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ILP Sub-Funds available for HSBC Life Goal Builder

abrdn Pacific Equity Fund (SGD and USD)

Investment and Market Review

Asian equities continued to perform well over the year as inflationary pressures eased and investors welcomed signals from the US Federal Reserve that it was moving its monetary policy towards potential rate cuts in 2024. Early in the period, sentiment was weighed down by concerns about China's stalled recovery amid continued property woes, a higher for longer interest rate environment and conflict in the Middle East. The Chinese authorities implemented various measures through the review period to support sentiment, financial markets and the broader economy. 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 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. Investors shrugged off initial concerns about the uncertain outcome of the general election and the market recovered quickly. By contrast, the Hong Kong market was among the key laggards, with concerns over China's macro outlook compounded by the impact of heavy foreign capital outflows.

Market Outlook and Investment Strategy

We continue to be positive on the outlook for Asian equities, although we see short-term noise and volatility ahead of the US election in November. Rates and inflation have likely peaked in the US setting the scene for rate cuts in Asia, and the outlook is bright due to the broad-based growth across Asia and the fundamental strength of the companies in the portfolio which are typically leaders in the industries or markets in which they operate. Furthermore, the turnaround in the IT and semiconductor cycle, green transition and near-shoring as a result of geopolitics continues to benefit companies and countries in Asia. China is clearly showing signs of bottoming and recent corporate results have underscored the strength of some business franchises. Ultimately, we continue to have conviction in our holdings and their ability to navigate the various crosswinds buffeting markets.

Source: abrdn Asia Limited.

AB American Income Portfolio (SGD and USD)

Investment and Market Review

In the second quarter of 2024, the American Income Portfolio (Class A) delivered positive absolute returns and outperformed its Benchmark, the Bloomberg US Aggregate Index, which returned 0.07%. Year to date, the Portfolio generated positive absolute returns and outperformed the Benchmark's return of –0.71% (all returns stated net of fees and in US-dollar terms).

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 June, the Portfolio increased in absolute terms and outperformed its Benchmark, which returned 0.95%. The Portfolio's underweight to and selection within investment-grade corporates contributed to relative returns. Off-Benchmark allocation to high-yield corporates also helped. Our duration‡ underweight detracted from relative returns as yields fluctuated throughout the month, ultimately ending lower. However, these losses were completely offset by our yield-curve positioning.

During the quarter, the Portfolio’s allocation to high-yield corporates was a strong contributor to relative returns. Security selection within investment-grade corporates and an allocation to emerging-market (EM) corporates also helped. Our yield-curve positioning and duration underweight further added to performance, as US Treasury yields rose during the quarter.

Market Outlook and Investment Strategy

In the second quarter, government bonds were volatile, as investors recalibrated their expectations for how much major central banks would cut interest rates over the remainder of the year, based on changes in inflation, economic growth and central bank decisions and comments. The Fed held interest rates steady in June and published its quarterly update to the Summary of Economic Projections, informally known as the dot plot, which highlighted that the Fed currently only expects to cut interest rates once this year.

In the US, investment-grade corporates decreased 0.09%, while US high-yield corporates rose 1.09%. Securitized assets overall performed very well during the quarter, as assets lower down in the capital structure continued to outperform higher-quality securities.

EM hard-currency sovereign bonds increased 0.30% per the EMBI Global Diversified Index, while EM hard-currency corporate bonds rose 1.49% per the CEMBI Broad Diversified Index. During the quarter, the US dollar was mixed against developed-market (DM) currencies and gained on almost all EM currencies.

The global economy basically evolved as we expected in the second quarter. Evidence points to the continuation of slowing economic growth that is unlikely to result in DM recessions this year. Slowing growth will eventually cause services inflation and wage growth, driven by strong labor markets, to fall back toward trend, allowing most DM central banks to cut interest rates in earnest. We expect increasing divergence between countries and regions based on the path of growth and inflation.

The prospect of meaningful monetary easing has been constructive for financial assets, particularly for high-yield corporate bonds so far this year. Government bond markets have been volatile, driven by frequent recalibrations by investors over the timing of central bank rate cuts, particularly the Fed. Our best estimate is that the Fed’s initial rate cut will happen in the fourth quarter, to be followed by steady monetary policy easing through 2026. Our expectations are contingent on additional progress on disinflation, and our outlook is supported by data released late in the current quarter that suggests pricing pressures are continuing to ease Although economic developments are unfolding as we expected, the same is not true in the political arena. Election results so far this year point to a resurgence in populism on a global scale by disenfranchised voters. At the heart of most populist economic policies is an emphasis on near-term growth rather than long-term fiscal prudence. The contentious upcoming congressional and presidential elections in the US in November point to further polarization among American citizens.

Beyond a lack of fiscal discipline, history suggests that populist movements lead to policy outcomes that lead to less efficient economic growth, including restrictions on the flow of labor and capital across borders, and increased trade barriers. Increased momentum toward deglobalization and protectionism suggests to us that interest rates may not fall as far this cycle as they have in past cycles, making monetary policy decisions by central banks more challenging.

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.

As yields modestly fell toward the end of the quarter, we reduced the Portfolio's duration. The bulk of 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 a 5s/30s curve steepener, which should benefit as the Fed begins to cut the official rates. With yields at these levels, government bonds can provide a more attractive entry point and a stronger mitigation/hedge to credit.

Despite macro headwinds, corporate fundamentals and balance sheets continue to remain supportive of credit, but we have seen some deterioration. We expect this trend to continue as the economy slows and companies manage around greater interest expense. That said, fundamentals should remain supportive of credit given the strong starting point. Leverage remains at the lower end versus long-term levels, and interest coverage is still above average. Year to date, high yield has had more companies have been upgraded (172) than downgraded (147). However, as rates continue to be restrictive and corporations face increasing headwinds—including higher financing costs—we expect defaults to increase over the next year and a half to average or slightly higher than average levels (3%–4% in both the US and Europe). The maturity wall has been brought down significantly this year with bonds maturing over the next two years (2024-2026) reduced significantly. We still see an imbalance where demand outpaces supply which should continue to support refinancing activity in the near future. 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 7.9% and has historically been a good predictor of future returns. In addition to cash bonds, we have an allocation to synthetic high yield,§ which helps improve the Portfolio's liquidity profile. During the quarter, we took advantage of the opportunities in the new-issue market.

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 appear better positioned and diversified to weather the slowdown and tend to benefit from flight-to-quality in more straightened times. Banks, in general, have progressively strengthened core balance-sheet metrics post-global financial crisis and have boosted ongoing earnings generation power under more stringent regulation and stress testing—all supportive for bondholders. We expect credit metrics to weaken from recent peak levels over the next six to 12 months and to move toward "through-the-cycle" levels (a so-called "normalization"). We also expect capital adequacy ratios to decrease from peak levels as banks return "excess" capital to shareholders, albeit managing capital to medium-term targets that remain well above minimum requirements. Given this backdrop, we continue to invest across a bank's capital structure, including down to additional Tier 1 securities, where we remain generally constructive, albeit cognizant that it's a highly idiosyncratic asset class and one where we remain skewed to those larger national champion banks.

Within high yield, energy has been one of the better performing sectors over the last three years due to elevated oil prices and recovering demand post-COVID. However, we are still cautious on the high-yield energy sector, as it tends to be very volatile due to oil prices and valuations today are not as attractive.

We have increased our midstream holdings as they continue to benefit from elevated mergers and acquisitions activity. However, we remain cautious on the rest of the high-yield energy sector.

Among investment-grade corporates, the majority of our exposure is focused on BBB-rated|| bonds. During the period, we rotated some of our holdings, taking advantage of the opportunities mostly in the new-issue market, modestly increasing our allocation. Overall, over the past year, we have reduced our investment-grade corporate exposure in favor of agency mortgage-backed securities (MBS).

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, despite modestly increasing our allocation in June. Our preference today is for corporates, where we also modestly increased our allocation during the quarter, given their attractive risk-adjusted returns as well as strong fundamentals versus some of their DM counterparts. We recognize that valuations are extremely compelling but caution against taking concentrated risk in EM, and we diversify our allocation across over 30 countries and more than 90 corporates.

We are maintaining our conviction in securitized assets. In recent months, we have increased our allocation to agency MBS, which may provide an offset to our credit exposure in a risk-off environment. This sector offers a compelling relative value versus corporates. In the past, agency MBS have outperformed corporates in times of market stress. Given the ongoing quantitative tightening (QT) program, we do not expect spreads to tighten sharply in the near term, but we do expect agency MBS to perform well as growth slows on the back of decelerating inflation. We favor higher-coupon mortgages, which are more insulated from the QT program.

Our allocation to collateralized loan obligations (CLOs) benefits from the spread pickup they offer over similarly rated corporates and the resets of their floating coupons. CLOs have credit enhancements and coverage tests that ensure sufficient funds to meet debt obligations on debt tranches and several restrictions on asset holdings. However, we are cautious around the weakening of loan fundamentals on the back of high inflation, high rates and slower growth. Given the deteriorating macro backdrop, we favor lower-risk managers focused on higher-quality collateral.

The commercial mortgage market is challenged given higher rates, tightening of bank lending standards and expected continued declines in property values, which have contributed to the elevated refinancing risk for commercial real estate borrowers. Still, fundamentals vary by vintage and property type. The office sector is most challenged, while industrial and multifamily continue to outperform. Therefore, picking your spots is important. We prefer earlier vintages, which have less exposure to office space and have benefited from price appreciation of the underlying properties. We also favor higher-quality tranches, where high credit enhancements should protect us against any potential losses due to credit impairment.

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

International stocks rose during the six-month period ended 30 June 2024. The US Federal Reserve and other global central banks began to pause rate hikes, and global equity markets rallied early in the period on optimism that the Fed would begin to cut interest rates in 2024. Soft-landing expectations continued to be underpinned by cooling inflation, resilient consumer spending and a softening but still strong jobs market. But a series of firmer inflation readings during the first quarter of 2024 tempered rate-cut expectations as the Fed's inflation fight stalled and hopes for an initial rate cut in June faded. Despite a rollback in rate-cut expectations, US equities continued to rise as artificial intelligence (AI) enthusiasm overshadowed concerns about stubborn inflation. At the end of the period, sentiment was buoyed as softer US economic data fueled optimism that the Fed might cut rates sooner than expected. Within large-cap markets, both growth- and value-oriented stocks rose, but growth significantly outperformed value, led by the technology sector. Large-cap stocks outperformed small-cap stocks, although both rose in absolute terms.

Global healthcare stocks increased over the period, with the MSCI* World Health Care Index† up 8.0%, in US-dollar terms. Subsector performance was mostly positive. Pharmaceuticals and biotechnology led outperformance, while industrial conglomerates and healthcare technology underperformed on a relative basis.

Market Outlook and Investment Strategy

For the first half of 2024, Class A shares of the AB International Health Care Portfolio delivered positive absolute returns and outperformed their Benchmark, the MSCI World Health Care, net of fees. Selection within pharmaceuticals and healthcare providers & services contributed most to results. In contrast, an underweight to pharmaceuticals and an overweight to healthcare technology detracted.

Novo Nordisk, a diversified pharmaceutical company based in Switzerland, contributed during the period. Demand for its GLP-1 diabetes and obesity medication, which recently received approval in China, continues to be robust and drive earnings growth.

United Therapeutics contributed to relative results. The company reported a strong first quarter of earnings, with a key driver being solid uptake in its pulmonary arterial hypertension drug among an important patient population.

Regeneron Pharmaceuticals contributed to performance. The company reported strong sales of the higher-dose version of its macular degeneration drug Eylea, which drove the stock higher.

Gilead Sciences detracted from relative performance in the first half of the year. Though its first-quarter earnings were largely in line with expectations, its core HIV business missed slightly on revenues, moving the stock lower.

Genmab, a Denmark-based biotechnology company, detracted from returns. Shares fell on news of its acquisition of ProfoundBio, a biotechnology company that develops antibody-drug technologies for the treatment of cancers. The acquisition, which was announced and completed during the second quarter, is expected to increase expenses in the short-term.

Medical technology supplier Carl Zeiss Meditec detracted over the period. The recovery in its equipment business has been slower than expected, and shares dropped as the company cut its earnings forecast. Cost control has become a short-term priority as the company prepares for new product launches in the medium term.

Equity markets continued their strong performance over the period despite headwinds from higher rates for longer and softening macroeconomic data. The healthcare sector has performed well in absolute terms but lagged the broader MSCI World Index year to date, since much of the market's performance remains concentrated in select AI-exposed technology and communication-services names. We maintain our view that this likely reflects near-term euphoria around the rise of AI technology. From a fundamental standpoint, profitability in the healthcare sector remains solid, growth opportunities abound, and the political environment remains manageable since gridlock in the US looks increasingly likely. As valuations have increased in AI-related technology companies, the risk/reward skew points further toward healthcare as an attractive investment. We see tremendous potential for AI to improve the efficiency of the healthcare system—by speeding up clinical trials, reducing administrative burdens and improving outcomes through reductions of medical errors—which we believe is not reflected in the valuations of many companies in the space since large technology companies are soaking up much of the initial AI investment rush.

Though the strength of the economy may affect select subsectors of healthcare, we continue to believe that the economic sensitivity of the sector remains low relative to other sectors, while the innovation potential remains high. Additionally, we expect earnings growth headwinds from post-COVID normalization to wane, providing a growth catalyst for the sector over the next few quarters. Ultimately, we are confident in our long-held philosophy and process—with the goal of delivering a consistent exposure to profitability and growth—which have proved successful for investors in the past. While the market will continue to debate the ultimate level of interest rates and its impact on the broader economy, we maintain our belief that much of the normalization of rates has already occurred. Longer term, given the continued innovation present in the sector, combined with its strong levels of profitability and less dependence on economic conditions, we continue to believe that the healthcare sector remains well positioned.

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

AB Sustainable Global Thematic Portfolio (SGD and USD)

Investment and Market Review

The MSCI All Country World Index† (ACWI) has demonstrated robust growth in the first half of 2024, returning 11.3% year to date (in US-dollar terms). This performance stands in stark contrast to the MSCI ACWI Equal Weighted Index, which returned a modest 0.9%. The disparity can be attributed to the ongoing market concentration in a select few mega-cap technology and communication-services companies, fueled by the burgeoning enthusiasm for the artificial intelligence (AI) investment theme. Country-wise, for the period, the tech-heavy US market, as measured by the S&P 500, outperformed, returning 15.3%, while Japan, as measured by the MSCI Japan Index, and Europe, as measured by the MSCI Europe Index, lagged, returning 6.3% and 5.8%, respectively. Emerging markets, as measured by the MSCI Emerging Markets Index, posted solid returns and rose 7.5% for the period, led by Taiwan.

The AI-related technology trend is exemplified by NVIDIA's impressive rise during the period. Alphabet Inc. (unheld), Amazon (unheld), Meta Platforms (unheld) and Microsoft also posted strong returns. Collectively, these five companies contributed to almost 50% of the MSCI ACWI's gains during the period.

Interestingly, this "pain trade" (in this case, the continued outperformance of a few names) intensified in June, in response to weakening macroeconomic data. Big Tech was perceived to be the only refuge, with most other sectors posting negative or only modestly positive absolute returns.

The majority of active managers—ourselves included—should benefit from an eventual broadening of market returns beyond these Big Tech names. Such a broadening, though, will require a fundamental recovery from the other index components that is not yet evident. According to FactSet, while the blended 1Q:24 earnings growth rate for S&P 500 constituents reached its highest point since 1Q:22 at 5.9% year over year (YoY), excluding the Magnificent Seven would have resulted in an earnings decline of 1.8% YoY.

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

For the first half of 2024, Class A shares of the AB Sustainable Global Thematic Portfolio increased in absolute terms but underperformed their Benchmark, the MSCI ACWI. Stock selection detracted from relative returns while sector selection was positive overall. Stock selection within technology and financials detracted the most, although this was partially offset by contributions from an overweight to technology and an underweight to consumer discretionary.

Neste, the world's leading producer of sustainable fuels and renewable feedstocks, from our Climate theme, detracted over the period. 2024 guidance for renewable fuel margins and volumes came in below expectations on new refinery delays and softer renewable fuels margins. As Neste's two new refineries come online toward the end of 2024, volumes and margins should see some recovery.

Index and financial data provider MSCI, from our Empowerment theme, detracted during the period. The digestion of canceled contracts (due to asset manager consolidation) and budget pressures at mid-size customers influenced the share price decline.

Keysight Technologies, a leading electronic test and measurement firm, from our Empowerment theme, detracted from results and disappointed investors looking for a more emphatic turn in the fundamentals. Keysight's business is bottoming, but it is uneven, with continued delayed purchases in general semiconductor and wireless offset by growth in data center and autos. Keysight's tools facilitate innovation and new product development by its customers who cannot afford to delay spending forever. For context, this is now the longest industry downturn since its IPO in 2014. Historically, we've seen a strong snapback in order activity after delays (which we have now seen for several quarters), and recent green shoots suggest we may be nearing a turn.

Taiwan Semiconductor Manufacturing (TSMC), from our Climate theme, contributed to performance as shares benefited from stronger-than-expected contributions from AI chips. The ongoing AI arms race is leading to faster product cycles among its server customers, supporting the company's capacity utilization and pricing power on leading-edge nodes. The next wave of AI deployment is likely to be phone and PC upgrades, which will benefit TSMC as well.

AMSL, a provider of advanced lithography technology for the semiconductor industry, from our Empowerment theme, contributed to returns. The stock beat earnings expectations amid record booking and some positive commentary surrounding installed base and margin tailwind. The massive order figure suggests increasing confidence for growth re-accelerating in 2025.

Flex, an outsourced manufacturer of products including communication devices and autonomous driving systems for electric vehicles (EVs), from our Climate theme, contributed over the period. The company is seen as a beneficiary of AI-related data center spend as it produces servers and full rack systems for customers. Additionally, Flex's operating margins have been stronger than expected, which supports earnings in the face of macro-related headwinds in consumer and industrial segments.

Outlook

Despite robust market returns in 1H:24, bolstered by strong profits and central banks that have clearly signaled their intention to ease monetary policy in the near future, there are factors that suggest we may experience increased volatility in 2H:24.

Most notably, we are approaching an election season in the US and have ongoing elections in France and the UK during which markets will need to adjust and account for potential significant policy shifts. Regarding the US Presidential election, while it features two very familiar candidates (for now), it is unlike any we’ve ever seen and creates considerable uncertainty for markets.

Moreover, we think that the safety net provided by Big Tech ownership may not be as substantial as many market participants perceive. These stocks, in our view, have reaped disproportionate benefits and are too widely held. High valuations, increasingly challenging YoY earnings growth comparisons and questions about their ability to convert the AI spending surge into profits could potentially restrict their absolute return potential in the future. Apple serves as a prime example. Although its return exceeded 20% in 2Q:24, consensus estimates for the next two years have remained largely static. Arguably, meaningful positive estimate revisions would be required to push the shares much higher from here.

We remain optimistic about prospects for our Portfolio holdings. Many of our holdings have derated as the market has narrowly focused on Big Tech, despite their continued robust fundamentals. We believe our Portfolio will benefit as market breadth improves and the strong fundamentals of our company holdings are rewarded.

Adobe is an example from our Computing & Connectivity theme. Its products and services enable the digital transition and help foster creativity and drive efficiency at the individual and enterprise level. The stock declined in 1H:24, despite projected double-digit earnings growth for the full year. The main overhang relates to concerns about increased competition (from OpenAI Sora) to its business model. We view these concerns as unjustified given Adobe’s significant competitive differentiation, distribution advantage and product breadth. In our view, 2H:24 should see better price performance supported by faster monetization of its generative AI initiatives (including Firefly) and product launches. Recent earnings results demonstrated that the business continues to grow and AI monetization has started, supporting our thesis.

STERIS, part of our Health theme, is a leading provider of infection prevention and sterilization products and services for hospitals, medical devices, and the drug manufacturing industry. The stock is down since the beginning of 2022 due to macroeconomic-related customer destocking and supply chain pressures, both of which we believe will improve imminently. Despite these macroeconomic pressures and the stock's underperformance, earnings have continued to grow (by 10% over the same period). A number of our healthcare holdings have been impacted by macroeconomic disruptions during the past couple years. However, many of these pressures have stabilized, and STERIS is returning to higher levels of revenue growth. STERIS's revenue base is leveraged to the normalization of medical procedures and pharmaceutical production. In our view, shares are attractively valued at current levels given the company's low-teens earnings growth potential. We see a path for the market to look past the recent issues and reflect these fundamentals, leading to the closing of the price-earnings disconnect.

Over the last several years, we have noticed often strong disconnects between price and earnings performance for many of our holdings. Albeit frustrating, such disconnects are not uncommon, though this particular episode has been exacerbated (and extended) by the unusual degree of market concentration. As Benjamin Graham said, "In the short run, the market is a voting machine, but in the long run, it is a weighing machine." It is our belief that the fundamental momentum of our Portfolio companies will be rewarded and lead to higher price performance in the future. Although market sentiment fluctuates daily, over the long run, earnings have been proven to drive price performance. We continue to have confidence in the fundamental quality of our Portfolio.

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

Allianz China A-Shares (SGD and USD)

Investment and Market Review

The Fund outperformed the benchmark in June. Stock selection in the Information Technology sector was the key contributor, with a number of stocks performing well on the back of improving business momentum ahead of the upcoming quarterly results season.

As an example, a leading contributor was a maker of optical transceivers that allow high levels of data to be transmitted quickly across a network. These play an important role in areas such as the development of artificial intelligence (AI) applications, especially in data centres where high speed data transmission is required. After a brief period of profit taking in May, the stock has subsequently moved higher on expectations of strong order growth related to AI-driven demand.

Conversely, a detractor last month was a producer of thermal control components which are primarily used in electric vehicles (EV). The share price has corrected on concerns regarding pricing pressure and volume uncertainty in the EV supply chain. Over the longer term, we believe the company has good growth prospects and valuations have come back to more attractive levels. In addition, the company has been expanding into humanoid robot development and will likely be a key supplier for the robot of an EV maker

Market Outlook and Investment Strategy

The last month or so has been a period of consolidation for China equities from their year-to-date peak in mid-May. Although returns overall so far in 2024 are quite muted, nonetheless markets have held on to significant gains from their low point. Since Chinese New Year, China A-shares are up around 14% and H-shares more than 20% (USD).

The big question now, of course, is whether this rally is for real or just another "head fake" similar to what occurred last year. In our view, we see considerable differences this time around. Most notably, there has been an important shift in policy direction, in particular with a focus on containing downside risks in both the property market and also domestic equities.

Real Estate stocks were some of the biggest winners of the market rally post-Chinese New Year. And they have also pulled back in recent weeks. This reflects the initial market hope that the property market is getting closer to a turning point. And subsequent concerns about how policy rhetoric will translate into reality. Our perspective is that the recent policy measures, especially government support for buying up housing inventories, is an important turning point that sends a strong message about intentions to put a floor under the housing market.

Further measures are certainly needed – the oversupply of property remains high in many areas and the RMB 300 billion (approximately USD 42 billion) quota provided by the China central bank for local governments to purchase existing housing inventory makes a somewhat modest dent in the overall oversupply situation. As such, there is continued weakness in the housing market which, more broadly, is still pressuring broader macroeconomic data.

Nonetheless, financial markets appear to indicate that tail risks for property developers have eased. Reflecting this, the iBoxx USD Asia ex Japan China Real Estate High Yield Index bottomed in November 2023 and has moved steadily higher since then.

In terms of equity markets, while the direct government support was most apparent in January when the "national team" stepped in to buy onshore exchange-traded funds (ETFs) in size, since then the main focus has been the securities regulator, the China Securities Regulatory Commission (CSRC), taking other actions to restore confidence in markets. There has been a swathe of announcements relating to the level of new listings, challenging the use of funds raised from equity issuance and increasing dividend payouts.

In our view, reducing the supply of equity is a key issue. Secondary issuance and initial public offerings (IPOs) combined have typically averaged around 1-2% of total capitalisation of the China A-shares market over the last decade. This far outweighs the level of share buybacks (0.2% in 2023, for example).

In years when there has been a strong investor appetite for equities, this excess supply can be absorbed. But when confidence is low – as in recent years – then the supply weighs heavily on the market. So far in 2024, the level of share buybacks is similar to the level of equity supply. If this pattern continues, then the impact of one of the equity market's major headwinds should be significantly reduced.

In terms of portfolio activity, we have typically been adding to positions where we see an improvement in operating momentum. One example in the last month has been in the smartphone supply chain, where we expect orders to pick up after a challenging period. The portfolio continues to have relatively close-to-benchmark sector allocations. At monthend, the largest sector overweight is Utilities (+1.6%), while the largest underweight is Health Care (-3.3%).

Source: Allianz Global Investors

Allianz Global Artificial Intelligence (SGD and USD)

Investment and Market Review

Global stocks advanced over June, driven by a further rally in technology companies. US equities rallied, with the S&P 500 Index and Nasdaq Composite Index hitting fresh highs, driven by further strong gains from technology stocks. It was another strong month for growth stocks, which outperformed value ones by the largest margin in over a year, while large companies also outstripped small-cap stocks. Japanese stocks also rose slightly, while European and Chinese shares fell. Political risk re-emerged in Europe after France called a surprise election.

Economic news was mixed. Surveys of economic activity suggested that growth was stagnating in Europe and Japan and slowing in China, but US economic momentum picked up. Inflation eased in the US and UK, but central banks in these markets kept rates on hold. In contrast, Canada became the first G7 nation to cut rates, swiftly followed by the European Central Bank (ECB). The Bank of Japan (BoJ) maintained rates at 0-0.1%, but suggested it would soon start to reduce its monthly bond purchase programme.

In the commodity markets, oil prices rose modestly over the month. Brent crude hit a 4-month low on news that the Organisation of the Petroleum Exporting Countries Plus (OPEC+) was to phase out voluntary production cuts, but prices subsequently rebounded to a 7-week high, closing the month around USD 85 per barrel. Gold prices eased a little over June, but copper prices plunged to their lowest level since mid-April on growing concerns of slowing industrial demand, particularly in China.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, performance was led by the Information Technology sector with performance driven by the larger cap names. The Communication Services sector was another outperformer. Conversely, the Utilities sector pulled back from a strong prior month. The Materials sectors also lagged broader markets.

Market Outlook and Investment Strategy

We continue to believe that the equity market recovery can extend from 2023 into 2024. Inflation has trended lower over the trailing 12 months but has moved sideways so far this year. As a result, the US Federal Reserve (Fed) likely maintains the restrictive stance by holding policy interest rates at current levels. Despite tight monetary conditions, the US economy remains healthy, as labour markets, corporate earnings and consumer spending have been resilient.

Expectations for Fed rate cuts have been lowered from six to under two, over the YTD period. Amid this backdrop, equity markets have demonstrated resilience, especially for AI and cloud infrastructure companies. From the most recent Federal Open Market Committee (FOMC) meeting, Fed Chair Jerome Powell indicated that rates likely stay elevated for the time being. As the Fed gets comfortable that inflation is moving towards its 2% target, we should see rate cuts, which are looking likely to happen closer to the latter end of 2024.

A normalised monetary policy backdrop should be conducive for economic growth to broaden. We are starting to see a broader recovery in earnings growth that encompasses sectors outside of Technology and for mid and small market capitalisation stocks. Even if there is more volatility ahead, we believe smaller companies have discounted more uncertainties, offering attractive risk rewards for longer-term investors. Lower rates should eventually ease financial conditions and help broaden the recovery as we head into 2025. These conditions should translate to better demand across various industries, easier access to capital and increased investment in high return-on-investment projects like generative AI. There are likely bumps along the way, but we remain optimistic for the rest of 2024.

AI's impact on every industry is starting to take hold, and we see a growing opportunity set beyond just the Magnificent 7 and the Technology sector. ChatGPT and early use cases of generative AI have proven that these breakthroughs can greatly improve efficiency and drive a new wave of automation. We are likely at the dawn of a long-term AI investment cycle that will have significant growth implications across the value chain and in every sector of the economy.

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. Today's general purpose AI models were trained on the internet, and they cannot respond to questions based on proprietary knowledge or data housed privately within an organisation. Many internet and software companies have a wealth of proprietary data sets and workflows to train AI models that can result in a new era of more intelligent applications and systems, opening up many new opportunities for monetisation and value.

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 data sets 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

BlackRock Asian Tiger Bond Fund (SGD and USD)

Investment and Market Review

Asian credit, represented by the JPM Asian Credit Index (JACI), returned 1.23% in June 2024. Of this, 0.45% was from carry, 0.50% was from duration and 0.27% was from credit.

The Federal Reserve (Fed) held rates steady at 5.25-5.50%, and the Committee again noted that inflation has “eased over the past year” while reiterating that it “remains elevated”. Markets are pricing in 1 to 2 quarter-point rate cuts by end-2024, though we expect that the Fed is unlikely to adjust the target range lower until it gains greater confidence that inflation is moving sustainably towards its 2% target.

In China, exports beat expectations, rising 7.6% from a year ago in May. The housing market, however, continues to see weak data despite the recent slew of property-related policy easing. A new RMB 300billion funding tool to encourage state-owned enterprises to purchase completed housing for affordable housing was also announced, but clearly more is needed. We keep an eye on the Third Plenum in July for any additional stimulus announcements.

In India, the elections concluded with Prime Minister Modi beginning his third term, albeit with a weakened mandate. This suggests policy continuation under Modi’s government, and an unchanged economic reform direction, which will likely be supportive for Indian credit.

In terms of manufacturing activity, Asia’s factory activity generally expanded in June. India’s manufacturing Purchasing Managers’ Index (PMI) rose to 58.3 in June, from 57.5 in May. Factory activity also expanded at a faster pace in Vietnam, Taiwan and South Korea. In China, its Caixin PMI figure was better than expected, coming in at 51.8, though the official figure was still in contraction territory at 49.5. This aligns with the Chinese government’s economic policy focus on new industries (captured by Caixin) in terms of manufacturing upgrade and global competitiveness.

Market Outlook and Investment Strategy

In June, the BGF Asian Tiger Bond Fund (A2 shareclass) returned 1.25% while its benchmark, the JACI, returned 1.23%. The fund’s slightly longer duration relative to the benchmark benefitted from the rates rally this month.

Credit returns were in line with the benchmark. The largest contributors were security selection in Indonesia HY and financials. Overweight in Indian credit also did well, along with our off-benchmark allocation to Japan credit. On the other hand, our underweight in China SOEs detracted, as did select positions in China property, underweight in Indonesia government-related and underweight in Philippines IG.

Increased beta moderately from 1.33 to 1.35.

The fund added to India HY, Indonesian sovereigns, off-benchmark Middle East (Saudi Arabia and UAE) and select names in China HY. Off-benchmark Australia IG names were also added.

On the other hand, reductions were made across financials, China SOEs, Korea IG, Philippines IG and Indonesia HY amongst some others. On the rates front, we brought our active AUD duration contribution back to zero.

USD Duration: Long

The fund has an IG-tilt with 65.2% in IG (including cash) as of end June 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 Indonesia sovereigns and some renewable operators in the private utility space. Thai corporates and financials remain another source of active risk in the fund, although we avoid exposure to the credits linked to ongoing involvement in Myanmar. In Malaysia, we like select exposures in the quasi-sovereign space. In India IG, we like names with dominant market positions and strong balance sheets that we expect should weather through near-term inflation and macro headwinds.

China: As of end June, ATBF has a 21.0% allocation to China - a 12.8% 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. In China offshore state-owned enterprises (SOEs), fundamentals are stable overall, and technicals 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 as regulatory risks have diminished and the sector remains strategic to China's national interests.

Within financials, we find quite a few 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%) and the fund is underweight the sector.

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 relaxation of Covid policies in China and increase in travel. Fundamentals are improving, credit profiles remain stable and multiple rating upgrades were seen last year. We like select opportunities in Philippines, Hong Kong 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. Chinese asset management companies' systemic importance has been illustrated through Huarong's bailout led by Citic Group. Other Chinese financials such as leasing companies have been seeing improving business as China recovers from the pandemic. Korean financials still offer value vs Chinese and some SEA ones even after decent spread tightening. They have been more regular issuers in the market, giving us opportunities to take exposure. We are comfortable with the fundamentals of the Korean banking system and do not expect the stress in the housing market to exert too much negative impact. 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 markets were slightly down during the month (MSCI Europe down -0.98%, in EUR). French political uncertainty led to market volatility. President Macron called an unexpected election which led to concerns that a future government might come in with a less fiscally responsible agenda.

While creating negative market sentiment in the near-term, we think that a lack of clear mandate for either the French rightwing populist party RN or left-wing means that the chance is low that policies could have a significant direct negative impact on our portfolio holdings.

During the month, we saw high quality, internationally exposed businesses outperform the market whilst particularly French-listed cyclicals and financials performed poorly. Only the technology sector delivered absolute positive returns given very limited impact from French election risk and continued positive messaging around the 'AI investment wave' coming.

Portfolio performance was in line with the benchmark. Sector allocation was negative, but offset by strong stock selection. In particular, exposure to French-listed names was a drag on performance.

Market Outlook and Investment Strategy

During the month, we added a new position in Novozymes which recently merged with Chr Hansen (now: Novonenis). Thecompany held a Capital Markets Day during the month, where management were confident in the company's growth, leading to an upgraded forecast, and there is potential for even greater gains by 2025 with new initiatives. The company is on track with its integration, rolling out a new brand identity and systems, and expects to achieve significant revenue synergies, contributing to a steady growth rate through 2027.

Within the consumer sector, we also added luxury name Richemont, which had struggled over the last year as consumers continue to digest increased pricing and weakness in China continues. However, brand momentum is picking up with overall expectations for FY25 including a 5% sales growth, margin improvement, and a promising outlook with stronger brand momentum and potential for positive surprises, all at a reasonable forward price-to-earnings ratio of 18x.

We exited shares in Pernod. Despite a favorable competitive position, the ongoing weakness in the spirits market outweighs the potential of strong performance.

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 and consumer discretionary.

Source: BlackRock (Luxembourg) S.A.

BlackRock Global Allocations Fund (SGD and USD)

Investment and Market Review

Global stocks, as measured by the MSCI World Index, gained +2.0% in June, but the advance was limited mainly to U.S. large-cap stocks and emerging market (ex-China) equities. More specifically, most of June's stock market gains were narrowly concentrated in major U.S. Technology, Consumer Discretionary, and Communication Services stocks, with 6 of the 11 sectors that comprise the S&P 500 Index declining. Outside the U.S., equities generally fell in U.S. dollar terms.

Political uncertainty in France weighed heavily on stocks and bonds in that country. Meanwhile in China, a contraction in factory orders for the second consecutive month, weighed on investor sentiment in the world's second-largest economy. In Japan, stocks declined in U.S. dollar terms as the yen fell to a 34-year low against the USD. Bonds enjoyed their second consecutive month of gains during June. Slightly better-than-expected U.S. inflation data, coupled with signs of moderation in the U.S. labour market, helped provide a boost to bond prices, particularly at the long-end of the U.S. Treasury and municipal curves. Meanwhile, U.S. high yield bonds continue to benefit from an environment of supportive of credit conditions broadly, as economic growth decelerates but continues to exhibit healthy nominal expansion. Duration sensitive U.S. investment grade bonds, along with emerging market sovereigns also benefited from more benign U.S. data.

International sovereign bonds were the only major bond sector to post declines during June, as the combination of a strong U.S. dollar and a pronounced weakness in French sovereign bonds weighed on total returns.

The fund's equity exposure decreased slightly in June as the team sought to manage the fund's broader equity exposure ahead of what could be a period of increased market volatility. That said, we are comfortable maintaining an overweight on the view that economic strength could provide further support for corporate earnings growth.

Continue to emphasize secular growth companies, that are cash flow generative with consistent profitability as we believe these characteristics have the potential to outperform against a backdrop of decelerating economic growth. This positioning is balanced with exposure to parts of the energy and commodity complex, as both a potential hedge in an environment where inflation may prove to be more persistent as well as an indirect play on AI where certain commodities are positioned as beneficiaries of buildout.

The bulk of our equity positioning is aligned with long-term structural trends, such as the proliferation of AI, advancements across healthcare and a resilient, yet bifurcated consumer.

Market Outlook and Investment Strategy

Asset allocation (as % of net assets*): Equity: 66%, Fixed Income: 27% Precious Metals: 0%, Cash Equivalents: 6%.

Restrictive monetary policy in the U.S. is creating a “two-speed” economy. High cash flow corporations and high-end consumers have experienced little negative impact from the Fed’s “higher for longer” approach, and instead are benefitting from the higher returns that their cash is currently earning. However, rate-sensitive entities, including small businesses, regional banks, commercial real estate, and lower cohort consumers are showing signs of fatigue. We are comfortable maintaining an overweight to equities as many of the large-cap companies that dominate the market capitalization-weighted equity indexes across the developed markets fall into the former category, as it relates to the rate environment. We remain underweight duration, with aggregate positioning relatively stable over the month. Within U.S. rates, we prefer exposure at the intermediate part of the U.S. yield curve and remain cautious on long-dated U.S. government bonds due to the level of Treasury issuance needed to finance the U.S.’s historically high budget deficits, placing episodic upward pressure on long-term yields going forward. Looking beyond Treasuries, however, we’d argue that the nominal yields that investors are receiving in other corners of the bond market are quite compelling relative to the past 15 years and provide access to attractive level of income that could augment equity positioning. The bulk of our fixed income exposure remains in a diversified basket of corporate credit, securitized assets, and emerging market sovereigns. 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.

Source: BlackRock (Luxembourg) S.A.

BlackRock Global Equity Income Fund (SGD and USD)

Investment and Market Review

Global equity markets nudged higher in June, with the MSCI ACWI returning +2.2% amid AI-driven market indices reaching all-time highs, fuelled by growing investor optimism regarding the economic outlook across Europe, Asia and America.

All eyes continued to focus on inflation data and the consequent expectations for rate cuts; thus U.S. consumer price index (CPI) falling in May to 3.3%, indicating a slight easing of inflation sent both the S&P 500 index and tech-focused index Nasdaq to all-time highs.

The narrowness of the market continued though, with AI-themed areas of the market dominating. Whilst there was more broadening from AI-themed companies, NVIDIA was once again was the top contributor of the MSCI ACWI, reaching $3.3 trillion market cap. Its share price has now tripled over the past year.

In Europe, the European Central Bank (ECB) reduced key interest rates by 25 basis points early in the month, but a rise in year-on-year eurozone inflation to 2.6% led to speculation that the cut may have been premature. In the UK inflation fell to 2.0% in May, leading to heightened expectations around future rate cuts. The Bank of England (BoE) remains optimistic, raising its second-quarter growth forecast to 0.5%, an upward revision from its May 2024 prediction of 0.2%. The UK will hold elections in early July with polls anticipating a Labour majority. In France, after suffering a loss at the European Union (EU) elections, President Emmanuel Macron called a snap election to be held between 30 June and 7 July, with this announcement creating political uncertainty for affecting the European markets. Following the news, France's CAC 40 index fell by 6.4% in June.

Moody's also warned of France's increased fiscal risk, while Citigroup downgraded European stocks from overweight to neutral, due to rising political risks.

In Asia, China's consumer inflation remained stable with the consumer price index (CPI) rising 0.3% in May from a year earlier, matching a gain in April, while the decline in producer prices slowed down. Moody's also raised China's growth forecast to 4.5%, up from 4.0% previously. In Japan, the yen, which has lost more than one-third of its value since early 2021, fell to a 38-year low against the US dollar.

Overall, the global equity landscape continues to be fragmented, with a narrow group of technology stocks driving U.S. and global indices to all-time highs, and then on the other side political uncertainty and inflation concerns weighing on European markets.

During the month, once again the Information Technology sector delivered most of the returns, adding 221 bps to the MSCI ACWI's performance, with Communication Services and Healthcare also contributing, while Industrials, Materials and Utilities underperformed. From a regional perspective, the US stood out delivering the most significant returns in the month.

Market Outlook and Investment Strategy

The first half of this year has been dominated once again by AI, an industrial revolution in technology that has sent shockwaves through markets and driven significant earnings revisions in narrow segments of the overall market. While many low/non dividend paying mega cap companies like Nvidia have dominated those returns, the fund has benefited elsewhere across the technology supply chain and we continue to find attractive fundamental opportunities where our vantage point as global investors helps us identify mis-priced opportunities. The market's focus on AI through the lens of compute, power and data has led to a dramatic re-appraisal of growth across certain subsectors of hardware and semi's, data centres, power suppliers and those businesses with significant data that could benefit from new AI models in presenting to clients. While promising, outside of Ad tech advancements in targeting, we are yet to see meaningful applications of AI in software with a return on investment attached which, in combination with traditional prudence in new technology adoption from corporates, means that we've seen a large bifurcation in the performance of hardware and software. This is an area in which we remain highly focused.

As we anticipated, interest rates have remained higher for longer thus far in 2024, echoing 2023; in both years we have assumed 6 rate cuts at the start of the year, with expectations progressively falling as the year goes on. We currently expect the Fed will likely cut rates in Q4 2024, but believe the US election will be key to this outlook. Polls currently suggest the Republicans are likely to win the Presidential election, which could imply more sticky inflation going forward given their policies on immigration and tariffs related to trade. Tighter restrictions on immigration could reduce the rate of labour force growth, potentially slowing the rate of growth more broadly. As a result, finding quality equities with secular growth drivers in our view is key.

Lately, we have seen some disappointing economic data, such as new order numbers and some bellwether companies reporting weakness, whilst simultaneously input cost inflation is continuing to normalise. This aligns with our anticipation of an economic slowdown, but we do not expect this to lead to a recession. We continue to look to invest in a balanced portfolio to navigate this, avoiding any major shift towards defensive assets as we seek to deliver strong returns in varying market environments. We expect that it will be high quality companies with pricing power that are once again likely to differentiate themselves in the second half and deliver margin gains if weaker demand continues.

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 driving differentiated products and services are likely to be able to maintain and grow profitability. We continue to seek idiosyncratic stories and structural growth opportunities which we think will be critical in navigating through this period. We believe it is alpha rather than beta which will continue to drive returns as we see greater dispersion in equity markets. Ultimately our disciplined process focused on quality stocks at attractive valuations gives us confidence that we can continue to construct a well-diversified portfolio that can perform in a range of environments and deliver for you, our clients.

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 +0.91% over the month. In June, the spreads on high-yield bonds saw a slight increase, remaining just 16 basis points higher than the post-GFC lows observed in early May, amidst the lowest capital market activity of the year and an economic narrative that fluctuates between an ideal scenario and a gentle economic downturn.

From a rating perspective, BBs outperformed single Bs and CCCs bonds over the month of June. Global high yield risk premiums widened 11bps in June, representing a final period-end spread of T+386 bps, a yield-to-worst of 8.26%, and an average market-weighted price of $89.49 Per J. P. Morgan, the Global HY market returns were +4.59% for the month of November. High-yield bond yields experienced their most significant decrease in November since July 2022, driven by favorable inflation data, accommodative statements from the Federal Reserve, and strong, resilient economic growth. This led investors to anticipate earlier Goldilocks cuts by mid-2024. From a rating perspective, BBs outperformed single Bs and CCC-rated bonds over the month of November. Global high yield risk premiums narrowed

60 bps in November, representing a final period-end spread of T+461 bps, a yield-to-worst of 9.01%, and an average market-weighted price of $85.34

The fund returned 4.17% in November (net), outperforming its benchmark by 0.04%. Within high yield credit security selection within Banking (o/w Banco Espirito Santo SA), Wireless (o/w Cellnex Telecom) and the Property& Casualty (o/w Alliant Holdings) sectors contributed to the performance results. Conversely, security selection Other Financial Institution (o/w AGPS Bondco) and Healthcare (u/w Community Health System) sectors and underweight allocation to Retailers sector detracted from performance results.

Market Outlook and Investment Strategy

The fund returned 0.82% in June(net), underperforming its benchmark by -0.1%. Within high yield credit, security selection within Healthcare (o/w Clariane), Building Materials (o/w SRS Distribution) and Wirelines (u/w Embarq) sectors contributed to the performance results. Conversely, overweight allocation to Banking sector and security selection within Other Financial Institutions (o/w European Topsoho) sector and Technology (o/w Atos) sector detracted from performance results.

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 Hub International (Property & Casualty), Cloud Software Group (Technology) and Alliant Holdings Intermediate (Property & Casualty).

Source: BlackRock (Luxembourg) S.A.

BlackRock World Gold Fund (SGD and USD)

Investment and Market Review

Global equity markets advanced in June, with the MSCI World Index returning 2.0%. The index ended the first half of 2024 up +11.7%, led higher by mega-cap tech stocks exposed to the artificial intelligence (AI) theme.

In the US, the S&P 500 Index gained +3.6% in June, while the tech-heavy Nasdaq Composite Index returned +6.0%. May's US jobs report exceeded expectations for new job additions and renewed optimism around a soft landing. Headline CPI came in cooler than expected, leading yields to fall and growth to outperform value. At the same time, uncertainty regarding the upcoming Presidential election led to higher volatility towards the end of the month.

In Europe, the European Central Bank (ECB) delivered its first rate cut since 2019, despite resilient inflation and wage growth. Contrastingly in the UK, the Bank of England (BoE) held interest rates steady. National elections across the UK and

EU drew investor attention over the period. In China, equities traded down as the government's proposed capital market reform was interpreted as a potential challenge for investors.

From a sector perspective, Information Technology and Communication Services were the strongest performing sectors while Materials and Utilities declined.

Regionally, the US had the highest returns while Europe and emerging markets underperformed.

Market Outlook and Investment Strategy

Despite strong equity market performance in the first quarter of 2024, we continue to navigate an uncertain political and economic environment. We seek opportunities in segments of the health care sector with attractive valuations, stable growth, and promising product pipelines over the medium-to-long term. We also consider new innovations and technological developments for selective growth opportunities in the biotechnology, pharmaceuticals, and medical devices space.

From a policy perspective, we believe the environment should be benign in the near-term. With the passage of drug reforms included in the Inflation Reduction Act, there is now more certainty following years of speculation. President Biden announced ten drugs his administration will target for price negotiations as part of the prescription drug provisions included in the Act. The administration aims to leverage Medicare's market power to decrease prices for top-selling drugs treating blood clots, diabetes, cancer, and arthritis. Negotiations will take place over the next year for changes to take effect in 2026.

We expect continued market volatility and seek attractive opportunities in stable, strong cash flow generating companies across all health care industries. Over the long-term, secular drivers for the sector remain in place; firstly, aging demographics in both developed and developing countries and secondly, innovation in medical technology. The combination of these secular trends, with favourable valuation creates an attractive long-term investment opportunity.

Source: BlackRock (Luxembourg) S.A.

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

Investment and Market Review

US bonds rose, with the Bloomberg US Aggregate Index gaining 2.6%. Within US credit markets, returns from investment-grade bonds (rated BBB/Baa and above) outpaced Treasuries.

Within emerging markets (EM) debt, US dollar-denominated debt returned 7.9% as measured by the JPMorgan EMBI Global Index. Local-currency debt, as represented by the JPMorgan GBI-EM Global Diversified Index, rose 6.6% in US dollar terms.

US high yield corporate bonds returned 10.4% over the period . Spreads tightened by 83 bps to end at 309 bps (as measured by the option-adjusted spread).

High yield corporate bonds contributed to absolute returns, with the strongest contributions coming from the consumer non-cyclical, consumer cyclical and technology sectors. At an issuer level, Diebold Nixdorf (technology) and Frontier Communications (communications) were the two largest contributors. While no sector weighed on returns, holdings in communications companies Hughes Satellite Systems and Embarq were the two largest detractors.

EM bonds contributed to absolute returns overall. EM hard currency government and agency bonds contributed the most, particularly holdings in Argentina and Egypt. EM corporate bonds also added value, led by the basic industry sector where a holding in First Quantum Minerals was among the largest contributors. The communications sector, however, weighed on returns, especially our holding in America Movil. EM local currency bonds also proved beneficial. The largest contribution came from

South Africa, while holdings from Indonesia and Brazil weighed on returns. Meanwhile, EM local currency inflation-linked bonds detracted from returns.

Market Outlook and Investment Strategy

The US Federal Reserve's commitment to data dependence in assessing the need for monetary policy easing creates market uncertainty. Nonetheless, US Treasury yields are likely to remain rangebound, with a resilient domestic economy and fiscal deficit concerns offset by the Fed's bias to cut policy rates. On the other hand, an unexpected, sharp economic downturn could prompt deeper cuts; conversely, a sufficiently dramatic upswing in inflation would tie the Fed's hands and pivot policymakers back to a tightening bias.

Fixed Income continues to be an attractive asset class. What is likely a peak in central bank policy interest rates combines with the elevated level of all-in bond yields to provide a significant opportunity in fixed income. Investors looking to generate a stable income stream can find attractive investment opportunities across the range of credit sectors including emerging market debt and high yield.

The US high yield market, with relatively high all-in yields and lower duration, is an asset class driven less by the outlook for interest rates and impacted more by economic growth and credit quality; yields are closer to 8% and market default rates are low. We expect low default expectations to persist, with the peak of default activity for the year already behind us. While credit spreads have come in from the wides of 2023 and valuations therefore less attractive than before, all-in yields however remain at levels that are supportive of attractive total return outcomes.

Emerging markets debt: We remain largely constructive on emerging markets debt, given a benign global economic growth outlook. Uncertainty around US rates and elevated geopolitical risk however remain.

Hard currency: While investment grade rated sovereign spreads are tight on a historical basis, they represent an avenue for adding duration in a soft-landing economic scenario. There are selective opportunities in non-investment grade sovereigns where the relatively wide spreads offer a significant cushion against market volatility. Additionally, select EM corporate bonds provide diversification to portfolios.

Local currency: We continue to favour duration given the likelihood of further policy easing in many emerging market countries, looking ahead. Many emerging economies shifted toward easier monetary policies when inflation softened, although there are regional differences. While most Asian economies are not yet ready to reduce rates, several Latin American and Eastern European countries are well into their easing cycles. Headline inflation has ticked up in several emerging markets recently, but core inflation remains muted; this is due to aggressive policy tightening early in their inflation cycles.

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

At the sector level for corporate high yield, the portfolio is defensively positioned across a broad range of industries, including consumer cyclicals and capital goods; but partially offset by a constructive stance to brokerage/asset managers/exchanges.

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

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

Source: Capital Group

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

Investment and Market Review

Global equities rose modestly over January, led by Japan and the US. In contrast, European stocks were broadly flat while emerging markets and Pacific ex Japan sold off. An uptick in inflation and a more cautious tone from central bankers made it appear less likely that rate cuts for the US and eurozone would begin early in the spring. The December CBOE Volatility Index (VIX) increased to 14.9, up 5.9% from the prior month. (A VIX reading below 20 is widely viewed as an indicator of market stability.)

Sector returns across the MSCI All Country World Index were mixed. Information technology, communication services and health care led while materials, real estate and utilities lagged.

Information technology: Stock selection in the information technology sector boosted relative returns, although a below-index holding was a slight detractor. A below-index position in Apple was a plus as shares lost 4%, continuing to suffer from worries related to its smartwatches given the patent dispute with Masimo and concerns over the outlook for iPhone sales in 2024 given increased competition in China.

Communication services: The choice of stocks in the communication services sector added relative value. An above-index holding in Meta Platforms was a bright spot. Shares gained 10%, continuing their recent strong run amid firming sentiment on the outlook for the online advertising industry and investor enthusiasm on the social networking giant’s exposure to AI technology.

Health care: An above-index position in the health care sector was helpful for relative results. In particular, a large above-index position in Novo Nordisk was beneficial as shares rose 11%, hitting an all-time high given good fourth-quarter results, continuing signs of strong growth in the obesity care market, and as the pharmaceuticals firm ramps up production capacity to meet increased demand.

Consumer discretionary: Stock selection and, to a lesser extent, an above-index position in the consumer discretionary sector detracted from relative returns. Holding Tesla proved costly as shares plunged 25% afterfourth-quarter results disappointed forecasts and it warned of a likely slowdown in EV volume growth over 2024. Sentiment was also hit by worries over the outlook for margins given rising competition across the global EV sector.

Financials: The choice of stocks in the financials sector hindered relative results. An above-indexposition in Asia-focused insurer AIA Group hurt as shares fell 10%, continuing to sell off on concernsover China’s economy and the outlook for sales in the country.

Materials: Positioning in the materials sector also weighed on returns on a relative basis. Shares ofspeciality chemicals group Sika lost 12% after sales for the full 2023 year fell short of prior guidance.Sales growth in the Americas region slowed sharply due to the impact of inflation, higher borrowingcosts and a labour shortage across the construction sector.

Market Outlook and Investment Strategy

Contrary to many market participants' expectations, the global economy avoided a recession in 2023. Instead, what has happened is a 'desynchronisation' of the economy, also known as a rolling recession, with different sectors experiencing downturns at different times. If this trend continues, the US and other major developed market economies could potentially avoid a hard recession.

With US inflation continuing its downward trend in recent months, history tells us that equities tend to outperform both bonds and cash in the 12 months following the end of interest rate hiking cycles. While it remains to be seen whether we are at the inflection point of US monetary policy, the portfolio is deliberately not positioned for a single outcome or 'type' of short-term market environment.

Instead, it is well-balanced by geography, sector, style, theme and characteristic of underlying companies. It has exposure to secular growth trends and select companies in more cyclical areas that are backed by durable tailwinds. This is reflective of our view that a greater breadth of equity market leadership is likely to emerge over the next cycle despite the narrowness witnessed in 2023. If and when the market does broaden out, the portfolio is well-positioned to potentially benefit from the market shift.

While the portfolio continues to be constructed from the bottom-up, there are several long-term, multi-decade trends that portfolio managers are keeping a close eye on, including:

Health care innovation: We are in a golden era of health care innovation with companies developing new drugs and platform technologies to combat large and underserved markets such as obesity and cancer. The portfolio is invested across a broad range of companies within health care, focusing on companies with proven franchises, strong pipelines and no significant patent cliffs.

Digital disruption: The last decade of digital disruption was powered by cloud computing, SaaS and internet platforms. Whilst we still expect strong growth in these areas over the next decade, the next lift could come from the mass adoption and commercialisation of AI.

Energy transition: Ongoing efforts to decarbonise the global economy could provide multi- decade tailwinds for companies across a wide range of industries. This includes raw materials, semiconductors, electric vehicles (EVs), energy storage, electrification equipment, air conditioning providers and alternative fuel.

Evolving globalisation: The global economy is constantly evolving and we are now in a period of elevated geopolitical tensions with companies focusing on supply chain resiliency rather than efficiency. The rise of "nearshoring" can generate opportunities in a variety of industries such as logistics, infrastructure machinery and medical equipment.

Source: Capital Group

First Sentier Bridge Fund (SGD)

Investment and Market Review

The last mile of disinflation has been bumpy; bearish views of a weakening US economy at the end of 2023 reversed quickly on the back of resilient US economic data. However, as the year progressed, US economic data releases started to show a weaker picture, with signs suggesting that the second half of the year could see the US economy embark on a weaker growth trend.

While 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. Meanwhile, in China, regulatory policies have been highly accommodative to support the property sector and recent policy measures aimed at destocking excessive property inventory have seemed to gain positive traction.

Market Outlook and Investment Strategy

For Asian Credit, demand-supply technicals remain the bigger driver of credit performance in the near term. The Fund remains constructive in Asian Investment Grade (IG) credit; high all-in yields well above 5% is an attractive return proposition for investors. That said, with spread levels at record tights, a sell-off could occur very swiftly at current valuation levels. Barring scenarios that would cause interest rates to rise further, the Fund maintains its long bias in US interest rate duration with a higher conviction that that market has seen the peak in US policy rates.

While Asian equity markets have bounced somewhat, there doesn’t appear to be much evidence of underlying economic transformation. Exports and more investment continue to do the heavy lifting. At the margin, though, the Investment Manager expects positive policy changes and a greater focus on returns. While GDP growth may well be lower, a higher cost of capital and greater financial as well as management discipline are often necessary prerequisites for better markets.

The Investment Manager expects quality to perform better in such times, with less competition and a greater focus by investors on certainty, persistency, track-record, management capability and even survivability (i.e. balance sheets). This is the reason the Investment Manager’s performance, at least historically, has typically held up in more difficult times. The combination of people, franchise and a reasonable valuation remains their primary focus.

Source: First Sentier Investors

Franklin Biotechnology Discovery Fund (SGD and USD)

Investment and Market Review

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. Biotechnology and pharmaceuticals companies led the sector higher in the spring quarter. 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.

On the upside, relative and absolute returns in the biotech industry were buoyed foremost by big rallies in Insmed, Alpine Immune Sciences, Merus, Oruka Therapeutics, Mirum Pharmaceuticals, Benitec Pharma, and more. Insmed's stock more than doubled in value after it revealed promising results from a Phase 3 study of its experimental treatment for symptoms in patients with a rare lung disease. The biopharmaceutical firm said the drug brensocatib significantly reduced pulmonary exacerbations for those suffering from non-cystic fibrosis bronchiectasis. Insmed plans to apply for FDA approval in 4Q24 and hopes to have brensocatib in the US market by mid-2025, followed by launches in Europe and Japan in the first half of 2026. Alpine Immune Sciences (not held at period-end) announced it would be acquired by Vertex Pharmaceuticals (also held by the fund) for US$4.9 billion in cash—a 67% premium to Alpine's stock price ahead of the deal, which was completed in May. We think this is a step in the right direction strategically, as Vertex has not diversified away from cystic fibrosis, and with US$14 billion of cash on its balance sheet, Vertex could be more acquisitive than it has been. Clinical-stage oncology-focused biotech Merus fared well on key petosemtamab (peto) efficacy and safety data; the drug is in development for head and neck squamous cell carcinoma (cancer), and we believe this next data update should reinforce its quality profile. Merus offers a best-in-class asset with blockbuster potential in head and neck cancer and a differentiated antibody discovery platform. Assuming clinical and regulatory success, peto could potentially represent a US$3+ billion peak sales opportunity, according to our analysis. Additionally, positive peto data could drive further M&A speculation, as this is what we would deem a clinically"derisked," high-value asset that would make sense as a tuck-in acquisition for any pharma company with a PD1 inhibitor (a type of cancer immunotherapy drug that blocks the activity of the PD-1 protein on immune cells, particularly T cells). As a specialist, Merus's pipeline is focused on the discovery and development of Multiclonics, which are antibodies that simultaneously bind two (bispecifics, or "Biclonics") or three targets (trispecifics, or "Triclonics"). Elsewhere in the portfolio, our solitary investment in the health care services industry—precision oncology testing specialist Guardant Health—was another strong contributor as it reported 31% revenue growth in 1Q24 driven by further peer-reviewed validation of its innovative suite of cancer testing products, strong clinical and biopharma sales volumes, and increased full-year 2024 guidance.

Market Outlook and Investment Strategy

The portfolio continues to be overweighted in mid-, small- and micro-capitalisation biotechnology stocks as these market-capitalisation tiers are where we see 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 strong fundamentals backed in part by innovation in new drug modalities, an accommodative FDA, the continuation of what see as a strong M&A cycle, relatively stable Medicare drug reimbursement, and appealing valuations.

Conversely, we remain cognisant of risks to biopharma innovation and stock performance linked to the persistence of inflation and the declining magnitude of interest-rate cuts in the United States for the remainder of 2024. We are also concerned about the possibility of cooling M&A activity and the potential for a worse-than-expected impact from the implementation of Inflation Reduction Act (IRA) drug pricing measures in the United States.

The current US drug reimbursement scenario is undergoing significant changes, particularly with the introduction of new models for cell and gene therapies. 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 future revenue, 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 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 it 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 during the first half of 2024.

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 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

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.

Tech giants Apple and NVIDIA posted robust double-digit percentage gains and were the fund’s two largest contributors in absolute terms. However, they averaged roughly 33% of the market capitalisation-weighted index (when combined), compared to just 13% of the fund’s overall composition, and this disparity exerted a sizeable lag on relative performance. We have consistently avoided tracking lofty benchmark concentrations in the largest tech firms, and this tendency also worked in our favour, just to a lesser extent, as a substantial underweighting in Microsoft provided a boost given its below-benchmark return. In particular, the secular shift to data centre computing has led to a parabolic rise in the number of NVIDIA GPUs (graphics processing units) shipped, which continues to support the company's ongoing record profit margins while NVIDIA has also begun to ramp up production of a much more powerful next-generation GPU (expected to ship in the latter half of 2024). We currently do not see a near-term serious threat to NVIDIA's dominant position in the genAI infrastructure.

Cybersecurity and data protection software demand appeared to remain strong as an increasing number of enterprises are planning to adopt new platforms or upgrade existing ones as the cybersecurity threat matrix expands (rapidly increasing numbers of tracked adversaries, plus a surge in cloud intrusions) and deepens (sophisticated adversaries are operating with unprecedented stealth, leading to more successful attacks linked to speed and lower detection rates).

Mixed results versus the index among semiconductor-related companies were supported by the fund's lack of investment in index component Intel, which was most beneficial as the company shed nearly a third of its equity value. Most of the other key contributors were off-index or overweighted holdings that enjoyed solid gains, including Taiwan Semiconductor Manufacturing Company (TSMC), Monolithic Power Systems and SiTime, with SiTime posting the biggest rally among them. We think SiTime could return to potentially greater profitability in the second quarter, and it remains an interesting secular growth story with what we consider to be appealing margins and potentially significant EPS growth leverage. Elsewhere in the portfolio, key contributor Pinterest and Google parent company Alphabet supported our results in the off-benchmark interactive media and services industry. Pinterest, a visual discovery engine for creative ideas, is seeing deeper subscriber engagement with targeted advertising on its platform, including the use of direct links to product purchases through Pinterest's streamlined shopping experience. As a result, Pinterest reported robust 1Q24 financial results amid revenue acceleration and earnings upside that surpassed increased consensus expectations linked to strong peer results and a strong ad market heading into the report. We continue to see scope for further revenue growth following what is typically Pinterest's seasonally softest quarter of the year.

Market Outlook and Investment Strategy

IT sector fundamentals throughout the first half of 2024 reinforce our belief that robust secular tailwinds will likely translate to above-market earnings growth, which is supportive of potentially strong continued sector returns in the coming quarters. We view the following as critical factors for the sector's continued outperformance of the broader equity market: (1) digital transformation (DT) remains a strategic imperative for businesses as they realise the value of improved efficiency and growth even in a mixed macroeconomic backdrop; (2) genAI proves its worth as the next computing paradigm, enabling significant productivity increases, new business models, and breakthroughs in fields like robotics, health care and materials science; (3) a more stable inflation and interest-rate environment; and (4) reasonable equity valuations on an earnings growth-relative basis.

The fund remains positioned to potentially benefit from a steadily improving earnings growth backdrop following the post-COVID deceleration in 2022–2023, as well as robust secular growth in the long term, driven by AI, cloud computing and our other eight key DT sub-themes: 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.

Our work throughout the June quarter revealed an acute focus on capturing the AI opportunity across businesses of all types. This resulted in a number of interesting trends. First, the mega-cap "hyperscalers" (fund holdings Microsoft, Alphabet and Amazon, as well as not-held Meta Platforms) accelerated their already-robust plans for building sufficient data centre capacity to support future AI model development and increased adoption of AI applications. This trend continues to generate strong performance for many of the AI "build" stage beneficiaries, with NVIDIA continuing to win the lion's share. Our work suggests this trend will likely be sustained for several years; there's now a clear technological path towards much smarter AI models, which we believe can unlock massive economic value, thereby incentivising continued investment in AI infrastructure. Second, given the early stages of AI development, enterprises are still in learning mode as they assess which use cases to adopt, how to ready their tech and data infrastructure, which vendors to partner with, and how to deploy AI safely, while also contending with finite IT budgets. This appears to have slowed down decision-making and the deployment of IT spending in 1Q24, leading to mixed results among software companies. We continue to collect data that supports a gradual increase in AI adoption within the enterprise segment, and we view a number of software companies as potential long-term beneficiaries of this trend. Finally, from the perspective of the consumer, fund holdings Apple, Alphabet and Microsoft recently held developer conferences that offered a preview of what will come when genAI models become integrated with the devices (phones, laptops, etc.) and internet services we use every day. We believe this is the beginning of a multiyear march towards personal AI "agents," which should support growth not just for these large platforms, but for the various semiconductor, hardware and application companies that can turn this vision into reality. Overall, we continue to emphasise AI as a key theme because we believe it's a foundational new technology, one that could kick-start a sustained business upcycle for the IT sector. We also think the expansion of AI use cases should eventually lead to increased market breadth and participation from companies further down the market-cap spectrum.

The June quarter saw a continuation of limited market breadth. Consider that the MSCI World IT Index enjoyed a double-percentage price return in US-dollar terms in 2Q24, but the median price performance across the 156 stocks in this index barely surpassed 0%. Large-cap constituents NVIDIA, Apple, Microsoft and Broadcom, which are all held by the fund, contributed 99.2% of the index's overall move during the quarter, with NVIDIA alone contributing 47.6%. We reiterate our view that these are very strong, high-quality businesses with leverage to the AI trend. That said, we believe the market is taking a short-term—and thus overly narrow—view of technology businesses that stand to potentially benefit from the multiple secular growth drivers we've identified for the next decade, including AI. From an equity valuation perspective, we aim to take advantage of opportunities that we believe have been created from this overly narrow view.

Inflation appears to have generally eased in the United States and several other key geographies, a trend we believe will likely continue. On 12 June, the US Federal Reserve held its key interest rate steady for the seventh consecutive meeting. For the high-growth IT sector, disinflation and stable or declining US Treasury yields are generally supportive of valuation, and we continue to assume a fairly stable yield environment for the remainder of 2024.

Despite ongoing business strength and reduced equity market volatility (versus year-ago levels), there are those who still see risks brewing in IT and tech-adjacent companies. The key risks we are monitoring include (1) the timing and magnitude of genAI demand; while optimistic, we acknowledge that near-term data may disappoint versus elevated market expectations. This dynamic was evident in the stock reactions following earnings reports from some companies widely considered to be “AI winners.” The other main areas of concern involve (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-cap tech firms in the United States) and from an AI perspective as new regulatory/policy frameworks are being established rapidly; and (4) risks around decelerating global economic growth through the end of 2024 and the extent to which it impacts the consumer and, by extension, tech-focused markets such as e-commerce, digital payments, digital advertising, consumer hardware and electronics, and electric vehicles.

Source: Franklin Templeton

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

Investment and Market Review

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.

In the information technology (IT) sector, an underweight in Apple detracted from the fund’s relative returns. In May, the technology giant reported record earnings that exceeded consensus expectations, partly driven by a strong increase in services over the prior year. It also announced a record US$110 billion share buyback plan. Apple’s stock was further buoyed by its announcement in June of the gradual rollout of Apple Intelligence, the company’s long-awaited foray into AI.

In contrast, IT holding Monolithic Power Systems, a producer of specialised power management chips, helped performance. Monolithic’s shares rose following the company’s release of first-quarter 2024 earnings and revenues that exceeded consensus expectations. The company’s enterprise data segment is expected to potentially benefit from increasing data-centre electricity demands linked to the proliferation of AI.

In the consumer discretionary sector, a position in Fanatics Holdings detracted from relative returns. Softening consumer demand has weighed on the revenue growth of the sports merchandiser. We continue to expect improvements in the company’s collectibles and commerce segments ahead.

Market Outlook and Investment Strategy

US inflation showed signs of easing during the quarter, though it still remained above the Fed’s target level. The Fed reduced its projected number of interest-rate decreases for 2024 from three to one, while remaining open to the possibility of two. We think the US stock market is on a generally positive trend and inflation should ease gradually, possibly allowing for rate reductions later in the year.

Equity market performance has recently been dominated by a small number of AI-related stocks. Within the technology space, we continue to expect enterprise technology companies to play a leading role in driving the adoption of generative AI. We see generative AI as an enabling technology that should help improve corporate productivity, lower costs and drive increased efficiency across many sectors of the market. In addition, we expect several other secular themes to provide tailwinds for growth. For example, we remain excited about innovations within health care, including new drug discoveries, surgical robotics, genomic advances and improving bioprocessing systems. We see additional potential for companies that are playing leading roles in society's ongoing energy transition and electrification. We also see opportunities stemming from the reshoring and retooling of America's manufacturing base, which we believe could be a multidecade trend.

We are mindful of the macroeconomic environment while using active management and fundamental research to act swiftly and effectively in today's dynamic markets. We have been identifying opportunities in what we deem to be high-quality businesses that can benefit from lasting secular growth trends and maintain leading competitive positions along with strong balance sheets. In terms of portfolio positioning, we have been conducting partial sales amidst share-price strength in some of our mega-cap tech holdings and reinvesting the proceeds into areas that have lagged the rally but, in our analysis, can potentially offer high-quality revenue and earnings growth. Additionally, we continue to focus on areas of the mid- and large-capitalisation tiers where valuations are appealing, in our assessment. Many of these companies are high-quality businesses with sustainable multiyear growth prospects. Currently, our largest sector exposure is in IT, where we favour software companies, especially those driving the future of AI.

Source: Franklin Templeton

FSSA Dividend Advantage Fund (SGD and USD)

Investment and Market Review

Key contributors to performance included Mahindra & Mahindra, as it reported better-than-expected earnings results led by higher average selling prices and improved gross margins (sales proceeds minus the cost of goods sold). Taiwan Semiconductor Manufacturing (TSMC) rose as it continued to benefit from AI-related demand for its cutting-edge chips. On the negative side, China Mengniu Dairy has been affected by weak consumer demand in China. China Resources Beer also faced weak consumer demand amid a tough operating environment, though the premium beer segment has been solid.

New purchases included Axis Bank, one of India's largest private banks. Axis has a strong deposits business and should benefit from the structural trend of private sector banks taking market share from the state-owned sector. The Fund also purchased Shenzhou International, a leading knitwear manufacturer focused on sportswear. In the longer term, Shenzhou could gain market share as brands become more conscious about their supply chain and consolidate in favour of the best quality operators.

The Fund sold China Resources Land and Ping An Insurance to consolidate the portfolio.

Market Outlook and Investment Strategy

While Asian markets have bounced somewhat, there doesn't appear to be much evidence of underlying economic transformation. However, while economic growth may well be lower, a higher cost of capital and greater financial as well as management discipline often augurs an improvement in performance. This is why the combination of people, franchise and a reasonable valuation remains the primary focus for the Investment Manager. The Investment Manager expects quality companies to perform better in such times, as there is less competition and investors are more focused on certainty, persistency, track-record, management capability and even survivability (i.e. balance sheets). The Investment Manager believes this is the reason the Fund's performance, at least historically, has typically held up well in more difficult times.

Source: First Sentier Investors

FSSA Regional China Fund (SGD and USD)

Investment and Market Review

Key contributors to performance included Taiwan Semiconductor Manufacturing (TSMC), as it continued to benefit from AI-related demand for its cutting-edge chips. MediaTek rose on market optimism around "Edge AI", which could bring new upgrade opportunities to smartphones. The company is one of the leading providers of System-on-Chip (SoC) and wireless technology chips globally. On the negative side, China Mengniu Dairy was affected by weak consumer demand in China. Shenzhen Inovance Technology declined on generally negative market sentiment.

New purchases included H World (formerly Huazhu), a multi-brand hotel group in China. The company has scale, strong brands, advanced IT systems and good cost control. As China's economy continues to shift towards domestic consumption, branded hotels should gain market share and benefit from the growing spend on travel and leisure activities.

We sold Sino Biopharmaceutical and Minth to consolidate the portfolio.

Market Outlook and Investment Strategy

Market Outlook and Investment Strategy

Despite concerns around "down-trading" (i.e buying less expensive goods) in the near term, Chinese people are still expected to become wealthier in the long run, due to increasing urbanisation and rising incomes. As this happens, they will likely want to improve their health and lifestyle, which favours consumer companies with premium brand strategies like Midea, China Resources Beer and China Mengniu Dairy.

During the Investment Manager's regular research trips to China, they look for companies that are either bucking the negative trends or are strengthening their market positions in the down-cycle. They believe there are still plenty of quality companies in China with strong brands and proven franchises that can achieve decent earnings growth over the long run.

Source: First Sentier Investors

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

Investment and Market Review

The Asia Pacific ex Japan Equity High Dividend Fund rose 17.94% over the past year as of 30 June 2024 (SGD terms), while its benchmark, MSCI AC Asia Pacific ex Japan Net gained 13.21% (SGD terms) over the same period.

Taiwan was the best performing market, with its index hitting record highs in 2024 driven by artificial intelligence related euphoria. India outperformed the general Asia market, as its economy continues to recover with continued net inflows from both foreigners and domestic investors alike. South Korea also registered positive return during the period, thanks to its “Corporate Value-up Program” and strong foreign investment under the AI hype. On the other hand, Hong Kong (SAR) was amongst the worst performing markets, as it battled the collapse of China’s second largest real estate developer and its liquidation order earlier this year.

The fund outperformed against the benchmark on a rolling 1-year basis. At geographical level, positive selection effects in South Korea, Taiwan and Hong Kong (SAR) contributed to performance, which was partially offset by the unfavorable allocation and stock selection effects in India and Indonesia. At sector level, positive selection effects in Industrials, Consumer Staples and Information Technology contributed to performance, which was partially offset by the unfavorable selection effect in Communication Services. Top stock contributors include SK Square, LCCTF and KB Financial Group, while major stock detractors include Baidu, Tingyi and Telkom Indonesia.

Market Outlook and Investment Strategy

Asian markets were up 10% YTD (end June) but there was significant divergence between markets, with Taiwan significantly outperforming the region (+30%) while China saw a significant rally in 2Q driven by policy support has raised regional returns. 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. Valuations at 13.2x forward P/E / 1.7x P/B are at value but with significant divergence within the region. India is the most expensive market at 24.0x while China being the cheapest at 9.5x (end June). In terms of earnings, earnings recovery in 2024 will be the main driver of returns given fair valuations. Consensus forward EPS in the region is now at 20% / 14% / in 2024 / 2025 with 2024 earnings growth primarily driven by Korea and Taiwan.

Overall, we remain positive on the cyclical earnings recovery in 2024 in tech heavy North Asian markets Taiwan and Korea. We do see selected opportunities in the information technology sector with AI improving demand for tech infrastructure, while demand supply dynamics continue to be favorable in the memory space. An additional medium term catalyst in Korea would be the value up program which could result in improvement in corporate governance and shareholder returns. We also remain positive in the medium to long term structural growth story in India and ASEAN driven by themes such as favorable demographics and supply chain diversification.

Source: HSBC AM

HGIF - Global Equity Climate Change (SGD and USD)

Investment and Market Review

The Global Equity Climate Change Fund returned 5.9% over the period 1 July 2023 to 30 June 2024, consistent with the performance of the overall climate theme. The Fund is well-ranked in its peer group, achieving 2nd quartile performance over 5 years and 1 year in the Morningstar Ecology Equity category. Across the portfolio holdings, corporate earnings remained healthy as companies strengthened profit margins coming out of an inflationary period. 76% of companies reported earnings exceeding expectations in Q1 2024 (vs. 61% in the ACWI). These strong fundamentals have helped drive the strategy's returns this year, although the delay in rate cuts and election risk have been partial offsetting forces. Companies providing energy efficiency solutions to the AI power demand and electric grid expansion have performed strongly, including Schneider Electric, Prysmian and Microsoft. We have added new companies into the portfolio to strengthen our exposure in this area such as Cadence Design Systems and Samsung Electronics. Clean energy faced poor performance due to a combination of rising rates, inflation and supply chain disruptions with EDPR and Orsted facing challenges in renewable development and Enphase being impacted by an over-supply of residential solar inverters. There was also demand weakness in selected end markets such as heat pumps (NIBE Industrier) and biofuels (Neste).

Market Outlook and Investment Strategy

The Climate Equity Team is optimistic on the medium-term outlook for the Global Equity Climate Change due to:

1. Low cost climate solutions – many climate technologies have reached scale and cost competitiveness, making it well positioned to enjoy superior growth
2. AI play – rising AI energy needs is accelerating the demand for energy efficiency solutions found in the Climate theme
3. Geopolitical importance – growing energy security concerns and de-globalisation is driving new opportunities in Climate Solutions supply chain
4. Falling interest rates is favourable for the strategy
5. Low valuations – negative sentiment on the climate theme has led to the strategy's valuation premium vs. ACWI compress by 66%. The best time to deploy capital into long-term themes is when sentiment is negative

As for the investment strategy, the Climate Change Fund is focused on capturing the secular growth opportunities from the Climate Change theme, whilst remaining disciplined on valuation and company quality. We see the Renewable Energy and Industry – Energy Efficiency eco-sectors as being the most attractive currently, but given some of the valuation declines over the past year across other eco-sectors such as Sustainable Mobility, there is also more opportunities to increase the eco-sector diversification.

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 strong contribution to return across all asset classes with Securitized Credit the best performing segment followed by Euro Credit while US Credit and EMD lagged somewhat.

2023 ended with a risk asset rally which saw markets finish close to historical highs as inflation concerns began to subside and the expectations for a soft-landing and potential rate cuts in 2024 became the dominant market narrative. 2024 saw a continuation of the risk asset rally fueled by strong US growth data, a resilient consumer and subdued inflation at the same time as markets anticipated a dovish Fed pricing rate cuts as soon as March. This gave way to concerns around the conflict in the Middle East and global growth due to higher oil prices, disrupted shipping, and higher transport costs. Later in the year, a combination of higher-than-expected inflation data as well as elevated geopolitical risks in the Middle East saw an increase in volatility, sending interest rates higher and risk assets lower before the period ended with US economic data which came in lower than expected and a more dovish tone from the Fed as a result.

US treasuries saw longer dated yield rise while the 2 year fell with a steepening of the curve over the period. The 2, 5, 10 and 30 year saw yields move by -0.14%, 0.62%, 0.75% and 0.70% respectively to finish June at 4.75%, 4.38%, 4.40% and 4.56%.

Market Outlook and Investment Strategy

Markets continue to price a relatively dovish US rates scenario in 2024 as weakening economic data still seems to support 2 rate cuts this year. Political uncertainty, having been on the rise in Europe in June as a result of elections in France and the UK now seems more fully priced as markets now begin to turn their attention to the upcoming US election. Despite recent widening, credit spreads continue to be historically tight but also remain underpinned by solid credit fundamentals and a “soft landing” economic outlook. Our expectation remains that the global economy will slow in the second half of the year with spreads more likely to move wider. In the shorter term however, we don’t see any specific catalyst that would send spreads meaningfully wider, and we expect they could continue to drift tighter. As a result, we are currently positioned with a more neutral bias but remain selective between sectors and issuers based on relative value.

In the portfolio, while we continue to expect an economic slowdown, in the near term we expect markets can still move tighter. We have however begun to reduce credit beta in developed markets due to tight valuations and recent data pointing to a slowing economy. We continue to maintain attractive carry vs the universe by taking advantage of the flat yield curve. Regionally allocations have remained largely unchanged over the month and duration is relatively neutral vs the investment universe.

Source: HSBC Global Asset Management

HGIF - Global Short Duration Bond (SGD and USD)

Investment and Market Review

Over the year, the fund's value rose by 7.50%, underperforming the benchmark by 181bs (gross).

From a Rates perspective, overall duration positioning was slightly negative to performance. The fund was positioned for lower yields throughout the year. Although the Fed pivot in December boosted performance, subsequent data prints suggesting stickier inflation and the market pushing back the timing of interest rate cuts dampened performance. The yield curve also remains somewhat inverted, against our expectations for steeper curves.

Asset Allocation and Security Selection was a strong positive to performance and the main driver of returns. Our allocations to Financials and Securitised Credit in particular were noteworthy contributors, with both sectors benefitting from high interest rates and economic resilience over the period.

FX overall detracted which was predominantly the result of our short USD positioning. We anticipated interest rate cuts from the Federal Reserve which did not materialise. Along-side election risks outside of the US, the broad USD outperformed.

Market Outlook and Investment Strategy

Increasing signs of a growth moderation, resumption of the disinflationary process and the related prospect of Fed rate cuts in H2 should be supportive for Treasuries. The yield curve remains inverted and the trend in the second half of the year should be for further re-steepening.

Looking at Credit, a soft landing, supported by a continued reduction in inflation and lower but positive growth remains our core scenario, and should be positive for fixed income through lower yields. We remain positioned to benefit from rate cuts by global central banks, and modestly constructive on the overall credit outlook.

The broad US dollar is at expensive levels and already prices in election risk from EM countries and France, as well as some US exceptionalism and carry advantage while the US economy has started to show signs of slowing down. In that context, the broad USD should remain in a range. Our short term view remains positive on high beta currencies such as the NOK given our outlook for lower US yields and potentially some improvement in the growth outlook elsewhere combined with a positive risk sentiment. However, we are more cautious on EMFX and prefer to stick to high carry/low beta Asia FX.

Source: HSBC AM

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

Investment and Market Review

The fund achieved a positive return over the 1-year period, mainly contributed by our position in Asian equities. Asian equities posted gains, attributable to our holdings in semiconductor-related companies in Taiwan on the back of artificial intelligence themes. Our position in India equities also contributed positively, driven by the gains in financials and consumer discretionary sector. On the fixed income front, both Asian investment grade bonds and Asian high yield bonds generated positive returns for the portfolio. In terms of Asian local currency bonds, it detracted from the performance as the Asian currency depreciated against the USD in the first half of 2024.

Market Outlook and Investment Strategy

Global growth remains robust, with some signs of cooling in the US amid restrictive policy while we expect emerging markets to see steady growth and cyclical upside. While inflation has proven sticky, we expect price pressure to ease later this year. As a result, central banks in Europe and the UK will be able to cut rates this summer, ahead of the Fed later in the year. Lower government spending looks set to be a slight drag on growth in 2024, but we do not expect a return to 2010s-style austerity measures.

Source: HSBC Global Asset Management

HGIF - Singapore Dollar Income Bond (SGD and USD)

Investment and Market Review

Throughout the period, the Monetary Authority of Singapore (MAS) maintained its monetary policy settings due to the persistent core inflation and recovering growth prospects. The Singapore dollar bond market posted positive returns over this period, with the Singapore sovereign yield curve closely tracking the US treasury curve due to a continued pause in rate hikes. Despite the economy's growth undershooting market expectations in Q1 2024, the Ministry of Trade and Industry (MTI) maintained its 2024 growth forecast at 1-3% due to positive growth trends in sectors such as travel-related and consumer-oriented services, and sustained momentum in the services sector. The 12-month period was characterized by stable monetary policy, fluctuating core inflation, a resilient labor market, mixed performance in NODX, and a cautious yet optimistic outlook on growth. Despite slowdowns in certain sectors, there were signs of recovery and growth in others, particularly in services and tech sectors.

Market Outlook and Investment Strategy

With the Singapore's headline and core inflation standing at slightly above 3.0% level, it is likely that in the coming month, they will moderate to below the 3% threshold. Nevertheless, it appears that the time for the Monetary Authority of Singapore (MAS) to start easing might be further down the road, considering the sticky core inflation prints. Therefore, the MAS is expected to maintain its policy stance and stay in a prolonged pause mode over the coming months. At the same time, the supply outlook for the Singapore Government Securities (SGS) remains favourable, thanks to the MAS ability to adjust supply based on market demand and prevailing market conditions. The reliance on proceeds to finance projects or fiscal spending is also minimal. Therefore, SGS yields should continue to move gradually lower, mirroring the US Treasury (UST) yields, albeit remain relatively more stable than UST yields. In terms of currency, while we need to monitor the easing progress of core inflation, the SGD should stay relatively resilient due to the appreciation stance of the MAS policy for the coming months.

The fund maintains an overweight duration positioning. The fund holds a meaningful size of SGD denominated investment grade bonds, despite underweight against the benchmark. 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. 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 and broader Asia Pacific region given their relatively defensive nature and attractive yields. Also, the fund overweight Macau gaming and Japan financials. 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 2023 global asset markets continued to deliver investors very strong returns as Over the year the portfolio delivered strong positive returns, as equities, bonds and alternatives posted positive returns. Equity markets were supported by continued economic strength, strong company earnings growth, and market optimism around Artificial Intelligence. Fixed income markets were more volatile, as major central banks continued to hike rates early in the period. However, the later pause in monetary tightening, as well as the exceedingly attractive level of yield on offer, supported total returns.

Market Outlook and Investment Strategy

Global growth remains robust, with some signs of cooling in the US amid restrictive policy while we expect emerging markets to see steady growth and cyclical upside. While inflation has proven sticky, we expect price pressure to ease later this year. As a result, central banks in Europe and the UK will be able to cut rates this summer, ahead of the Fed later in the year. Lower government spending looks set to be a slight drag on growth in 2024, but we do not expect a return to 2010s-style austerity measures.

In light of the above, portfolio positioning has become more constructive. However, we remain selective with where we take risk, focusing on more profitable companies, and higher credit quality corporate bond issuers. Within government bonds, we are focusing exposure on regions we expect to be first movers in monetary easing e.g. Europe and the UK. Finally, given the brighter economic outlook, our portfolios are tilted towards select Eastern and Emerging markets, including Turkey and Taiwan.

Source: HSBC Global Asset Management

HSBC Portfolios - World Selection 2 (SGD and USD)

Investment and Market Review

Over the year the portfolio delivered strong positive returns, as equities, bonds and alternatives posted positive returns. Equity markets were supported by continued economic strength, strong company earnings growth, and market optimism around Artificial Intelligence. Fixed income markets were more volatile, as major central banks continued to hike rates early in the period. However, the later pause in monetary tightening, as well as the exceedingly attractive level of yield on offer, supported total returns.

Market Outlook and Investment Strategy

Global growth remains robust, with some signs of cooling in the US amid restrictive policy while we expect emerging markets to see steady growth and cyclical upside. While inflation has proven sticky, we expect price pressure to ease later this year. As a result, central banks in Europe and the UK will be able to cut rates this summer, ahead of the Fed later in the year. Lower government spending looks set to be a slight drag on growth in 2024, but we do not expect a return to 2010s-style austerity measures.

In light of the above, portfolio positioning has become more constructive. However, we remain selective with where we take risk, focusing on more profitable companies, and higher credit quality corporate bond issuers. Within government bonds, we are focusing exposure on regions we expect to be first movers in monetary easing e.g. Europe and the UK. Finally, given the brighter economic outlook, our portfolios are tilted towards select Eastern and Emerging markets, including Turkey and Taiwan.

Source: HSBC Global Asset Management

HSBC Portfolios - World Selection 3 (SGD and USD)

Investment and Market Review

Over the year the portfolio delivered strong positive returns, as equities, bonds and alternatives posted positive returns. Equity markets were supported by continued economic strength, strong company earnings growth, and market optimism around Artificial Intelligence. Fixed income markets were more volatile, as major central banks continued to hike rates early in the period. However, the later pause in monetary tightening, as well as the exceedingly attractive level of yield on offer, supported total returns.

Market Outlook and Investment Strategy

Global growth remains robust, with some signs of cooling in the US amid restrictive policy while we expect emerging markets to see steady growth and cyclical upside. While inflation has proven sticky, we expect price pressure to ease later this year. As a result, central banks in Europe and the UK will be able to cut rates this summer, ahead of the Fed later in the year. Lower government spending looks set to be a slight drag on growth in 2024, but we do not expect a return to 2010s-style austerity measures.

In light of the above, portfolio positioning has become more constructive. However, we remain selective with where we take risk, focusing on more profitable companies, and higher credit quality corporate bond issuers. Within government bonds, we are focusing exposure on regions we expect to be first movers in monetary easing e.g. Europe and the UK. Finally, given the brighter economic outlook, our portfolios are tilted towards select Eastern and Emerging markets, including Turkey and Taiwan.

Source: HSBC Global Asset Management

HSBC Portfolios - World Selection 4 (SGD and USD)

Investment and Market Review

Over the year the portfolio delivered strong positive returns, as equities, bonds and alternatives posted positive returns. Equity markets were supported by continued economic strength, strong company earnings growth, and market optimism around Artificial Intelligence. Fixed income markets were more volatile, as major central banks continued to hike rates early in the period. However, the later pause in monetary tightening, as well as the exceedingly attractive level of yield on offer, supported total returns.

Market Outlook and Investment Strategy

Global growth remains robust, with some signs of cooling in the US amid restrictive policy while we expect emerging markets to see steady growth and cyclical upside. While inflation has proven sticky, we expect price pressure to ease later this year. As a result, central banks in Europe and the UK will be able to cut rates this summer, ahead of the Fed later in the year. Lower government spending looks set to be a slight drag on growth in 2024, but we do not expect a return to 2010s-style austerity measures.

In light of the above, portfolio positioning has become more constructive. However, we remain selective with where we take risk, focusing on more profitable companies, and higher credit quality corporate bond issuers. Within government bonds, we are focusing exposure on regions we expect to be first movers in monetary easing e.g. Europe and the UK. Finally, given the brighter economic outlook, our portfolios are tilted towards select Eastern and Emerging markets, including Turkey and Taiwan.

Source: HSBC Global Asset Management

HSBC Portfolios - World Selection 5 (SGD and USD)

Investment and Market Review

Over the year the portfolio delivered strong positive returns, as equities, bonds and alternatives posted positive returns. Equity markets were supported by continued economic strength, strong company earnings growth, and market optimism around Artificial Intelligence. Fixed income markets were more volatile, as major central banks continued to hike rates early in the period. However, the later pause in monetary tightening, as well as the exceedingly attractive level of yield on offer, supported total returns.

Market Outlook and Investment Strategy

Global growth remains robust, with some signs of cooling in the US amid restrictive policy while we expect emerging markets to see steady growth and cyclical upside. While inflation has proven sticky, we expect price pressure to ease later this year. As a result, central banks in Europe and the UK will be able to cut rates this summer, ahead of the Fed later in the year. Lower government spending looks set to be a slight drag on growth in 2024, but we do not expect a return to 2010s-style austerity measures.

In light of the above, portfolio positioning has become more constructive. However, we remain selective with where we take risk, focusing on more profitable companies, and higher credit quality corporate bond issuers. Within government bonds, we are focusing exposure on regions we expect to be first movers in monetary easing e.g. Europe and the UK. Finally, given the brighter economic outlook, our portfolios are tilted towards select Eastern and Emerging markets, including Turkey and Taiwan.

Source: HSBC AM

JPMorgan ASEAN Equity Fund (SGD and USD)

Investment and Market Review

Stock selection in Indonesia, Malaysia and consumer discretionary contributed. Stock selection in Singapore dragged.

On the positive side, in Indonesia, Bank Central Asia was the largest contributor as the broader Indonesian market saw a large-caps rebound after reassurance by the President-Elect’s economic team that deficit will be kept below 3%. Indonesian equities rose after 3 months of consecutive decline. Not owning an Indonesia copper-and-gold mining company (valuation concerns) added value. In Malaysia, overweight to Inari (Semicon) helped on improved visibility with volume pick up. Gamuda (engineering & construction) showed higher than expected order book guidance with the outlook of Data Center buildouts. In Thailand, not owning a renewable energy company contributed as the stock detracted on concerns over its EV business viability and major shareholder’s force selling. Intouch Holdings, a telecommunication company, contributed along with other names in the sector.

On the negative side, in Singapore, the underweight to Singapore Telecommunications was a key detractor as the stock did well on decent yield support, improving earnings and dividend outlook. The overweight to Sembcorp detracted on concerns around China renewables business.

In Thailand, CP All (CVS Operator) fell along with other consumer names as macro concerns persisted despite government budget coming through. PTT Global Chemical, a petrochemical company, detracted on poor demand-supply outlook.

Market Outlook and Investment Strategy

ASEAN is poised to see more balanced growth this year. Green shoots are appearing in manufacturing and exports which should benefit trade sensitive ASEAN economies that have also been seeing strong FDI flows amidst ongoing supply chain reconfiguration. Services growth driven by re-opening and tourism recovery continues to be a cyclical tailwind – albeit from a higher base. Meanwhile declining inflationary pressures and expectation of an eventual Fed easing should provide a supportive backdrop in terms of financial conditions. Governments are also on conservative fiscal and monetary settings which give them room to maneuver if required.

Looking ahead, we are witnessing significant changes in regime across Asia, particularly with regards to the growth contributions from China, which is experiencing a structural slowdown. The implication is that market leadership, both at the sector and country levels, could undergo substantial changes and perform quite differently compared to the previous decade. The positive structural forces that continue to drive ASEAN’s growth are still evident, including favourable demographics, a growing middle class, and increasing consumption. At the corporate level, we continue to see supply chain diversifications. While at the consumer level, there is a change in consumption behaviour, aided by increasing financial and digital penetration. Traditional sectors and emerging industries will present investment opportunities for stock pickers.

Active bottom-up picking remains crucial given the wide dispersion in stock fundamentals across ASEAN. We are overweight Vietnam (long term growth profile). In Vietnam, we continue to invest in off benchmark quality names selectively. In Indonesia, despite its long term growth profile, we are now neutral given the valuation premium and potential noise going into the election season (although we expect policy continuity even with a new government). 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

The primary contributors to performance were the overweight exposure to Ukrainian quasi sovereign debt, the underweight exposure to EM spreads, and security selection within Panamanian corporate debt. The overweight to Ukrainian quasi sovereign debt contributed to performance, as spreads for a select issuer tightened as it reported an increase in revenue amidst the decline in input cost as gas prices in Ukraine fell. The underweight to EM spreads contributed to performance, as spreads widened on the back of the recent index inclusion of Venezuelan bonds in the index. Security selection within Panamanian corporate debt contributed to performance, as an off-benchmark loan position outperformed driven by spread pick up over sovereign bonds.

Detractors from performance included the overweight exposure to Egyptian sovereign debt, overweight exposure to Pakistani sovereign debt, and security selection within Mexican quasi sovereign debt. The overweight exposure to Egyptian sovereign debt detracted from performance, as spreads widened on the back of the worsening of the current account balance. The overweight exposure to Pakistani sovereign debt detracted from performance, as spreads widened in line with the general weakness in spreads in the market. Security selection within Mexican quasi-sovereign debt detracted from performance, as a select issuer in the transportation sector underperformed.

Market Outlook and Investment Strategy

We maintain a constructive view on EM local and hard currency assets. The primary risks for the EM asset class in the second half of this year stem from political and economic uncertainty in the US, rather than EM specific risks. While EM fundamentals and technicals are in better shape than in the previous election cycle, we expect market prices to react if new policies impacting EM assets are introduced post-elections. We expect this risk premium to become increasingly important as we get closer to the US election.

While DM central banks are committed to driving inflation down “the last mile” to their target of 2%, the uncertainty surrounding their policy path has led EM central banks to take a wait and see approach to cutting rates. We expect this will likely result in prolonged high short-term real rates that reduce FX volatility and preserve carry, supporting EM FX. Consequently, we are taking FX exposure in countries with high forward looking real rates, currencies with high carry, and those that have experienced positive monetary policy pivots, such as Turkey. Given this macroeconomic backdrop, we anticipate positive returns for both EM local and external assets, with a greater upside in EM high yield assets on the external side and EM FX on the local side.

Within hard currency assets, absolute yield levels continue to screen as attractive. EM spreads, while tight, have cheapened recently relative to the US, in particular in the high yield segment. A number of EM high yield sovereigns remain supported by improving fundamentals and IMF support. Our focus in this space is on select sovereign names with multilateral support and positive reform momentum. In the corporate space, we continue to concentrate on high-quality credits with industry tailwinds and strong standalone credit profiles.

Overall, a constructive backdrop and relatively resilient fundamentals leads us to maintain constructive positioning. 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 concessions in the primary market.

Source: PIMCO

Schroder Asian Growth Fund (SGD and USD)

Investment and Market Review

June saw gains for regional Asian equity indices against a backdrop of continued strength in the global technology sector, as the positive theme around Artificial Intelligence (AI) continues to build momentum. This was led by Nvidia, which rose another 12% in the month, becoming the world's most valuable listed company along the way. Meanwhile, at the country level in Asia, we continue to see very polarised risk appetite and performance. As has been the pattern for much of the last year, Taiwan and Korea posted further strong gains, led by their large-cap semiconductor stocks. India continued to be buoyed by strong domestic fund flows, despite a weaker electoral showing by Prime Minister Narendra Modi's Bharatiya Janata Party (BJP). In contrast, sentiment towards the Hong Kong and China markets remains very cautious, with valuations near all-time lows and local markets retreating again in the absence of further policy easing from the mainland authorities.

Since the beginning of 2024, the Federal Reserve (Fed) fund futures have moved from pricing in six quarter-point interest-rate cuts this year to only one-and-a-half currently. Despite this much more hawkish outlook, sentiment towards equity markets remains generally upbeat as investors continue to discount a soft landing for the US economy. This 'goldilocks' economic scenario (US growth not too hot, not too cold) discounted by markets and the momentum behind large-cap technology stocks provided a reasonably favourable backdrop for Asian markets – especially those sectors more exposed to export demand, such as the key technology sectors in North Asia. At the same time, however, continued US dollar strength and higher-for-longer US interest rates do present headwinds for some parts of the region. This is especially the case for smaller markets in ASEAN (i.e. Thailand, the Philippines and Malaysia), where capital flows and currencies can be more volatile, causing these markets to lag the broader region. Higher rates are also exerting downward pressure on valuations for property assets in Hong Kong.

In addition to the powerful AI theme that has been dominating markets globally, investors are increasingly positioning for a broad improvement in demand and pricing for semiconductors and IT products in the coming quarters. End-market demand remains fairly soft, and inventories are still above average levels in some parts of the supply chain. However, recent comments from companies in the industry point to a stabilisation in the Chinese smartphone market and optimism about a modest rebound in personal computer (PC) and mainstream server demand through 2024. As inventories normalise, a more regular ordering pattern and improved pricing backdrop should allow for renewed topline growth and better margins. Apple and other consumer electronics companies are also starting to discuss a new generation of AI-enabled PCs and smartphones. These may help to encourage shorter replacement cycles and push up prices over time as semiconductor products continue to increase in sophistication. As a result, we continue to think that the underlying structural drivers for semiconductors will remain strong in the coming years and valuations for large-cap industry leaders within the sector remain reasonable. At the same time, however, we do have concerns that the excitement over the revenue potential for some companies in the AI supply chain may be excessive, especially for companies producing less differentiated products. Share prices and valuation multiples have risen very rapidly, reflecting heavy retail investor trading volumes in Taiwan, and short-term performance remains very reliant on the directional lead from Nvidia's share price.

Alongside gains in semiconductor memory stocks, Korean equities have found support from hopes that a new government-led plan to improve local corporate governance – the "Corporate Value-Up Programme" - could trigger a market re-rating. A similar initiative in Japan is credited with driving more market-friendly behaviour by corporates in recent quarters and helping deliver strong equity-market gains. The upside potential in Korea could be significant, given that the market has historically suffered from a material corporate governance discount against international peers. However, making broad generalisations about the potential winners at this stage is difficult and important tax reforms are necessary to really improve incentives for the controlling families. We are yet to see detailed proposals from the government and regulators, and the response from the key industrial 'chaebol' groups is unlikely to be uniform, given their different ownership structures and internal priorities. Bottom-up, stock-by-stock assessments will be key to picking the real beneficiaries.

Indian equities have also performed strongly in recent months. Sentiment towards the local economy and its longer-term potential remains very positive at a time when China's fortunes are increasingly being questioned by investors. Healthy domestic growth, geopolitical tailwinds, the scope to increase market share in global manufacturing at the expense of China and steady domestic fund inflows are all positive factors.

The recent national elections in India, however, delivered a negative surprise to most market observers, with the BJP winning fewer than expected parliamentary seats and losing its outright majority. This has forced Prime Minister Modi to form a coalition government with other minority parties, which in turn could constrain his policy flexibility over time. Although the initial reaction to the election result saw a sharp correction in the local market, the one-day setback after the election was soon shrugged off by local investors and the index closed the month 7% higher. This is another clear demonstration of the very high levels of optimism on the ground in India surrounding the market's continued bull market. Valuations remain elevated in many sectors, so a positive outlook is well-discounted today – especially for small and mid-cap stocks that have been the focus of domestic buying, and where expansion in valuation multiples is most marked. We continue to see strong longer-term fundamentals in areas such as private-sector banks, healthcare and select consumer-related stocks, which remain core positions in regional portfolios.

While Taiwanese, Indian and certain Korean equities have performed strongly recently, and sentiment in some parts of these markets has approached euphoric levels, this has been in stark contrast to China and Hong Kong. In these latter markets, local and international investors have been very cautious, pushing valuations close to historic lows. The slump in Chinese markets over the last year has been triggered by disappointing macroeconomic data and a lacklustre policy response. This has undermined investor confidence, not only in the near-term cyclical outlook, but also in longer-term growth forecasts. Geopolitical tensions between China and the US also remain a serious overhang.

Perhaps most importantly for the Chinese economy, the property market and the broader construction industry continue to deteriorate. Sales volumes have collapsed, and prices are under pressure as buyers step back from the market and deflationary expectations set in. Developers are reluctant to start new construction projects, or are unable to, given their severe cash constraints. Many of the largest private players are facing solvency issues that are further undermining confidence in the pre-sale market as project completions are delayed in many cities. Given the huge scale of the construction industry, and all the related activities across China, this weakness remains a major headwind for broader economic growth. Property is also the largest store of household savings, so falling prices are likely to be dampening consumer confidence.

Despite the weaker headline macroeconomic data and property market troubles, we have felt for some time that after such a sharp de-rating, the China and Hong Kong equity markets were pricing in an overly negative outlook. The operating performance from the local equities we own, as reflected in recent results, has been more encouraging than the macroeconomic headlines would have one believe. The strongest operating performance has been in the travel and leisure-related sectors – hotels, gaming, restaurants, luggage and beverage companies. Here, the rebound in activity and earnings in China have largely met initial expectations in the last year. E-commerce and online advertising sales have also seen a modest rebound, helping the key large-cap online players deliver improved bottom-line growth, aided by greater cost discipline and, in some cases, aggressive share buybacks. All of this points to a broader economy, outside of the property development industry, that may be sluggish, but is not in a downward spiral.

Outlook and Investment Strategy

We share many investors' concerns about the structural headwinds China faces. A 'new normal' of much slower nominal GDP growth in China in the coming years is our base case. However, given the extremes of negative sentiment, there is still room for the authorities to surprise positively with better-coordinated policy support going forward. This was evident in April and May when markets bounced sharply, encouraged by talk of a more concerted central government plan to deal with excess supply in the residential property market. For the first time, the central government has allocated funding for local government entities to buy excess housing inventory from the market as a way to both reduce the supply overhang and channel funds to developers. The sums involved so far are fairly modest given the scale of the problem, and the mechanism for executing the buyback of inventory is fairly opaque. Consequently, it feels unlikely that these steps alone will be enough to reverse the tide and trigger a broader upswing in buyer confidence. However, once the authorities have started down this path to address the supply issue in a more concerted manner, it seems likely that further support could be forthcoming if conditions don't improve. Consequently, we take some encouragement that stabilising the property market and consumer confidence have likely moved up the government's priority list. This could help place firmer support under valuations in the broader China markets. With the recent bounce back in the local markets, we are encouraged that indiscriminate capital outflows may be coming to an end. It appears that the market is at last starting to differentiate more clearly between stronger and weaker businesses, rewarding those that can continue to deliver growth and dividends for shareholders.

Although we are not expecting any sharp upturn in domestic consumption in China, better-managed businesses with stronger franchises can still deliver growth, even against a softer economic backdrop. There have also been signs of more 'self-help' among Chinese corporates recently, with a notable increase in dividend payouts and buyback activity, which is encouraging and may offer more downside support for stocks over time. Even after the recent rebound, share prices in many sectors in China and Hong Kong are not far off levels seen in the depths of the Covid period when the earnings outlook was far more uncertain. Given this mismatch in share-price performance and operating fundamentals, and the still very low expectations for the China and Hong Kong markets, we continue to see attractive opportunities in selective areas on a bottom-up basis.

Aggregate valuations for regional equities are close to longer-term average levels. However, behind these averages, there remains a very significant spread in multiples between those stocks and sectors in favour today, and the apparently 'deep value' on offer in less popular areas. Markets such as India and Taiwan that have performed strongly over the last year are trading at marked premiums to their historical averages and expectations are very elevated. At the same time, the China and Hong Kong indices are sitting close to all-time low multiples as sentiment remains depressed. Asian investors are faced with a stark choice between chasing momentum in India and technology stocks or taking a more contrarian stance with the less fashionable value on offer in Hong Kong, China and parts of Southeast Asia.

Gains in Asian equities generally require a more stable global macroeconomic backdrop, a less hawkish US Federal Reserve, reduced volatility in US-China relations and a more positive Chinese cyclical outlook. These factors are important to attract flows back into the market from foreign investors. Visibility remains limited on many of these fronts – most importantly, the China policy backdrop in 2024 and the impact of the upcoming US elections. Nevertheless, we remain hopeful of a continued gradual recovery in activity in key stocks and sectors in China, and a rebound in technology sector fundamentals through 2024. This could underpin our preferred Asian equities over the medium term. In the meantime, we remain very selective in our exposure, given the continued uneven nature of the recovery in the region, and disciplined about valuations.

Source: Schroder Investment Management Limited

Schroder ISF Emerging Multi-Asset (SGD and USD)

<u>Investment and Market Review</u>

Emerging markets equities rallied in 2024 the first half of the year, with the MSCI EM Index achieving returns of 7.7% over the period. Significant contributions came from the information technology and communication services sectors. Turkey was a standout performer due to its welcome, albeit surprisingly orthodox, monetary policy to help combat inflation. Taiwan benefitted from artificial intelligence optimism and increased technology orders. In South Africa, equities surged following a coalition government announcement, while India also saw gains post-elections despite Prime Minister Modi's diminished political power.

Conversely, Latin America underperformed due to political developments in Mexico and Brazil. Mexican equities dipped following Claudia Sheinbaum's election victory, raising concerns about judicial independence. Brazil's market suffered from concerns over increased government spending and corporate interference under President Lula da Silva.

Market Outlook and Investment Strategy

Within debt markets, hard currency sovereign and corporates outperformed local denominated debt.

Year to date, the fund has gained 5.2% (C Acc USD, net of fees, to 30 June 2024).

The largest contribution to returns came from equities. Taiwan's tech sector continued to ride the wave of investor enthusiasm for artificial intelligence, and India, boosted by investment led growth, were particular standouts. Outside of Asia, our exposure to Eastern Europe was another notable bright spot.

Bonds were also positive over the period. Our tilt to high quality hard currency sovereign bonds in the Middle East added to returns, alongside USD corporates in Latin America. Local currency bonds were a modest detractor as political concerns weighed on Latin American names.

We are cautiously optimistic on the outlook for emerging markets supported by growth acceleration, higher corporate earnings expectations, and valuation discounts. This optimism extends to emerging market debt, largely driven by favourable monetary policy, economic growth prospects, and improving fiscal policies in comparison to developed markets.

Although the structural outlook of economic growth in China remains challenging, there are positive signs of improvement in the cyclical picture. Manufacturing, exports, and domestic consumption are the three key drivers of China's economic growth. Manufacturing and industrial production have been recovering this year. Based on this positive outlook, we have added to China Tech names to take advantage of the strong earnings reversion in this sector; we have also increased our exposure to Asian currencies, which we believe will benefit from the recovery of both inflation and growth in China.

Still in Asia, we continue to favour Korea and Taiwan; they play a crucial role in the AI supply chain and remain attractively valued compared to their projected earnings growth. We also retain a bias toward attractively valued companies in Eastern Europe, particularly Greece and Poland, where the outlook appears to be improving. We believe they will benefit from more accommodative European Central Bank (ECB) policy, the ongoing recovery in Europe and the structural support to Poland from EU funds in the coming years.

On the fixed income side, we continue to like high quality corporate names, blended with selective hard currency and local currency sovereign opportunities. In particular, we shifted some of our allocation from USD sovereign debt to USD corporate debt to capture the attractive opportunities in high-yielding and high-quality corporate names.

Overall, we are moving towards a more positive view on emerging markets but retain a bias for high-quality issues. 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

The fund outperformed its benchmark, the MSCI Emerging Markets (EM) Index, over the period (+139bps).

Among the core markets that were held during the entire period, the fund added value everywhere except Brazil. Taiwan, where stock selection (overweight TSMC, Hon Hai Precision, off-benchmark Lotes) outweighed country allocation, was the most beneficial. In China, allocation was broadly neutral and stock selection was positive (overweight Tencent, Trip Com). In Greece, country allocation was negative but stock selection was positive (overweight Eurobank). Conversely, both the overweight to Brazil, and stock selection within the market (overweight Lojas Renner, Localiza) were negative.

In Chile, which was removed from the core list in May, both country allocation and stock selection (overweight SQM) detracted. Poland, which replaced Chile on the core list in May, had a broadly neutral impact post its change to core status.

Looking at the non-core markets, our position in off-benchmark Kazakhstan (Kaspi, Halyk Savings Bank) was beneficial. India (overweight HDFC Bank) detracted.

Emerging market (EM) equities gained in dollar terms over first half of 2024 but underperformed developed market peers. EM returns were buoyed by the ongoing strength in global trade and continued enthusiasm for artificial intelligence (AI). However, the prospect of higher for longer US interest rates was a headwind for rate sensitive EM, and China again proved a drag overall, particularly at the start of the period. In the second quarter, Chinese equities recovered some ground helped by optimism about the authorities' support for the housing sector and President Xi's reform rhetoric.

Turkey was the best performer over the half-year helped by optimism that economic policy will remain orthodox to address the long-running economic crisis. Taiwan also posted strong performance, led by AI-related technology stocks. January's presidential election saw the ruling Democratic Progressive Party (DPP) remain in power but lose its majority in parliament, which markets took well as it makes the continuation of the status quo with China more likely.

India strongly outperformed broader EM as political developments supported equity market returns over H1. Prime Minister Modi's Bharatiya Janata Party (BJP)-led National Democratic Alliance retained its parliamentary majority in the country's generation election although the BJP lost its single party majority.

Poland, Hungary, Colombia and Malaysia were just ahead of the index while Greece and Kuwait lagged. South Africa underperformed against a backdrop of political uncertainty in the run-up to 29 May's general election. That said, investors welcomed the results and the market performed strongly in June as the ruling African National Congress Party and the key opposition Democratic Alliance, along with a number of smaller parties, formed a coalition "Government of National Unity".

Korea posted a marginally positive return as index heavyweight Samsung Electronics weighed on the market. Some of the energy-related markets such as UAE, Saudi Arabia and Qatar delivered negative returns while Brazil and Mexico were also down. In both markets central banks flagged caution on the likely path of future interest rate cuts, while Brazil also faced concerns about economic growth, fiscal spending and inflation. Meanwhile, in Mexico Claudia Sheinbaum's election as president in June and her Morena party's super majority in the lower house of congress raises the prospect of institutional weakening if Morena is able to pass constitutional, including judicial reforms. The results and associated risk were poorly received by the market. Egypt was the biggest underperformer, primarily due to its c. 35% currency devaluation at the start of the year.

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

Global growth continues to be underpinned by a resilient US economy. Against this backdrop US inflation has been stickier than expected leading to an adjustment in market expectations for the Federal Reserve (Fed) rate cuts, and US dollar strength in the first half of 2024. The strong final demand in the US is spilling over to benefit other global economies, including in EM. Leading indicators continue to be supportive of the global goods cycle, which is anticipated to extent into 2025. The global technology cycle also remains positive and is beneficial to EM.

It is early stage, but there are signs of US labour market tightness easing, which is a trend to monitor in the second half of the year. The lagged impact is unlikely to be felt until 2025 but should be positive with regards expectations for further disinflation and the case for Fed policy easing. In the near-term there remains a risk that Fed rate cuts are postponed. Various EM central banks in Latin America and emerging Europe have eased monetary policy so far this year, and real policy rates remain elevated in several EM economies. However, delayed easing in the US, and associated US dollar strength, could constrain or curtail policy easing in some EM. Domestic policy concerns have not helped in certain economies, notably in Latin America. By contrast, certain central banks in Southeast Asia, namely Indonesia, have increased monetary policy rates to protect their currencies in the absence of US rate cuts.

China's economy has seen some cyclical improvement this year, but headline growth masks an imbalance in the underlying drivers. The supportive external environment and global goods cycle pickup has boosted manufactured exports. However, the domestic economy remains weak, with fixed asset investment and retail sales below trend. This dynamic is expected to extend into 2025, and the long-term structural challenges as the economy adjust from an infrastructure and real estate driven model, persist. The authorities have taken further steps to support the economy, notably to stabilise the property market. Despite some relaxation in real estate purchase restrictions, and lower mortgage rates, private sector demand for borrowing remains weak. As a consequence the credit impulse remains negative, despite some loosening in fiscal policy.

As we enter the second half of the year, geopolitical concerns are returning to the fore. This primarily relates to the US presidential election in November. US-China relations are a bipartisan issue in Washington DC, and there is a risk that tensions escalate in the run-up, which could limit the extent of China market performance. Donald Trump has threatened trade tariffs of 60% on China. Meanwhile, Republican party politicians have recently proposed adding certain Chinese companies in the battery supply chain to the entity list. Trade disputes are broadening, with Canada and the European Union also voicing concerns.

EM valuations are modestly above the historical median on several measures, including on 12-month forward price-earnings and on price-book basis, though this is distorted in part by the high valuations in certain large markets. Most EM, excluding India, are cheap at the individual market level versus their own history, meanwhile, the valuation gap to developed market (DM) remains close to its widest level in 20 years.

EM elections this year, held in markets which total over 50% of the MSCI Emerging Markets Index market capitalisation are now complete. The baton now passes to DM, with the US presidential election the most relevant for EM. As campaigns gather momentum, there is potential for greater uncertainty tied to the future US policy outlook, notably with regards to trade and foreign relations. The outlook for US growth, inflation, and the timing of expected Fed rate cuts remains key. The economic and policy outlook in China is also important – we do not anticipate a major ramp up in stimulus but should this materialise, it could present upside risk. In geopolitics, US-China trade relations, the conflicts in Ukraine and the Middle East are the main areas to monitor

Source: Schroder Investment Management Limited

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

Investment and Market Review

Over the first half of 2024, global economic resilience continued despite some deceleration. The US economy surpassed growth expectations in Q1 but slowed later in the period, primarily due to weak inventory and trade figures. Consumer sentiment improved with cooling inflation and positive wage growth. Both Europe and Japan witnessed easing inflation despite stronger GDP growth, prompting the Bank of Japan to end its negative interest rate policy.

Equity markets were firmly higher with the US continuing to lead, boosted by ongoing euphoria within AI, sending the NASDAQ up 19% (USD) over the period. European banks were also a highlight, with investors capitalising on cheap valuations and the sector supported by elevated interest rates. Emerging market equities finished in the black, albeit lagging their developed counterparts.

Fixed income markets were mixed, with investment grade bonds underperforming high yield, and European credit broadly outperforming the US. Spreads within investment grade remain close to historic lows, meaning returns moving forward will be largely driven by moves in government bonds.

Market Outlook and Investment Strategy

Year-to-Date the fund has gained 3.6% (C Acc EUR, net of fees). Equities were the key driver of returns, with our global, European and US income strategies all making meaningful contributions. Given the supportive backdrop for risk assets, high yield bonds also boosted returns, outshining their investment grade counterparts. In terms of detractors, there was a small negative contribution from our thematic energy transition strategy, with well-documented pressures in the sector weighing on returns. We also had a modest negative contribution from currency when translating some non-euro holdings back to base currency.

We believe that the volatility we have seen at the beginning of August is likely an overreaction, representing more of an unwinding of popular carry trades in lightly traded summer markets than anything else. Taking a step back, the picture remains broadly supportive. The US economy is currently projected to grow above trend at 2.5% or above in the third quarter of 2024 and August's US ISM services came in above expectations overall and in terms of new orders and employment.

Overall we retain a constructive view on equities with corporate earnings continuing to be supported by the robust economic backdrop. We booked some profits on our strong-performing US holdings, shifting part of the proceeds to Europe given the powerful combination of a recovering economy, benign rate environment, and attractive valuations.

Overall, our equity weight fell to 43% from 47% at the beginning of the year. Looking ahead, we retain our balanced approach, combining the most attractive global growth and income names. Turning to fixed income, we added to European credit across the quality spectrum as the ECB made its first rate cut in almost five years, which also benefitted out increase in duration to 2.8 years at end June (from 2.4 years at the end of December).

In conclusion, we expect the supportive environment for risk assets to continue, with a potential rate cut in September given positive signalling from Jerome Powell at Jackson Hole but, absent a geopolitical crisis, no emergency cuts.

Source: Schroder Investment Management Limited

Schroder Singapore Trust (SGD and USD)

Investment and Market Review

It has been a roller coaster ride in terms of markets expectations for where forward interest rates should be. Despite the Fed holding rates stable at 5.5% in the December 2023 Federal Open Market Committee (FOMC) meeting, the revised guidance was for a higher possibility of rate cuts going into 2024, which indicates that we are likely approaching the end of this higher interest rate environment.

For reference, whilst the Fed dot plot projection points towards interest rates to decline from the current 5.50% to c. 4.75% by December 2024 (i.e. c. 75bps of rate cuts over 2024), the interest rate markets have moved sharply ahead, and is now pricing in a year-end rate of 3.75% for 2024 (c. 175bps over 2024).

Chances are that actual rate declines will likely fall somewhere in between these two projections. Nevertheless, this still points towards a lower interest rate scenario as we progress through the year. Having said that, we are still coming off record-high interest rate levels. Hence, the refinancing of most debt expiring this year for corporates will continue to be at higher levels as compared to their initial rates.

Market Outlook and Investment Strategy

Higher interest rates have continued to impact bank loans in Singapore, with overall bank loans declining by 3% YTD (as of November 2023). While this was partly due to the higher cost of debt, the gradual economic slowdown post the initial re-opening euphoria was a contributing factor as well. Bank earnings have benefitted over the past two years from the expansion of net interest margins (NIMs) as rates were rising. Conversely, with rates likely to decline, expectations are for some downward pressure for NIMs, which in turn would apply some downward pressure on earnings (albeit with a slight lag to account for loan-repricing). The silver lining here is that loan repayments remain largely on track, with no major spike in credit costs (i.e. defaults/non-payments). We expect that banks with more diversified business segments and more scope for capital management to perform better in this environment.

For REITs, the aforementioned pivot in interest rate expectations has driven an initially rally across the sector, as expectations are now for gradually declining costs of debt as well as a tailwind for asset values, which should benefit their distributable income and net asset value respectively. That said, there remains continued pressure on near-term distribution as debt renewals will still be at higher rates as compared to expiring debt, though that should taper off as we move into 2025 if the Fed does deliver on the projected rate cuts. We will continue to monitor this space and pick up good quality companies at the margin as we approach the tail-end of this rate hike cycle.

One wildcard here is whether there could be another inflationary surge coming from the rise in shipping costs due to recent events in the Red Sea. The attacks on commercial ships traversing there have caused multiple shipping firms to re-route their initial course to avoid the area, and led to longer sailing times and costs as a result. If the current projection of inflation gradually tapering over the next two years is thrown awry as a result of higher logistics cost, that could shift expectations of rate cuts further down the line in order to keep a lid on inflationary pressures.

As we transit from a peak interest rate environment into a potential rate cut cycle, this is likely to lead to more market volatility as markets toggles between the hope of lower rates benefitting the bottom line versus the risk of a further economic slowdown as post-Covid recovery spending eases back to more normal levels. 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