. SCGP Packaging was affected by a slower recovery in China. Global Power Synergy (Utility) sold off on concerns over risks of decline from the new government's pledge to cut electric tariffs, which could potentially be a structural shift for the sector. CP All (CVS operator) was impacted by relatively muted consumption which was impacted by a slower than expected recovery. The underweight to AIS (telco) detracted as the telco sector saw industry repair after a period of intense competitive. In Singapore, we underweight Singapore Airlines which was a beneficiary of return in tourism. Elsewhere, the overweight to MapleTree Commercial Trust (REIT) hurt on higher rates. In Malaysia, Mr. DIY was affected by a weak domestic consumption sentiment due to the government's removal of fuel subsidies.

Market Outlook and Investment Strategy

ASEAN is seeing a two-speed economy, with strong services growth offsetting a slowdown in manufacturing exports. Re-opening narratives are still valid, but the pace of recovery in markets like Thailand have been weaker than expected. Financial conditions are tightening at the margin, but the outlook still looks relatively benign, given strong FDI flows into the region amidst ongoing supply chain reconfiguration. Governments are also on conservative fiscal and monetary settings which give them room to maneuver if required.

Going into 2024, a Fed pivot and a weaker USD could be positive for the region. ASEAN equities are negatively correlated with the US Dollar. Overall ASEAN Valuations are looking more attractive than they have been for a long time. At the core, the structural positives for ASEAN continues to be evident. After a pause during covid, the return of FDI through supply chain diversification will continue to be a key driver for the region. Financial and digital penetration will continue to rise. Tourism should also see further recovery in 2024. Investment opportunities present itself through not only 'Old Economy' sectors; but there are also a multitude of 'New Economy' businesses that are emerging as well. These include both enablers and disruptors riding the increasing digitalization, as well as beneficiaries of the decarbonisation mega-trend.

We are overweight to Indonesia and Vietnam (long term growth profiles). Indonesia is ramping up for its own elections in Feb 24, while Vietnam is showing signs of recovery after a painful correction period. Exposure in Thailand is more selective but nonetheless is positioned for its bumpier than expected tourism revival. Malaysia continues to be an underweight, but bottom-up ideas continue to present itself. At a sector level, Financials offers exciting opportunities both cyclically and structurally. Across ASEAN, we believe a bar-bell approach to economic sensitive and longer-term growth plays will help add alpha. Fundamentally, we aim to look for long-term compounders and domestic champions with attractive growth prospects.

Source: J.P. Morgan Asset Management

PIMCO Emerging Markets Bond Fund (SGD and USD)

Investment and Market Review

Contributors to performance included the overweight positioning in the Nigerian Naira, overweight positioning in the Turkish Lira and overweight positioning in the Egyptian Pound. The overweight positioning in the Nigerian Naira contributed to performance, as the currency appreciated over the month on the back of the central bank intervening in the open market. The overweight positioning in the Turkish Lira contributed to performance, as the currency continues to have sufficiently high carry to offset the spot depreciation over the month. The overweight positioning in the Egyptian Pound contributed to performance, as the currency had sufficient carry to offset the spot depreciation.

Detractors from performance included the underweight position in the Kuwaiti Dinar, positioning in the Mexican Peso and overweight positioning in the South African duration. The underweight positioning in the Kuwaiti Dinar detracted from performance, as the currency outperformed its regional peers. The positioning in the Mexican Peso detracted from performance, as the currency depreciated sharply towards the end of the month on increased fears of possible US tariffs. The overweight positioning in South African duration detracted from performance, as South African long-term yields modestly increased over the month as markets reprice the extent of future easing possible by the SARB. The overweight positioning in Nigerian duration detracted from performance, as Nigerian yields increased over the month on the back of higher-than-expected monthly inflation in November.

Market Outlook and Investment Strategy

We believe the EM asset class remains in a favorable position, with a slightly asymmetric risk return profile tilted to the upside. EM fundamentals continue to show resilience, characterized by stable growth and positive debt restructurings. However, the looming threat of tariffs from the US and changing global supply chain dynamics will have implications for EM economies, leading to possible winners

(wide and Argentina) and losers (wide and China). Divergence in economic trends and the resulting differentiation in asset prices will drive key investment opportunities in the coming year.

Developed market central banks commenced their monetary easing cycles in 2024 and have since diverged in terms of speed and extent of easing projected for 2025. In the US, market expectations for future policy easing have been repriced given the continued resilience of US GDP, as well as expectations of potentially inflationary policies under the Trump administration. In the EU, the more consistent softness in economic data has allowed the ECB to go further in its easing cycle. While developed economies have started to bring down their policy rates, financing costs in global capital markets remain high by recent standards.

In the EM space, most central banks have slowed down their pace of policy easing and taken a more data dependent approach to calibrate their future policy path. While many EM countries are still expected to cut rates in 2025, Brazil stands out as the key EM which is hiking and doing so aggressively. The combination of higher rates and a wide fiscal deficit have led Brazilian assets, especially the Real, to underperform the broader EM asset class in 2024. Frontier markets, led by countries like Ghana and Sri Lanka on the other hand, were the key outperformers. Given ongoing IMF programs and better debt/GDP trajectories post restructuring, we see scope for further economic strength and improvement in overall credit quality. This outlook is highly contingent on global financial conditions continuing to remain supportive.

Looking forward, the key challenge for EMs will be navigating policy uncertainty stemming from US trade policy changes. The range of possible actions taken by the US are wide, and could range from a blanket tariff of 20% on all imports to more targeted tariffs on countries with which the US has large trade imbalances. In either case, we expect FX to act as the adjustment lever to proposed policy changes. For this reason, we are cautious on EM FX for a number of countries, and expect higher volatility going forward.

We remain focused on keeping the overall quality of our portfolios high, with sufficient cash levels in order to be able to take advantage of opportunities in a higher volatility environment, as well as new issue concession in the primary market.

Source: PIMCO

PIMCO GIS Income Fund (SGD and USD)

Investment and Market Review

Risk assets faltered in December amid reallocation and profit taking, along with growing concerns over the future path of rate cuts, ending the year on a cautious note. In the US, labour markets added 227k jobs in November, marking a strong recovery from the upwardly revised 36k gain in October. On the inflation front, the annual headline rate rose to 2.7% in November from 2.6% in October, in line with expectations. In the Euro Area, the headline annual rate rose to 2.2% in November from 2% in October, but it was below estimates of a 2.3% increase. In the UK, the annual inflation rate edged higher for a second month to 2.6% in November from 2.3% in October, matching forecasts.

The Fed's Beige Book indicated that business activity increased modestly amid resilient consumer spending, and as expected, the FOMC lowered its benchmark interest rate by 25bps to 4.25%-4.50%. Nonetheless, US Treasury yields rose as the Fed's dot plot revealed officials anticipate fewer rate cuts in 2025. In the UK, investors also revised their expectations for a slower pace of rate cuts in 2025, which contributed to a broader rise in UK Gilt yields. In the short end, US 2-year Treasury, UK 2-year Gilt, and German 2-year Bund yields sold off 9, 15, and 13bps, respectively. Further out the curve, US 10-year Treasury, UK 10-year Gilt, and German 10-year Bund yields sold off 40, 32, and 28bps, respectively.

Elevated volatility pushed equity markets lower, with the S&P 500 recording a negative return of 2.5% as valuations were impacted by rising Treasury yields. Elsewhere, UK equity markets also ended the month lower amid concerns over weak trade data from China and as investors pencilled out future rate cuts by the Bank of England. In credit, US investment grade spreads widened by 3bps while Euro investment grade spreads tightened by 6bps. Meanwhile, US high yield spreads widened by 21bps while Euro high yield spreads tightened by 21bps.

Market Outlook and Investment Strategy

Strategic Liquidity – The Fund continues to focus on maintaining high levels of liquidity (cash, Treasuries and Agency MBS) to provide additional flexibility and potentially deploy capital opportunistically.

Interest Rate Strategies – The Fund maintains a moderate exposure to duration risk with a preference for US rates. The exposure focuses on the front and intermediate segments of the yield curve where we see the most attractive opportunities. We maintain a long exposure to US TIPS to protect the portfolio against elevated inflation risks. Elsewhere, the Fund maintains a modest long position in UK duration, given the economy's greater sensitivity to higher rates and improving inflation picture, and a short position to Japanese duration, given the potential for further tightening from the BoJ.

Mortgage-Backed Exposures – We continue to like non-Agency mortgage-backed securities due to their attractive yields and risk profile. Our exposure is mainly in senior tranches of legacy, well seasoned deals, with very solid underlying fundamentals that should be resilient even in very distressed house price scenarios. We also continue to hold select higher coupon Agency MBS and senior AAA-rated tranches of CMBS indices. Both sectors provide "safe spread" along with an attractive risk profile in the event of a flight to quality. We remain focused on maintaining flexibility and ensuring a high level of liquidity in the portfolio.

Corporates – Within investment grade corporates we continue to like systemically important banks with strong capital positions and direct support from central banks, with a focus on the most senior parts of banks' capital structures. Outside of financials, we continue to hold a preference for defensive, less cyclical sectors, such as healthcare. The Fund is highly selective in cash High Yield bonds, with a focus on short dated senior and secured bonds, as well as select hung loans and restructuring opportunities. The Fund continues to maintain an allocation to high yield CDX, which benefit from superior liquidity versus cash bonds.

Emerging Markets – Exposure to emerging markets remains modest. We still believe that EM assets can be a good source of carry and diversification, but we keep individual country exposures small. We are focused on select regions which provide higher yields and what we perceive is limited potential for long-term financial loss. We are generally focused on sovereigns and quasi-sovereigns, specifically on organizations that have close government ties.

Currency – Currency positions continue to be modest as currencies can be more volatile than other asset classes. We remain tactical in our currency positioning, holding a long exposure to a basket of higher carry EM currencies (INR, TRY, IDR, PLN, ZAR, MXN, BRL) versus the USD for additional diversification. We also maintain modest tactical exposure to a basket of DM currencies (long JPY, GBP, NZD and short CAD, CHF, AUD) based on relative valuations.

Source: PIMCO

Schroder Asian Growth Fund (SGD and USD)

Investment and Market Review

Asian equity ended 2024 on a generally soft note, with most markets falling in the fourth quarter in response to shifting expectations for US monetary policy and disappointing follow-through on the policy front in China. Although Donald Trump's election victory has triggered a rally in US equity markets, it has also pushed the dollar and Treasury yields materially higher, and in turn, reduced expectations for interest-rate cuts through 2025. The new US administration is expected to enact fiscal and regulatory policies that will stimulate growth in the near term, and potentially put upward pressure on inflation. This has led to a tightening in US monetary conditions as we start the year. This shift in expectations has also put pressure on Asian currencies and reduces the room for manoeuvre of regional central banks.

Trump is also talking very forcefully about his intentions to hike import duties on goods from China and other markets, which could potentially be very disruptive to Asian exports over the medium term.

The key issue for longer-term returns in China is whether any upcoming fiscal stimulus or other policy announcements are sufficient to really accelerate underlying economic growth, and thereby improve the earnings outlook. Regulatory clampdowns in some industries, the lingering impacts from the Covid lockdowns and uncertainty about the geopolitical backdrop are also weighing on business confidence and investment. An improvement in domestic confidence – for both households and the corporate sector – is key to the growth outlook, while domestic policy support remains critical given the tough external backdrop. Market performance is therefore likely to be very policy dependent as we move into 2025.

Korean and Taiwanese markets remain hostage to the performance of technology stocks, which dominate their indices. While AI-related revenue momentum looks very strong for many Asian technology stocks, the longer-term growth picture is less clear. Despite these near-term uncertainties, we remain comfortable with our positions in industry leaders in the technology sector. Supply discipline remains in place in most key sub-sectors and the longer-term revenue outlook appears favourable, given accelerating AI-related innovation. This will likely redefine more and more consumer products over time and drive a faster replacement cycle in many areas. Valuations for our preferred stocks look very reasonable against this backdrop. There is also very limited scope to substitute US domestic production for Asian semiconductor exports. As a result, the impact of any tariffs is more likely to be borne by US consumers and corporates through higher end prices, than any loss of share from Asian tech companies.

Across the rest of the region, ASEAN markets and currencies have been pressured by the stronger US dollar and reduced expectations for rate cuts. Local central banks have started to cut rates in the last 6 months, in line with the US moves, and the sharp change in US Federal Reserve fund forecasts has therefore introduced much greater uncertainty into the policy outlook. With domestic consumption looking fairly sluggish in most countries, much hope has been pinned on the upcoming rate-cutting cycle and therefore local-market performance remains closely tied to US data in the short term. The Indian market also corrected during the month and is now 10% off its recent all-time highs. After a near 50% rally in the preceding 12 months, driven by strong domestic fund inflows, valuations in India have been looking stretched for some time, particularly for the mid-sized and smaller companies favoured by domestic investors. Recent earnings and macroeconomic data have shown signs of slower growth, not helped by disruptions from weather and recent elections, and this has provided an excuse for profit-taking.

Market Outlook and Investment Strategy

From a bottom-up perspective, we continue to see attractive value across most Asian markets. The key export stocks that we own in portfolios are well positioned to cope with any tariff hikes given their flexible supply chains and strong competitive positions. In the meantime, we remain very selective in our exposure, given the continued uncertainty on the macroeconomic front, and disciplined about valuations.

Source: Schroder Investment Management Limited

Schroder ISF Emerging Multi-Asset (SGD and USD)

Investment and Market Review

2024 saw positive returns from emerging market equities (8.1%), although they finished the year behind developed markets. Fluctuating investor expectations around the path of US interest rates were a key driver of sentiment towards emerging markets over the period. While Trump's victory in the US presidential election in November was not the shock markets experienced in 2016, his inflationary policies were enough to spook export-sensitive markets in Asia, weighing on the broader index.

Gains in equity markets were predominantly driven by technology stocks, particularly in Taiwan and South Korea, where semiconductor stocks were buoyed by investor enthusiasm for AI. China, meanwhile, was hampered by concerns over growth, although staged a rally late in the period as policymakers took the opportunity to implement an extensive monetary and, to a lesser extent, fiscal easing package. In Brazil, concerns over the country's fiscal outlook weighed on returns.

It was a mixed picture for fixed income markets over the year. EM hard currency sovereign (6.5%) and corporate bonds (6.8%) posted gains over the period, although these were largely driven by the higher yielding areas. Local currency bonds posted losses (-2.4%), with a stronger US dollar weighing on returns.

Given the positive backdrop, equities were the largest contributor to returns. China was the key driver of returns, and we benefited from adding to our exposure ahead of the September rally. Technology names in Taiwan and Greek banks were also notable contributors. Meanwhile, Brazilian equities were a source of weakness, impacted by falling commodity prices.

On the fixed income side, hard currency sovereign bonds were the largest contributor to returns, with Egypt leading the charge, while our selective approach to local currency bonds generated positive returns, despite weakness in the broader universe.

Market Outlook and Investment Strategy

In the near term, China's economic outlook remains uncertain given potential tariffs from Trump, which could reach 60%, alongside ongoing efforts to restore confidence through stimulus measures. While these stimulus measures aim to boost domestic demand, their effectiveness remains unknown against a backdrop of rising unemployment and sluggish consumer spending. That being said, a number of interesting opportunities are beginning to emerge.

Outside of China, divergence remains high providing fertile grounds for a dynamic multi-asset approach. Within local denominated bonds, we retain our exposure in South Africa where continued improvement in economic data is driving positive investor sentiment. Within hard currency we continue to favour high quality issues in Africa and the Middle East.

To mitigate the impact of Trump's tariffs and domestic inflationary policies, we have tactically increased our US dollar exposure in relation to the Chinese renminbi, Korean won, as well as currencies in Eastern Europe and Latin America. This adjustment helps to hedge against potential risks and uncertainties posed by these policies.

Overall, we are cautious, but becoming more optimistic on emerging markets, retaining a bias for high-quality securities. Looking forward, we expect the trend of increasing dispersion between countries, regions and companies to accelerate, requiring an ever more selective and active approach to capitalise on a dynamic, exciting and rapidly evolving opportunity set.

Source: Schroder Investment Management Limited

Schroder ISF Global Emerging Market Opportunities (SGD and USD)

Investment and Market Review

Emerging market (EM) equities rose in US dollar terms over the period, although some way behind developed market equities. Concerns about US interest rates staying "higher for longer" were a headwind for EM early in the year. However, money policy easing measures announced by both US and Chinese authorities in September and again before year-end were supportive towards the end of the period. More recently, policy uncertainty following Donald Trump's presidential election victory in November has weighed on EM returns in general, not least because of investor concerns about the potential impact of Trump's proposed tariffs, particularly on China. Elections were held in a number of EM during 2024, some of which were well received by markets while others caused some volatility.

Taiwan was the strongest index market, benefiting from global optimism about artificial intelligence-related technology. January's presidential election saw the ruling Democratic Progressive Party (DPP) remain in power, although it lost its majority in parliament, and the previous vice president Lai Ching-te voted in as president. China was well ahead of the index, boosted by optimism about the authorities' support for the economy which included monetary policy measures and guidance that fiscal policy measures are forthcoming. India outperformed, helped by political developments. Prime Minister Modi's Bharatiya Janata Party-led (BJP) National Democratic Alliance retained its parliamentary majority in the country's generation election, which was held in the first half of the year, although the BJP lost its single party majority.

South Africa ended the year behind the index. While investors welcomed the formation of a coalition "Government of National Unity" between the ruling African National Congress Party, the key opposition Democratic Alliance and a number of smaller parties in June, US-election-related uncertainty weighed on the index market later in the period. Thailand and Saudi Arabia both gained in US dollar terms but underperformed the index.

The remaining EM delivered negative returns. Korea was down double-digits. Not only has poor performance from index heavyweight Samsung Electronics proved a headwind, political instability following the impeachment of first the president and then the acting president in December, has also been detrimental to the index market. Political developments also weighed on the Mexican market following Claudia Sheinbaum's election as president in June and her Morena party's supermajority. Investor worries centre on the party's intention to achieve meaningful reforms and the prospect of institutions being weakened given proposed judicial reforms. Brazil declined. Three interest rate hikes between September and December, in response to stubbornly high inflation and concerns about the fiscal outlook weighed on the index market.

The fund gained and outperformed its benchmark.

Among the core markets, China (overweight Trip.Com, CATL) and Mexico (off-benchmark BBB Foods) were among the top contributors to returns. While country allocation and stock selection were positive in both markets, selection in China was notably strong. Taiwan (overweight TSMC, off-benchmark Lotes) was also a significant contributor as very strong stock selection more than offset weaker country allocation.

Greece (overweight Eurobank Ergasias, Piraeus Financial) added to returns, driven by stock selection with country allocation broadly neutral. Chile and South Africa, which were removed from the fund's core list in May and March 2024 respectively, both detracted from returns over the course of the year.

Poland (zero-weight PKO, off-benchmark Kruk) and Brazil (zero-weight Petrobras) weighed on performance as country allocation and stock selection in both markets had a negative impact.

Among the non-core markets, the fund benefited the most from off-benchmark allocations to Slovenia (NLB) and Kazakhstan (Halyk Savings Bank) while an underweight country allocation and stock selection in India (underweight HDFC Bank, off-benchmark CreditAccess Grameen) detracted.

Market Outlook and Investment Strategy

President-elect Trump's fiscal policies may be supportive of US growth in the short-term and this should have some positive spillover effects to the rest of the world, including EM. Although well advanced, the technology cycle continues to be supportive of EM, with AI-related demand expected to sustain at least through H1 2025. There is also some scope for legacy technology demand to improve as the year progresses.

However, Trump's policies are likely to put upward pressure on US inflation and, therefore, Fed policy, the US yield curve and the dollar, which is broadly unhelpful for EM equity returns. That said, the dollar has already strengthened significantly, pressuring EM currencies, many of which screen as cheap. Meanwhile, US bond yields and Fed rate expectations have recently adjusted markedly, and EM real interest rates are elevated. Much appears already priced in to markets.

Aggregate EM inflation has been trending downwards in recent months but increased uncertainty about the external environment given the Trump victory may drive caution from EM central banks. Those EM with resilient growth face a risk that inflation picks up again, curtailing the degree of potential rate cuts. Indeed, Brazil has raised rates three times since September in the face of rising domestic inflation expectations.

The potential for broad-based application of tariffs on exports to the US, with a particularly significant rise in tariffs on China, is the most notable risk for EM. Tariffs would likely lead to currency weakness for exposed countries, especially given the potential for depreciation of the renminbi, and could further slow the global trade cycle, which is already expected to soften moving into 2025. Our base case is for a more nuanced US approach to tariff application than that suggested by campaign rhetoric, although the balance of risk is to a more aggressive rollout.

Recent moves by US authorities, including the categorisation of several large Chinese tech companies as security risks given their alleged ties to the Chinese military, represent some of the non-tariff ways in which the geopolitical tension between the two countries is currently playing out. We expect the process of US-China decoupling to continue, which may create further volatility. That said, risk premia are already elevated.

The application of high tariffs and/or non-tariff measures may prompt a more significant Chinese policy response to defend against the impact on growth. Indeed, there is already a stronger policy backstop given September's stimulus announcements and December's commitments to more expansionary fiscal and monetary policy. Further moves, particularly to tackle the real estate sector, would be a welcome development. That said, policy action is likely to continue to be incremental – anything more would be a positive surprise - and execution will be key.

Headline EM valuations versus their own history are reasonable overall, being close to historical median levels. Emerging European and Latin markets are generally cheap while Asia is a more mixed picture, and India and Taiwan remain expensive. Meanwhile, EM's discount to developed markets on a 12-month forward price-earnings basis is still near its widest in 20 years, even after adjusting for sector weights.

Near term, the key risks for EM continue to be the policy uncertainty associated with the new US administration, policy developments in China and a deterioration in AI sentiment. Geopolitics is a further area to monitor, both in terms of US-China trade relations, as well as the conflicts in Ukraine and the Middle East.

Source: Schroder Investment Management Limited

Schroder ISF Sustainable Multi-Asset Income (SGD and USD)

Investment and Market Review

The 12-month period was dominated by changing expectations over when major central banks might be able to cut interest rates. Softer-than-expected US inflation data in late 2023 reinforced the market's view that the Federal Reserve (Fed) had finished its rate hiking cycle and would move towards cuts early in 2024. However, as 2024 progressed, inflation proved to be stickier than expected, leading markets to push back both the timing and extent of US rate cuts. By early summer, weaker employment data raised concerns that the Fed might have delayed rate cuts too long, prompting fears of an economic slowdown or even recession. In response, the Fed implemented a substantial 50 basis point cut in September.

Similarly, the eurozone and UK faced higher-than-expected inflation, which tempered expectations around policy easing for both central banks. Nonetheless, they enacted cut rates during the period. In Japan, however, the scenario differed as the Bank of Japan (BoJ) ended negative rates and adjusted its monetary policy to a 0.0-0.1% short-term rate in March 2024, abandoning its yield curve control policy. This shift was due to rising inflation and signs of higher wages. Subsequently, the BoJ increased rates to 0.25% in July.

In emerging markets, China's mixed economic data indicated a sluggish recovery from the Covid-induced slowdown, compounded by a persistent real estate crisis. To counter these issues, Chinese authorities launched stimulus measures in September 2024, including interest rate cuts and support for the stock market and property sector.

Against an unusually constructive backdrop in 2024 for risk assets, equities and high-yielding credit were the largest contributors.

Our US equity allocation led the way, benefitting from our tilt towards companies exhibiting high earnings. Asset allocation within equities provided a further boost—notably, we caught much of the rally in Japanese equities earlier in the year, before reducing our exposure in late Q2 prior to the well-documented selloff.

High yield was the standout performer in fixed income, where we benefited from our view that corporates were healthier and the outlook was more positive than the market was expecting. European investment grade was also a notable contributor over the period as the ECB provided a supportive policy backdrop.

Finally, within alternative assets, insurance linked securities and gold posted gains, fulfilling their role as diversifiers.

In terms of asset allocation, the largest shift was within our fixed income holdings where following a strong run, credit was becoming increasingly expensive. We rotated exposure into less expensive diversifiers including selective EM local currency names, convertible bonds and insurance-linked securities.

With no signs of an imminent recession and therefore less short-term danger to corporate earnings, we marginally added to equities over the period. Following the very narrow rally in equities for much of 2024, we rotated exposure from our core global and US allocations into more focussed areas, such as US banks which should benefit from Trump’s deregulation agenda and higher-for-longer rates, and Europe, where easing from the European central bank should provide a tailwind in an area where expectations remains very low.

Market Outlook and Investment Strategy

US exceptionalism has been a key driver of global financial markets in recent years, and our forecasts imply that the “Trump trade” will deliver even more outperformance in the months ahead. However, with the new Administration comes even greater uncertainty than usual about the global economic outlook, meaning that markets are probably in for a bumpy ride. Against this backdrop, we expect positive returns from equities in 2025, with market performance broadening out from recent winners.

The S&P500 is looking expensive but valuations away from the mega caps and outside of the US appear more reasonable. We think there is potential for markets to broaden out further in the US, particularly given Trump’s focus on deregulation and corporate tax cuts.

Valuations in Europe are more attractive and sentiment is almost universally negative towards the region. With elections in Germany (which could prompt a shift in fiscal policy) and rate cuts from the ECB, we believe there is potential for the market to do better in 2025.

In EM, valuations excluding India and Taiwan are broadly cheap. Much of the uncertainty is priced in and market stress may provide opportunities to add to exposures in the coming months.

In credit, strong fundamentals support the level yield on offer, however spreads are tight, meaning many credit markets look expensive. On this basis, we prefer European High Yield where valuations are more attractive.

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We remain positive on the US dollar which should benefit from US exceptionalism, further divergence in monetary policy, and equity inflows to the US, while proving a hedge against a more protectionist environment.

Source: Schroder Investment Management Limited

Schroder Singapore Trust (SGD and USD)

Investment and Market Review

Singapore ended 2024 with a respectable total return of +23.52% (SGD terms) for the Straits Times Index, outpacing the gains seen in both ASEAN as well as Asia ex-Japan as a whole. While the bulk of returns can be attributed to the strong run in banks given expectations for a higher interest rate environment, we did see gains also coming from growth and turn-around names such as Singtel and Yangzijiang Shipbuilding.

However, what the strong returns does not show was the multiple twist and turns the market took throughout the year in achieving this result. We started the year with expectations for rapid interest rate cuts which evolved to a higher-for-longer scenario more recently, as well as a hike in expectations for a China stimulus package which eventually fizzled out when it became clear that none was forthcoming to the extent that markets were expecting. This year was definitely one which kept investors on their toes.

Market Outlook and Investment Strategy

Looking ahead, all eyes are now on what President Trump will do when he takes over the Oval Office as well as the ensuing impact on global growth outlook. There are growing concerns that his proposed policies will result in increased inflation within US, and this is being reflected in the Fed rate expectations, which was pricing in five cuts for 2025 at the start of October last year, to only two cuts or less in January 2025. The wild card would be whether the newly set up Department of Government Efficiency (DOGE) is truly able to pull off the USD2trn of savings from the current federal government spending of c. USD6.5trn annually. If the savings is achieved, that would reduce funding pressure considerably for the US government and would likely result in lower interest rates as funding pressure eases for the government.

Back in Singapore, we are awaiting the General Elections, which must be called by 23 November 2025. The is likely to be a watershed moment for the ruling People’s Action Party as we witness the changing of guard with the new Prime Minister, Mr. Lawrence Wong, leading the party for the first time in the General Election. Beyond the political implications of what the election results would entail, the conclusion of the elections would also pave the way for yet another milestone moment, the conclusion of the Equities Market Review Group review.

Convened in August 2024 by the central bank, the review group has set a 12-month timeline to provide their findings and recommendations to the government as to the best way to revitalise the Singapore equities market. There has been much discussion on the best way to further enhance the attractiveness of Singapore as a listing hub, and we do hope that this is given serious thought and consideration by the government when the recommendation report finally comes out. The precedence set by Japan and

Korea in revitalising their equities markets have seen decent success, so there is hope that if Singapore was to take this seriously, we could see similar levels of success for the local bourse. If this does happen, it should provide a positive catalyst for the Singapore equities market.

Between the potential left-field events that could come once President Trump settles into the Oval Office, and the potential measures the Singapore authorities could adopt in revitalising the domestic equities market, 2025 is shaping up to be one with potentially wide-ranging outcomes for equities markets. This could unlock more opportunities to pick up interesting companies at fair valuations. We continue to believe that well-managed companies with prudent debt levels will outperform in the longer term and will look to pick up stocks that provide a good balance of asset quality and valuations when opportunities present themselves.

Source: Schroder Investment Management Limited

Source: Schroder Investment Management Limited