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ILP Sub-Funds available for HSBC Life Flexi Protector, HSBC Life Wealth Abundance, HSBC Life Wealth Accelerate, HSBC Life Wealth Harvest, HSBC Life Wealth Invest (Cash/SRS), HSBC Life Wealth Treasure, HSBC Life Wealth Voyage, Optimus, Polaris and Pulsar

abrdn Pacific Equity Fund (SGD and USD)

Investment and Market Review

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

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

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

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

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

Performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Market Outlook and Investment Strategy

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

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

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

AllianceBernstein Emerging Markets Debt Portfolio Fund

Investment and Market Review

In December, the Emerging Markets Debt Portfolio (Class A) increased in absolute terms and outperformed its Benchmark, the J.P. Morgan Emerging Market Bond (EMBI) Global Diversified Index,1 which returned -0.89%. Year to date, the Portfolio generated positive absolute returns and outperformed the Benchmark's return of 6.54% (all returns stated net of fees and in US-dollar terms).

It was a mixed month for emerging market (EM) debt returns in December. In the EM hard-currency sovereign space, sovereign bonds trailed developed-market (DM) government bonds, mainly because of the negative return of the interest-rate-sensitive investment-grade portion on the index. EM investment-grade corporates outperformed DM investment-grade corporates, while EM high-yield corporates slightly outperformed DM high yield. EM local currency bonds trailed EM hard-currency sovereigns and corporates—mainly because of EM currency losses against the US dollar.

Sector allocation was the largest contributor to performance against the Benchmark, along with country allocation. Our overweight exposure to high-yield countries, including Ecuador and Ukraine, contributed during a month in which high yield outperformed investment grade. Off-Benchmark exposure to Mexican, Peruvian and Indian corporates also contributed, as corporates outperformed sovereigns.

Our overweight exposure to Mexican quasi-sovereigns in place of sovereign exposure contributed, along with a lack of exposure to Malaysia. Security selection and off-Benchmark local rates exposure detracted. Our exposure to off- Benchmark Colombian local rates detracted as local rates underperformed hard-currency sovereigns. Off-Benchmark exposure to Brazilian local rates and a long currency position in the Brazilian real also detracted, as increased fiscal concerns weighed on local assets in Brazil. Overall positioning in Hungary was a minor detractor.

2024 EM Debt Recap Hard-currency EM sovereigns posted solid total returns over the year, with a gain of 6.54%. Returns were entirely driven by the high-yield portion of the index, in particular the lowest credit quality2 cohort. The investment-grade portion of the index was slightly positive, gaining 0.32%. All of the positive return in the hard-currency sovereign space came from spread tightening, as the US Treasury component fell 0.14%. Index spreads tightened by 59 basis points (bps) over the year, to end the year with a spread of 325 bps versus US Treasuries. Investment-grade sovereign spreads were essentially flat over the year, while high-yield sovereigns saw meaningful spread compression of about 140 bps. Investment-grade spreads at the end of the year were 122 bps, compared to 559 bps for high yield. The bulk of spread compression and total returns came from the more distressed parts of the index, with the top performers for the year including Argentina, Ecuador, El Salvador, Ukraine, Sri Lanka, Pakistan, Ghana, Zambia and Egypt. This was a similar pattern compared to 2023, where most of the spread tightening also took place in the lowest credit quality cohorts, including several of this year's outperformers.

Hard-currency corporates were the best performing EM sub-asset class. There were some similarities between hard currency sovereigns in terms of the pattern of returns, with the high-yield portion of the corporate index contributing the bulk of the total return.

However, given the typically shorter duration profile of corporates relative to sovereigns, the US Treasury component of the return was modestly positive for the year, in both credit sectors. Despite that, the bulk of the positive return came from spreads, comprising close to 600 bps of the overall return, predominantly led by spread tightening in the high-yield portion of the corporate index. Overall, index spreads tightened about 70 bps— with high yield tightening 124 bps compared to investment grade which tightened by 48 bps. Some of the best outperformers at a country level were also in high yield, including Nigeria, Zambia, Ukraine and Argentina. All sectors posted positive returns during the year. Real estate, metals/mining and transport were the three top performing sectors, with all posting double digit positive returns. The return pattern was not too dissimilar from 2023, where we also saw high yield outperform investment grade, although EM sovereigns outperformed corporates in 2023.

After being the best performing EM sub-asset class in 2023, local currency assets underperformed in 2024 with negative total returns of -2.38%. The entirety of this negative performance came from the EM currency component, which detracted 773 bps from the total return as local rates increased by 5.35%.

Almost all EM currencies had losses versus the US dollar, except for the Malaysian ringgit and Thai baht. The picture changed dramatically when looking on a total return basis however, given the high rates on offer in many of these countries, making the split between winners and losers over the year more evenly split. The worst performing currency in the local index was the Brazilian real, because of renewed fiscal concerns that have weighed heavily on the real recently.

Some of the other worst performing currencies were in Latin American (LATAM)—including Mexican, Colombian and Chilean pesos—in addition to the Turkish lira and Hungarian forint. This was a sharp reversal from 2023, when some of the best-performing currencies came from LATAM, although the Turkish lira lagged in both years. Conversely, every EM country recorded positive local rates returns in 2024 except for Brazil, which posted a small loss. Portfolio risk remained lower than historical averages over the month. In the hard-currency sovereign space, we increased our exposure to Senegal, and also increased our off-Benchmark exposure to Peruvian corporate bonds. We reduced our exposure to hard currency sovereigns in Ecuador, Kazakhstan, Colombia and Brazil. We also closed our long currency position in the Brazilian real and went long the US dollar. Portfolio duration remained similar to November, with a duration underweight of about 0.4 years. Benchmark duration at the end of the period was about 6.5 years. Credit quality remained at BB, compared to BB+ for the Benchmark. We ended the period with our largest nominal overweights in Colombia, South Africa and Côte d'Ivoire. Our largest underweights were in Indonesia, the UAE and Saudi Arabia.

In December, DM government bond markets were volatile as investors lowered their expectations for future rate cuts—given that inflation progress in many countries has stalled—and because of the global economic risks of potential US tariff policies on inflation and global trade. Budget challenges in France and the upcoming snap elections in Germany also added to investor uncertainty. Government bonds fell

0.68% during the month, as measured by the Bloomberg5 Global Treasury Index on a hedged to US dollar basis. In the US, 10-year US Treasury yields rose 40 bps to 4.57%, as two-year yields increased by 9 bps to 4.24%. US third quarter GDP was revised from 2.8% to 3.1%. The Fed believes that the noninflationary growth rate in the US is about 1.8%. Headline inflation rose 2.7% in November, matching expectations.

Core inflation came in at 3.3%. The Atlanta Fed monthly survey of wage growth dropped to a three-year low. In November, the country added 227,000 jobs, higher than expected, while the unemployment rate increased slightly to 4.2%. The Fed's key inflation measure, PCE, rose 2.4% in the November year, while core PCE of 2.8% was unchanged from October. On a monthly basis, both measures came in a bit under expectations. Personal incomes rose 0.3%, less than the 0.4% expected. The personal savings rate edged lower to 4.4%, yet the bottom third of households are currently unable to save. As expected, the Fed met and reduced its overnight borrowing rate by 25 bps to a range of 4.25% to 4.50%, deemed a hawkish cut since the "dot plot" of Fed member's future expectations indicated that the Fed may only cut interest rates twice in 2025, down from the September projection of four rate cuts. The Fed sees the neutral rate hitting 3.00% in 2027, up 50 bps from September, although the dot plot estimate for the neutral rate ranged from about 2.5% to about 4.0%, highlighting little consensus among the Federal Open Market Committee members. The Fed raised its inflation estimate for core PCE inflation to 2.5% in 2025 and 2.2% in 2026. In his remarks after the meeting, Fed Chair Jerome Powell said that the Fed will be "cautious" on rate cuts and noted, "We have been moving sideways on 12- month inflation." The odds of a January cut fell to about 11%.

The EMBI Global Diversified Index fell 1.40% and underperformed the 0.68% loss among DM treasuries by 72 bps. The interest rate-sensitive investment grade portion decreased by 2.21%, while the high-yield segment lost 0.63%. The sovereign portion of the index fell 1.43%, while quasi-sovereigns (which represent about 20% of the hard-currency index) posted a loss of 1.28%. Spreads overall tightened by 11 bp to 325 bps, ending the period with a yield of 7.87%. Regionally in the hard-currency sovereign index, the EM Europe led with a loss of 0.95%, while the lower-beta Asia region trailed with a loss of 1.94%. Over the month, EM corporate bonds, as measured by the CEMBI Broad Diversified Index, 0.54% and outperformed the 1.43% loss among sovereign bonds in the EMBI Global Diversified Index. There was a moderate amount of divergence between credit quality, with investment-grade corporates falling 0.88%, while high yield lost only 0.08%.

At a regional level in the headline CEMBI Broad Diversified Index, the EM Europe region led relative regional returns by losing only 0.12%. The lower-beta Asian region trailed with a loss of 0.68%. At the corporate sector level, the infrastructure sector rose 0.11%, while financials fell only 0.05%. The real estate sector trailed with a loss of 1.54%, while the oil/gas sectors lost 1.40%. EM local-currency debt assets fell by 1.93% on an unhedged basis. EM local rates declined by 0.29%, while currency losses of 164 bps detracted from returns, as the US dollar gained on all DM currencies and almost all EM currencies in December.

From a regional perspective, there was a fair amount of divergence in local returns, with the Middle East/Africa regions falling 0.31%, while the LATAM region declined by 1.76%. At the country level, there was a significant divergence of results, as the Dominican Republic gained 1.70% on an unhedged basis, while China rose 0.92%. Brazil fell 5.93% and South Africa lost 4.57% in December.

From an EM currency perspective against the US dollar, the Philippine peso rose 1.37%, the Colombian peso gained 0.63% and the Thai baht increased by 0.61% to lead EM relative currency returns. Conversely, the South African rand fell 4.17%, the Brazilian real lost 3.34% and the Mexican peso declined by 2.17%.

Market Outlook and Investment Strategy

The economic elephant in the room is if or when any new US tariffs are actually implemented and met with retaliation, and how much inflation increases as a result of any potential trade wars. Any further US trade tariffs and barriers will be the laser focus of politicians and investors in coming months. From an economic perspective, less free trade will reduce growth everywhere, mostly outside of the US, where increasing divergence among countries is already under way. We expect the US to outperform the global economy over the next few quarters, and our belief is that all major economies will continue to expand, albeit with below-par growth. Government deficits will also be front and center with investors, as “bond vigilantes” pay close attention to some countries that do not make solid efforts to reduce government spending.

In sharp contrast to most other major economies, the US has made a full recovery from the pandemic-induced recession. US GDP has not only regained but exceeded its previous upward trend. A positive supply shock to the labor market, in the form of a surge in net inward migration, has been an important contributor to the expansion, with newly arrived workers offsetting retiring workers. Restrictive immigration policies by the new US administration could unsettle the buoyant labor market, since the ongoing strength of the US labor market has supported consumption. We also expect positive momentum in US business investment.

The possibility of tax cuts could also boost sentiment, while US fiscal policy is unlikely to change meaningfully given the budget deficit and overall debt, since there are those in the US Congress that are opposed to raising the deficit. The US Treasury will run out of funds by mid- January, leading to tense negotiations between the US Congress and the new administration. The US Treasury has to refinance US$9 trillion of debt next year, along with finding buyers of new issuance. While there is no specific threshold beyond which we can assume that the US debt burden is too great, the larger it gets increases the risk of a US Treasuries buyers strike that could reverse US economic momentum. While no one can speculate on the potential impact of US tariffs and a subsequent global trade war, a reasonable assumption is that trade policies being considered would cost the average US household up to several thousand dollars per year—slowing US growth and adding to inflation. Since the US is a relatively closed economy and US trade as a percentage of GDP is the lowest globally, European economies are much more open and thus highly vulnerable to trade restrictions. Our outlook for the eurozone has already slowed significantly in recent months. While we do not expect recessions in the eurozone, a trade war with the US could alter our outlook materially. Unresolved budgets to reduce deficits in France and Germany are also major concerns for investors. The decline of inflation in the euro bloc gives the ECB more room to be aggressive in cutting rates next year, paving the way for the outlook to improve in the second half of 2025, assuming that the detriments of a potential trade conflict with the US are manageable. In the UK, the recent Autumn Budget was deemed to be both expansionary and inflationary, so we expect stronger growth and therefore a slower decline in inflation in the UK. These budget policies, along with moderating yet still too high wage growth, may lead the Bank of England to be more cautious and likely to cut interest rates more gradually than the ECB.

In Japan, absent a trade war that crimps exports and growth, sustainable inflation seems to be on track to give the Bank of Japan room to continue to normalize monetary policy. China continues to suffer from sluggish growth, and Chinese policymakers have already taken significant steps to address growth, with announced fiscal plans and additional monetary support by the People's Bank of China is anticipated in early 2025. Recent announcements suggest that the government will be more creative next year to boost domestic consumption. The next concrete steps by China will be affected by US trade policy. A retaliatory trade war with the US would result in slowing Chinese exports and also negatively affect certain US sectors such as technology. History shows that nobody "wins" a trade war in the long run.

In other EM countries, the growth outlook remains positive and is expected to be above long-term averages in 2025. We expect that the growth differential between DM and EM will stay the same next year, with DM growth of 1.5% and EM growth of 3.9%, both slightly lower than in 2024. Risks are skewed for a stronger US dollar in 2025—and inflationary policies and tariffs in the US are likely to affect further Fed monetary easing and tilt inflation risks in EM higher in 2025. These factors have negative implications for EM currencies and EM local-currency debt in particular, though we continue to see room for easing in select local markets. Weaker EM currencies will likely slow disinflation and force EM central banks to be more restrained in their efforts to support growth, potentially limiting capital flows. EM currency volatility from monetary policy divergence could also be challenging. EM central banks are leading the interest-rate cutting cycle, yet EM currency weakness and inflation risks have somewhat delayed monetary easing cycles. For that reason, we are tactically managing our exposure to local-currency bonds. We also utilize off-Benchmark corporate exposure in the Portfolio for diversification benefits and attractive risk-adjusted returns over long periods of time, largely driven by their lower volatility.

As far as technical factors are concerned, the asset class remains under-owned by global investors. When investor flows resume, this should support EM debt from a technical perspective.

Source: AllianceBernstein L.P.

AllianceBernstein Emerging Markets Multi-Asset Portfolio

Investment and Market Review

In December, emerging-market (EM) equities, as measured by the MSCI1 Emerging Markets Index,2 remained largely unchanged, posting a decline of 0.1% and outperforming their developed-market (DM) counterparts, as measured by the MSCI World Index, which lost 2.6%, in US-dollar terms. Global equities came under pressure as investor sentiment shifted following more hawkishthan- expected US Federal Reserve commentary, which drove 10-year US Treasury yields sharply higher. Ongoing geopolitical tensions and year-end profit-taking also weighed on results. The MSCI EM declined 8.0% during 4Q:24, bringing returns for the year to 7.5%.

Equity markets in Latin America declined, weighed down by Brazil, which emerged as the worst-performing EM during December. A standoff between Brazil's government, which is running fiscal deficits to support social policies, and its hawkish central bank, which is raising rates to counter inflationary pressures, sent equities lower. In Asia, equity markets in Taiwan stood out, significantly buoyed by the robust performance of its semiconductor industry led by Taiwan Semiconductor Manufacturing (TSMC). Meanwhile, at the annual Central Economic Work Conference, China pledged to adopt a more proactive fiscal policy, but the absence of concrete policy measures disappointed the market, which had anticipated more decisive stimulus. In addition, geopolitical uncertainties persist, although President-Elect Donald Trump's focus appears to have shifted from China to Mexico, Canada and Southeast Asian nations, which have enjoyed substantial trade surpluses with the US over the past five years.

South Korea's equity markets retreated in December, beset by political turmoil following President Yoon Suk Yeol's declaration of martial law and his subsequent impeachment. Southeast Asian equity markets also fell in December, with Indonesia notably affected by the stronger US dollar and shifting market sentiment regarding US interest rates. The best-performing EM during December was the United Arab Emirates (UAE), which is attracting both tourists and residents as a safe haven in a volatile region. During the month, sector performance within the MSCI EM was mostly negative. The real estate and energy sectors led underperformance, while consumer discretionary and communication services rose in absolute terms and outperformed the market.

For the fourth quarter, Class A shares of the AB Emerging Markets Multi-Asset (EMMA) Portfolio decreased in absolute terms but outperformed the MSCI EM, net of fees. For the year, Class A shares of the Portfolio increased in absolute terms and outperformed the Benchmark, net of fees. During the quarter, security selection within equities contributed to performance, while there were no significant detractors of note.

During the quarter, TSMC contributed on continued strong performance in its foundry business given AI–related demand for chip manufacturing. Customer spending is expected to remain strong into 2025 and we continue to like TSMC given its near-monopoly position and profitability premium versus weaker peers. The chipmaker reported significantly higher third-quarter sales growth, and guidance calls for revenue to rise an average of roughly 32% over the next three quarters. TSMC is expected to report fourthquarter earnings in early January.

Emaar Development, the UAE–based property development subsidiary of Emaar Properties, contributed. Shares continued to benefit following the release of strong financial results for the first nine months of 2024 and in anticipation of full-year results in early January. Robust demand for real estate in Dubai has continued amid relaxed visa regulations and low taxes. Emaar successfully launched five million new projects during the nine-month period and reported a growing backlog that should support momentum going forward.

China-based technology company Xiaomi contributed to results. Xiaomi, which until recently was a manufacturer of smartphones, lifestyle products and Internet of Things devices, launched its first electric vehicle (EV) in March 2024, entering the competitive Chinese EV market with a base model priced below US$30,000—significantly less than Tesla’s Model 3. Management has raised its sales forecast three times in quick succession and now expects to sell 130,000 EVs in 2025, compared with its original target of 76,000. In addition, the new automaker reported a 30.5% jump in third-quarter revenue.

Colgate-Palmolive detracted as shares continued to be pressured after peer consumer goods company Godrej Consumer Products (non-held) warned of weakening demand and profit margins. In October, Colgate-Palmolive reported third-quarter results that were in line with expectations, but investors responded negatively to management commentary that suggested there could be continued difficult market conditions ahead. Bajaj Auto, an India-based automotive company that manufactures motorcycles, scooters and three-wheel vehicles, detracted. Shares traded lower during the quarter after results fell short of expectations despite reporting year-over-year revenue growth of 22%. Domestic sales of Bajaj Auto’s two-wheelers slumped, but overseas sales experienced strong growth year over year. Sales during India’s monthlong festive season, a time when Indians typically make big-ticket purchases, disappointed as consumers limited purchases amid higher inflation. December sales results continued to lag on a year-over-year basis, although commercial vehicle sales and exports of two-wheelers continued to show strength.

South Korea–based semiconductor company Samsung Electronics detracted as shares continued to be pressured by weaker demand for conventional memory chips used in PCs and mobile devices, as well as a broader reassessment of AI earnings prospects for chipmakers. Preliminary fourth-quarter operating profit missed estimates because of increased expenses related to the ramp-up of manufacturing capacity for advanced semiconductors, as well as research and development costs. The US election results and escalating tariff concerns also weighed broadly on equity markets in South Korea, as did political turmoil following President Yoon’s declaration of martial law and his subsequent impeachment. At the end of December, the top five equity sector weights as percentages of equity holdings were financials (27%), technology (26%), consumer discretionary (12%), communication services (12%) and industrials (4%). The technology sector weight increased from the previous month, while the financials, consumer-discretionary and communication-services sector weights decreased.

Market Outlook and Investment Strategy

Throughout the fourth quarter, we looked to add to our EM equity exposure, taking advantage of attractive entry points during periods of market weakness, and our allocation is now marginally above historical averages. China and Taiwan remain our largest equity exposures in absolute terms and are also overweights relative to the Benchmark. Within China, we continue to hold a preference for onshore names versus offshore and are finding a range of opportunities across industrials, technology and financials. Within Taiwan, we remain overweight the IT sector with a diversified basket of companies across semiconductors and electronic hardware.

On the fixed-income side, our exposure remains focused on hard-currency sovereign bonds and in markets across Latin America, the Middle East and Africa. Generally, we have a preference for higher-quality bonds, given all-in yields continue to look attractive, but we have been selectively adding to risk in certain areas. As mentioned above, this selective exposure was a key driver of outperformance during the year.

From a country perspective, our largest exposures in fixed income remain Colombia and Mexico. We have been adding to the former, as yields have gradually ground higher over the quarter following the US election. Market conditions in 2024 underscored the benefit of taking an active, multi-asset approach to investing across emerging markets. The Portfolio delivered strong returns from multiple sources and across asset classes. We believe that EM assets can deliver good returns in 2025, but we recognize that there will be risks along the way, particularly as we gain more clarity around US foreign policy. In this type of environment, a flexible and global approach to EM is vital to capture opportunities and manage against risk.

Source: AllianceBernstein L.P.

AllianceBernstein Global High Yield Portfolio

Investment and Market Review

In the fourth quarter, the Global High Yield Portfolio (Class A) posted positive absolute returns but underperformed its Benchmark, the Bloomberg1 Global High Yield Index2 (hedged to the US dollar), which returned 1.06%. Year to date, the Portfolio increased in absolute terms but underperformed the Benchmark's return of 10.71% (all returns stated net of fees and in US-dollar terms).

In December, the Portfolio decreased in absolute terms and underperformed its Benchmark, which returned –0.19%. The Portfolio's underweight to emerging market (EM) sovereigns was the largest detractor from performance. An allocation to investment-grade corporates also weighed on performance. However, security selection within high-yield corporates contributed to performance. Specifically, security selection within energy, consumer noncyclical and basics helped, while selection within media hurt relative performance.

Over the quarter, an underweight to EM sovereigns was the largest detractor from performance. An allocation to investment grade corporates also detracted. An underweight to and security selection within high-yield corporates and an underweight to EM corporates contributed. In the fourth quarter, investors lowered their expectations for future rate cuts, given that inflation progress in many countries had stalled. US potential trade policy, budget challenges in France and the upcoming snap elections in Germany also added to investor uncertainty.

Developed-market (DM) government bonds fell 0.79%, as measured by the Bloomberg Global Treasury Index on a hedged to US dollar basis. Some central banks continued to cut interest rates over the quarter, including the Fed, ECB, Bank of Canada, Bank of England (BoE) and Swiss National Bank. The Fed's Summary of Economic Projections, the so-called "dot plot," earmarked that the Fed expects that the policy rate will be cut only twice in 2025.

Investment-grade corporates, hedged to the US dollar, fell in aggregate by 1.54%. Investment-grade corporates fell 3.04% in the US and slightly outperformed the 3.14% loss among US Treasuries. Eurozone investment-grade corporates rose 1.26% and outperformed the 0.31% gain in eurozone government bonds. High yield corporate bonds in DM rose 0.67%. In the US, high-yield corporates rose 0.17%, while eurozone high yield gained 2.22%. Securitized assets such as credit risk–transfer securities (CRTs) and collateralized loan obligations (CLOs) outperformed other credit risk assets. The US agency mortgage-backed securities sector underperformed US Treasuries with a loss of 3.46%. In EM, hard-currency sovereign and corporate bonds fell 1.94% and 0.80%, respectively, with high yield outperforming investment grade. EM local currency sovereign bonds trailed other credit-risk sectors, falling 6.98%. Local rates fell 0.38%, while currency losses were 773 basis points3 as the US dollar rose against almost all currencies.

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

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

Government deficits will also be front and center with investors, as "bond vigilantes" pay close attention to some countries that do not make solid efforts to reduce government spending.

In sharp contrast to most other major economies, the US has made a full recovery from the pandemic-induced recession. US GDP has not only regained but exceeded its previous upward trend. A positive supply shock to the labor market, in the form of a surge in net inward migration, has been an important contributor to the expansion, with newly arrived workers offsetting retiring workers.

Restrictive immigration policies by the new US administration could unsettle the buoyant labor market, since the ongoing strength of the US labor market has supported consumption. We also expect positive momentum in US business investment. The possibility of tax cuts could also boost sentiment, while US fiscal policy is unlikely to change meaningfully given the budget deficit and overall debt, since there are those in the US Congress that are opposed to raising the deficit. The US Treasury will run out of funds by mid-January, leading to tense negotiations between the US Congress and the new administration. The US Treasury has to refinance US$9 trillion of debt next year, along with finding buyers of new issuance.

While there is no specific threshold beyond which we can assume that the US debt burden is too great, the larger it gets increases the risk of a US Treasuries buyers strike that could reverse US economic momentum.

While no one can speculate on the potential impact of US tariffs and a subsequent global trade war, a reasonable assumption is that trade policies being considered would cost the average US household up to several thousand dollars per year—slowing US growth and adding to inflation. The results would be far greater for major US trading partners including Canada, Mexico and Europe as well as Asian exporters such as China, Japan and South Korea.

Since the US is a relatively closed economy and US trade as a percentage of GDP is the lowest globally, European economies (Germany in particular) are much more open and thus highly vulnerable to trade restrictions. Our outlook for the eurozone has already slowed significantly in recent months. While we do not expect recessions in the eurozone, a trade war with the US could alter our outlook materially. Unresolved budgets to reduce deficits in France and Germany are also major concerns for investors. The decline of inflation in the euro bloc gives the ECB more room to be aggressive in cutting rates next year, paving the way for the outlook to improve in the second half of 2025, assuming that the detriments of a potential trade conflict with the US are manageable. In the UK, the recent Autumn Budget was deemed to be both expansionary and inflationary, so we expect stronger growth and therefore a slower decline in inflation in the UK. These budget policies, along with moderating yet still too high wage growth, may lead the BoE to be more cautious and likely to cut interest rates more gradually than theECB.

In Japan, absent a trade war that crimps exports and growth, sustainable inflation seems to be on track to give the Bank of Japan room to continue to normalize monetary policy. China continues to suffer from sluggish growth, and Chinese policymakers have already taken significant steps to address growth, with announced fiscal plans and additional monetary support by the People's Bank of China is anticipated in early 2025. Recent announcements suggest that the government will be more creative next year to boost domestic consumption. The next concrete steps by China will be affected by US trade policy. A retaliatory trade war with the US would result in slowing Chinese exports and also negatively affect certain US sectors such as technology. History shows that nobody "wins" a trade war in the long run.

In other EM countries, the growth outlook remains positive and is expected to be above long-term averages in 2025 as DM growth decelerates. Within hard-currency assets, yields are still attractive compared to DM. Risks are skewed for a stronger US dollar in 2025—and inflationary policies and tariffs in the US are likely to affect further Fed monetary easing and tilt inflation risks in EM higher in 2025. These factors have negative implications for EM currencies and EM local-currency debt in particular, though we continue to see room for easing in select local markets. Weaker EM currencies will likely slow disinflation and force EM central banks to be more restrained in their efforts to support growth, potentially limiting capital flows.

From a current economic expectations perspective, global manufacturing PMIs released by S&P Global showed that global manufacturing fell to a slight contraction reading of 49.6 in December from a neutral reading of 50.0 last month.

In DM, manufacturing PMIs were in expansion in Spain and Canada, and in a slight contraction in the US and Japan.

Manufacturing PMIs were the most in contraction in France, Germany, Austria and Italy. In EM, manufacturing PMIs remained the strongest in India and stayed in a slight expansion in China with a reading of 50.5 (Caixin survey). Services sector PMIs stayed in expansion in the US, the eurozone overall, the UK, Japan and Australia, based on available data. Corporate fundamentals and balance sheets remain supportive of credit, but there has been some modest deterioration. We expect this trend to continue as the economy slows and companies manage around greater interest expense. Although rates have come down, markets are forecasting a slower progression of rates moving to neutral, which may create additional headwinds for issuers. Leverage remains at the lower end versus long-term levels and interest coverage is still above average. During 2024, high yield has had more companies upgraded (307) than downgraded (252). However, we expect defaults to increase over the next 12–18 months to 3%–4% in both the US and Europe, slightly above median levels. Spreads have remained well supported by a strong technical backdrop and a resilient economy. Long-term valuations, as defined by yields, are still modestly attractive. Yield to worst (Bloomberg Global High Yield) ended December at 7.5% and has historically been a good predictor of future returns. Within the sector, we have an allocation to synthetic high yield4 (preserving the Portfolio’s liquidity profile). We continue to maintain risk below average levels.

We have generally rotated out of more cyclical industries like energy and commodity chemicals into more defensive, less cyclical industries with better risk mitigation. However, we are overweight some more cyclical sectors where we believe balance sheets are stronger. Within high yield, we are underweight energy as spreads are tighter than the broader market given that energy has been one of the best-performing sectors over the last three years due to above average oil prices and strong demand. We remain overweight midstream issuers as they are still benefiting from mergers and acquisitions activity and could see continued upside in the US from regulatory easing under the new administration.

However, we remain cautious on the rest of the energy sector as it tends to be very volatile due to oil prices and because valuations today are not very attractive. 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 this slowdown and are still trading with a discount to similar quality industrials. Banks, in general, have progressively strengthened core balance sheet metrics following the global financial crisis, boosted net interest margin given the higher rates environment, and are better capitalized under the more stringent regulation and stress testing. This is supportive of bonds and provides cushion to withstand any potential economic downturn to a better extent than other growth-sensitive sectors. Given this backdrop, we continue to look across a bank’s capital structure for the best opportunities. We remain selective with our additional Tier 1 allocation and remain skewed to the larger and better-quality banks.

Our exposure to European high yield is limited, as spreads have tightened. However, we see value in European high-yield credit derivatives, where spreads are above US-credit derivatives and have recently added this position. Over the past year, we have increased our allocation to BBB5 corporates. We find that select BBBs can offer similar yields to what is currently available in the high-yield market. Additionally, investment-grade fundamentals remain strong. Companies have increased their cash balances and interest coverage remains elevated despite coming down from recent peaks. Net issuance has been very strong so far in 2024 but has been very well absorbed by investors. These strong technical have kept spreads tight. That said, historically, spreads have been below average most of the time and all-in yields still look very compelling.

We are cautious on EM given the macro backdrop. Over the past two years, we have reduced our EM sovereign exposure to limit the idiosyncratic risk. Our preference today is for corporates given their attractive risk-adjusted returns as well as strong fundamentals versus some of their DM counterparts. We like multinational companies with revenue tied to the US dollar. We also see value in quasi-sovereigns, which may trade at levels similar to corporates but come with government support. These two sectors represent the bulk of our exposure. We caution against concentrated idiosyncratic bets and maintain diversification across 30-plus countries in our EM hard-currency exposure. Within our limited EM local allocation, we hedge out the currency exposure.

We are maintaining our conviction in securitized assets. The US housing market has proven extremely resilient. We expect home prices to increase slightly in 2025, supported by lack of inventory due to continued, although more modest, demand. Fundamentals are strong.

Today's higher prices have significantly increased homeowners' equity, providing an incentive for homeowners to stay current on their mortgages (which supports the CRT holdings). Additionally, home price appreciation has significantly decreased loan-to-value ratios of more seasoned vintages, strengthening their fundamentals. Also, many of the borrowers in the existing mortgage pools have locked in rates below 4%, which insulates them from today's higher rates. Household balance sheets are in strong shape and strict lending standards prevent lower-income borrowers from buying homes that are too highly priced relative to their income.

Our allocation to CLOs benefits from the spread pickup offered over similarly rated corporates. CLOs have credit enhancements, coverage tests that ensure sufficient funds to meet debt obligations on debt tranches, and several restrictions on asset holdings. However, we remain cautious on loan fundamentals given expectations for slower economic growth and the impact that elevated rates have had on company balance sheets. Interestrate cuts, however, should help alleviate pressure on issuers' interest coverage ratios. Loan downgrades remain of concern, and given the current macro backdrop, we favor lower-risk managers focused on higher-quality collateral.

Source: AllianceBernstein L.P.

AllianceBernstein Low Volatility Equity Portfolio

Investment and Market Review

Global stocks rallied in 2024, though regional performance was diverse. The MSCI1 World Index2 gained 18.7% in US-dollar terms in the year, driven by US equities, which eclipsed returns in Europe, Japan and emerging markets. Growth stocks outperformed during the year, largely driven by the US, with value and minimum-volatility stocks lagging. Technology was the best-performing sector for the year, while healthcare underperformed throughout 2024.

During the fourth quarter, global equities experienced mixed performance as uncertainty over the outcome of the US presidential election, shifting monetary policy expectations and ongoing geopolitical tensions weighed on sentiment. Fed Chair Jerome Powell characterized the US economy as being in "a really good place" but called the Fed's latest rate cut a close call and emphasized the challenge of balancing economic growth and progress on inflation. However, uncertainty over potentially higher inflation, the Trump administration's policy initiatives and shifting monetary policy expectations contributed to rising Treasury yields, which dampened equity market sentiment and led to a subdued finish for the quarter.

The MSCI World declined 0.2% during the quarter and sector performance was mixed to negative. Materials and healthcare declined the most in absolute terms, while consumer discretionary and communication services led outperformers.

Class A shares of the Portfolio declined in absolute terms but outperformed the MSCI World during the quarter, though they rose and underperformed for the year, net of fees. Versus the MSCI World during the quarter, sector selection contributed to relative performance, while security selection detracted. An underweight to materials and security selection within consumer staples contributed the most, while selection in consumer discretionary and communication services detracted.

Leading contributors for the quarter include Broadcom, lululemon athletica and Pearson. Semiconductor designer Broadcom rallied after the company reported results in mid-December that guided to a boom in demand for its AI chips. Management said AI products will gain 65% in fiscal 1Q:25, far faster than its overall semiconductor growth of roughly 10%. AI revenue grew 220% during the year, fueled by demand for processors and networking components. Broadcom also predicted that AI components it designs for data center operators (Alphabet Inc., Meta Platforms and ByteDance [non-held]) could reach US$60–US$90 billion by fiscal 2027.

Shares of lululemon athletica rallied after the athletic apparel retailer reported 3Q:24 results at the beginning of December. The US business stabilized after decelerating for the prior six quarters, and management sounded notably more confident in a turnaround next year. International beat expectations with revenue growing 30% year over year (YoY) and same-store sales in China (half of lululemon's international market) growing 27% YoY.

Pearson also rose after the educational publishing and services company released an encouraging 3Q:24 sales update. Pearson saw growth across all divisions with higher education up 4% in the quarter driven by gains in adoption rates, enhanced customer engagement and the successful rollout of AI study tools. Management also reconfirmed 2024 guidance and announced they had signed a meaningful multi-year contract with ServiceNow to help develop and verify skills, and increase productivity in an AI world.

Top detractors for the quarter included Novo Nordisk and underweight positions in NVIDIA and Amazon. Pharmaceutical company Novo Nordisk fell in December after the Ozempic maker revealed a set of underwhelming results in a trial for its next generation obesity drug. A late-stage trial for Novo's CagriSema showed lower-than-expected weight loss. The drug helped patients reduce their overall weight by 22.5%, which was below management's target of 25%.

The Portfolio's underweight to technology company NVIDIA detracted as mega-caps outperformed in a risk-on rally after Trump's victory in the presidential election. After the release of quarterly results, CEO Jensen Huang said NVIDIA's highly anticipated Blackwell chips will ship during the quarter amid very strong demand, but production and engineering costs of the chips will weigh on margins.

Our underweight to Amazon also detracted after the e-commerce technology company reported 3Q:24 earnings with very strong profitability tempered by a generative AI–driven capex cycle. North America and international revenues sequentially improved with global units accelerating despite consumer trade-downs from macro.

Market Outlook and Investment Strategy

We expect global growth will continue to slow, with the coming trade war likely to weigh on non-US growth in particular. Disinflation is continuing, though the pace is more rapid in countries and regions where growth is slower, and is less rapid in the US, where the economy continues to expand smartly. Rate cuts will continue, moving policy setting closer to neutral after several quarters of restrictive conditions. The US is likely to lag the field in cutting rates, given the stronger growth outlook. Fiscal policy is likely to remain a source of concern, with no end to large deficits in sight. That will keep bond markets on edge and is very likely to cause bouts of market volatility.

Preparing for a New US Policy Era

Equity markets enter the new year anticipating change. Policy plans of Trump's incoming administration will affect regions, sectors and firms in complex ways.

The direction of policy change has been clearly telegraphed by Trump with keynote economic policies including higher tariffs, stricter immigration, lower taxes, less regulation and subsidy reductions. On day one, he's expected to make some changes through executive orders. However, even in a unified government where Trump is backed by a supportive Republican Congress, many policy details will take time to formulate and legislate.

While the policy changes are still to be determined, one outcome seems clear—the proposed policy mix is likely to lead to higher inflation and a widening federal deficit in the US. This expectation is reflected in financial markets by rising US bond yields and a steepening Treasury yield curve.

Trump's victory in November marked a historic turning point in US politics with huge implications for countries, companies and investors around the world. Geopolitical stress remains high, with ongoing conflicts in Ukraine and the Middle East, and the collapse of Syria's regime in December.

How to Evaluate Equities as Policy Changes

Since the road from campaign promises to policy action is never straight, investors should stay focused on company fundamentals to position portfolios for the twists and turns ahead. Investors face several challenges: details of policy change are hard to forecast; the macroeconomic forces that could be unleashed may play out differently across regions; the effects of policy change on business outcomes and earnings will take time to discern.

So how can portfolio managers prepare? We think the key is to concentrate on individual company fundamentals. Even when change originates from the top down (i.e., via policy), conducting bottom-up research to assess how companies might be affected can help distinguish between vulnerable businesses and those poised to gain from new developments.

Tariffs are a good case study. At first glance, tariffs might seem to give a boost to US companies and handicap overseas rivals. The reality will be far more complex. It's risky to make sweeping assumptions about how a new policy will affect companies. US and global businesses that have skillfully navigated previous tariffs and the pandemic by reconfiguring supply chains will be better positioned to cope with new tariffs. Global companies with US facilities could benefit from tariffs. Examples include European and Japanese automakers, electronics manufacturers and consumer goods companies with a large US manufacturing presence. At the same time, US businesses that rely on overseas suppliers could face immediate cost increases until they reshore critical operations.

Why Diversify Globally?

Equity markets don't always reflect the macroeconomic backdrop. So even in Europe's weaker economy, investors can find global businesses with dominant industry positions and attractive growth prospects that aren't tethered to regional growth. Despite softening sector growth, in aggregate, the US earnings outlook is relatively strong. Still, consensus earnings growth estimates for Europe and Japan—while lower than the US—also look healthy.

Regional equity market valuations deserve attention. US stocks have outperformed non-US stocks for more than a decade, pushing US valuations close to their highest level since 1996. European and Japanese markets are relatively cheap. US valuations have been fueled by the mega-caps. The Magnificent Seven (Mag 7) companies continued to ride a wave of enthusiasm for AI during 2024, though their dominance showed signs of waning. In 2024, the Mag 7 accounted for 48% of the S&P 500's return, down slightly from 60% in 2023.

In Europe, the good news is that inflation has fallen, allowing the ECB to be aggressive in fighting downside risks. We expect rate cuts at every meeting in the first quarter and into the second. This should pave the way for the outlook to improve in the second half of the year, assuming that the impact of the trade war is manageable.

Large US budget deficits have meant a rising debt burden for the federal government to service. In addition to increasing interest expense, fiscal sustainability concerns have, at times, rattled financial markets, pushing yields higher. It's also likely to be a source of both periodic market concern and volatility, even if no crisis ensues. In the US, delinquencies on credit cards and auto loans are rising. Many households have little or no financial cushion if the labor market takes a turn for the worse. The lack of turnover in the housing market remains an impediment to growth.

More Inflation Means Investors Need Stocks

We think a potentially inflationary environment reinforces the need to maintain meaningful exposure to equities. Our research shows that stocks have done a good job outpacing the rate of inflation—or delivering positive real returns—over more than a century. So investors who prepared for a decelerating economy may want to consider positioning for a possible acceleration of US economic growth over the next year and a modest pickup of inflation, after the US Consumer Price Index fell from a 9.1% peak in June 2022 to 2.6% in October 2024.

We continue to look for companies that offer a combination of quality and stability at attractive prices; these three core elements underpin our investment philosophy and are key to navigating the current market environment. Quality, stable companies can cushion on the downside across a broad array of sectors and industries.

We believe that equity portfolios designed to smooth volatility are especially appealing in the current market environment. For long-term, outcome-oriented investors, we believe that companies with these features are best positioned to deliver strong returns through changing environments.

Source: AllianceBernstein L.P.

AllianceBernstein Sustainable US Thematic Portfolio

<u>Investment and Market Review</u>

The S&P 5001,2 fell 2.4% in December and rose 2.4% in 4Q:24, bringing returns for the year to 25.0% in US-dollar terms. According to Bloomberg, a staggering 67% of the 2024 S&P 500 return came from the Magnificent Seven (Mag 7). Illustrating the uphill battle for stock-picking in 2024, almost 70% of stocks underperformed the S&P 500 over the past 12 months. With heavier Mag 7 exposure, it comes as no surprise that technology and communication services led the S&P 500 for the year. Financials and consumer discretionary also made significant contributions. Materials was the only sector to post negative performance for 2024, but healthcare, real estate and energy also disappointed, lagging the broader market.

The fourth quarter saw the long-awaited results of the US presidential election, which ended in a victory for Donald Trump, who will commence his second term in January 2025. After much anticipation, the markets reacted positively to the Trump win with a big rally as expectations for stronger economic growth, higher corporate profits and an improved regulatory environment flowed through to equity prices. Broadly speaking, the beneficiaries of this rally were a broad cyclical basket, including consumer discretionary, financials and initially smaller stocks. It wasn't all positive price moves, however, and companies exposed to government spending and tariffs underperformed following the election. With the exception of Microsoft, the Mag 7, led by electric vehicle company Tesla (non-held), rose. Indeed, since the election, the Mag 7 accounted for 122% of the US market's gains; the remaining 493 stocks posted an aggregate loss of 0.5%. Despite an exuberant November, December was more challenging and a number of areas gave up their gains. In the fixed-income markets, US Treasuries saw a sharp sell-off during the quarter with concerns about an increasing federal deficit and the potential for incremental trade tariffs reigniting inflation concerns.

Class A shares of the Sustainable US Thematic Portfolio decreased in absolute terms and underperformed the S&P 500 in December and during the quarter, net of fees. For the year, the Portfolio increased in absolute terms but underperformed its Benchmark, net of fees. During the quarter, both security and sector selection detracted from relative performance. Security selection within technology and consumer discretionary detracted the most, while an underweight to materials and real estate contributed.

History doesn't always repeat itself, but our quality growth Portfolio is experiencing a sense of déjà vu. Portfolio performance during 4Q:24 broadly mirrored 4Q:16, with the Portfolio lagging in the weeks following both Trump elections. In both cases, we have seen our underweight allocations to more cyclical areas, such as discretionary and traditional banks, serve as an initial performance headwind. While the market concentration is a new dynamic for Trump 2.0, investors have once again sought safety in these largecap stocks. Another large headwind during 4Q:24 was our overweight to healthcare, which underperformed and caused the sector to be a drag on performance. The sector is facing several large cyclical pressures, including inventory destocking post-pandemic and a weak macroenvironment in China. In 2024, only 9% of the healthcare stocks in the S&P 500 managed to outperform the index. We spend 10% of global GDP on healthcare; with escalating costs and deteriorating health outcomes, the secular growth opportunity remains and valuations are attractive.

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

CRO peers have also reported elevated trial cancellations in 4Q:24, though ICON has experienced this to a lesser degree. MPS detracted during the quarter despite the power semiconductor firm reported a strong quarterly result that saw its AI power segment moderate its growth. Shares declined further on reports of an increased failure rate of some of its chips on NVIDIA server boards in customer data centers. Management maintains that its relationship with NVIDIA remains strong and, looking into 2025, expects growth drivers to diversify away from NVIDIA with new product ramps in both the communications and auto segments.

MPS's unique process design enables more energy-efficient power solutions and has allowed it to outgrow the industry by 10%– 15% per year for the past several years. Medical imaging business GE HealthCare declined during the quarter. The firm continues to execute on its growth-and-marginexpansion plan since separating from GE, assisted by new product launches and cost-streamlining initiatives. However, China continues to weigh on near-term growth. As we enter 2025, there are signs that stimulus programs in the country are moving forward. Additionally, an investor day in November highlighted product innovation (80 products incorporating AI/machine learning) and a realistic mid-term framework with the potential for double-digit earnings growth.

Key held contributors to relative performance during the quarter included Flex, Taiwan Semiconductor Manufacturing (TSMC) and Visa. Flex, an outsourced manufacturer whose products include server racks for data centers, benefited from the rally in companies providing solutions for the increased energy needs of the AI infrastructure build-out. While there have been modest headwinds for Flex in the auto and industrials segments, the company posted strong earnings growth as data center and power products carry a higher margin. Additionally, Flex was included in the S&P 400, which also boosted the share price during the quarter. Shares of semiconductor chip manufacturer TSMC had a strong end to 2024. The company manufactures the vast majority of leading-edge semiconductor chips, including those designed by NVIDIA, AMD (non-held) and Broadcom (non-held). TSMC enjoys strong pricing power and leverage to secular growth markets. Earnings are expected to increase 30% in 2025 on the back of 30% growth in 2024. Despite this outlook, shares trade at a discount to many of its customers (NVIDIA, AMD, Apple [non-held]) on a price/earnings basis.

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

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

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

Despite uncertainty in the backdrop, we take some comfort in the fact that we've been here before. When Trump was elected to the White House for the first time back in 2016, investors bid up perceived "winners" with enthusiasm, assuming much of the campaign rhetoric would translate into prompt action. Many of our holdings were under pressure as they lived outside the focus areas of the initial exuberance. In 2017, however, reality set in and much of the newly elected president's ambitious agenda took longer to accomplish than expected. Our Portfolios, which lagged initially, recovered nicely as our secular themes and associated quality growth companies delivered on their promise, delivering durable earnings growth. We enter 2025 under a similar backdrop, and our relative valuation versus the market is even more compelling than it was at the start of 2017.

We're also not standing still and added to our financials exposure, in particular, during the quarter. Key additions included Fiserv, a financial technology business that provides services to the secular growth area of digital payments; Jefferies Financial Group, a beneficiary of a favorable capital markets cycle; and an insurance firm (name withheld as trading recently completed) whose focus on life reinsurance positions it well for attractive compounding. These businesses all exhibit high-quality fundaments and are exposed to attractive secular growth opportunities. We funded these positions with profit-taking in technology and cash on hand.

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

Source: AllianceBernstein L.P.

Allianz Artificial Intelligence

Investment and Market Review

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

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

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

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

Market Outlook and Investment Strategy

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

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

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

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

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

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

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

Source: Allianz Global Investors and Voya Investment Management

Amundi Cash USD

Investment and Market Review

The economic indicators released during the month convinced the FED that it could proceed with its third rate cut of the year.

Inflation stabilizes: Core-PCI and Core-PCE came out as last month at 3.3% and 2.8% (annualized).

Job creation jumped to 227K from 36K in October, noting that last month's figure had been largely disrupted by weather conditions and strikes at Boeing. The unemployment rate rises to 4.2% (4.1% last month), with the hourly wage increase stable at 4% annually.

Consumer confidence indices diverged: the Conference Board dropped from 112.8 to 104.7 over the month while the University of Michigan index rose from 71.8 to 74.

The ISM Services saw its first decline since June, coming in at 52.1 versus 56 last month. There was also a slight decline in the Manufacturing PMI index, which moved from 49.7 to 49.5.

Growth in the third quarter rose to 3.1% (against an estimate of 2.8% last month): consumer spending and exports offsetting the decline in private investments.

In anticipation of the rate cut at the end of the December FOMC, the rate duration (WAM) was significantly increased, moving from 43 days to 65 days between the end of November

and the end of December. The majority of investments were made in fixed-rate securities and maturities not exceeding 3 months. These securities offering an average yield of 4.70% for an average duration of 2 months.

Benefiting from the rise in yields on the longer part of the monetary curve, several investments were made in fixed-rate securities over 6 months. These securities offering an average yield of 4.56% for an average duration of 9 months. The liquidity pocket was maintained, primarily through overnight deposit operations and private debt securities with a residual life of less than 7 days.

At the end of December, the liquidity pocket and securities with a residual duration of less than 3 months represented 53% of the portfolio compared to 59% last month.

Market Outlook and Investment Strategy

Bond yields, which had declined at the beginning of December, have surged following the latest FOMC in a very clear steepening of the curve as the yield spread between the 10- year and 2-year Treasuries moved from 2 to 30 bps over the month. Contrasting with the evolution of bond yields, credit spreads have been stable: the average spread of the 1-3 IG US index was around 70 bps relative to swaps, similar to last month.

In the money market, the decrease in Fed funds rates logically impacted the shortest maturities. In this context, the issuance rates for top-tier issuers at the end of December were at levels of 4.43%, 4.43%, and 4.47% respectively for the 3, 6, and 12-month maturities, down by 14 bps on the 3-month, 12 bps on the 6-month but only 6 bps on the 12-month. The spreads remained almost identical to the previous month, with average levels against SOFR swaps of +12 bps, 18 bps, and 30 bps respectively on the 3, 6, and 12-month maturities.

As anticipated, the American central bank lowered its benchmark rate by 25 bp, bringing the Fed funds into a range of 4.25% - 4.50% and the effective Fed funds rate to 4.33%.

While the FED considers its monetary policy still restrictive, Jerome Powell clearly indicated a change in the pace and magnitude of upcoming rate cuts, noting that the US economy remains strong, characterized by a solid labor market and inflation struggling to converge towards its official target of 2%.

Under these conditions, FED members only foresee 50 bp of cuts in 2025 against 100 bp planned in September and have revised their economic forecasts upwards: for 2025, growth is expected at 2.1% (against 2% last September), inflation at 2.8% for Core-PCE (2.2% in September) and the unemployment rate would decrease to 4.3% (4.4% in September).

Source: Amundi

Amundi Funds Pioneer US Bond (USD and SGD Hedged)

Investment and Market Review

The biggest story in US financial markets during December was not the absence of a “Santa Claus rally”, but rather the hawkish interest rate cut delivered by the Federal Reserve a few weeks prior to year-end. Though the Fed delivered on expectations and lowered the policy target rate by 25 basis points to a 4.25-4.50% range, a fresh set of quarterly economic and interest rate forecasts and Chair Powell’s post meeting press conference revealed that the majority of FOMC members were ready to ease off the monetary policy gas pedal and slow the pace of future rate cuts. The Fed’s policy pivot was guided by heightened concerns over sticky inflation and renewed confidence with the state of the US labor market.

Investors responded to the hawkish messaging in typical fashion to an effective monetary policy tightening. The US dollar rallied, the US Treasury curve steepened, and equity markets sold off. December’s collection of economic releases told a mixed story. Positively, many business and consumer surveys reported higher post-election confidence, and inflation data matched expectations. But labor market data cooled, with the unemployment rising from 4.1% to 4.2% and the average duration of unemployment increasing to above 2019 levels. While employer layoff activity remains low, open positions are less abundant, and those that are unemployed or new to the labor force are finding it more difficult to get rehired.

Most financial assets posted negative returns for the month. US equities (S&P 500 Index) declined -2.4%, and the US Aggregate Index returned -1.6%. The US Aggregate modestly underperformed the total return on comparable Treasuries: Investment Grade corporate bonds performed in-line with Treasuries, Agency MBS underperformed comparable Treasuries by 17 basis points, while Securitized Credit (ABS and CMBS) outperformed. Floating-rate Leveraged Loans tallied the only positive total return (+0.6%) among the "plus" market segments, while US High Yield corporates (-0.4%), Emerging Market corporates (-0.5%) and Emerging Market sovereigns (-1.5%) all closed out 2024 on a down note. In the currency and commodity markets, higher US interest rates continued to support the strong run for the US Dollar (DXY Index +2.5%), and crude oil rallied nearly 6%.

Despite a cooling domestic labor market, the US economy grew much faster than expected in 2024 as growth was supported by a solid consumer and healthy government spending. The unemployment rate climbed from 3.5% to 4.2%, its estimated long-term natural rate. Job growth slowed as hiring rates declined, but layoffs remained low as businesses embraced a "don't fire, don't hire" posture towards managing their workforce. US consumer inflation declined, but progress towards the Federal Reserve's long-term target inflation rate of 2.0% stalled out towards the end of the year.

After holding the Federal Funds Target Rate at 5.25-5.50% for 14 months, the Fed cut the policy rate by a surprise 50 basis points in September. The outsized initial interest rate cut was driven by growing concerns within the Fed about downside risks to the US labor market after the unemployment rate rose from 3.9 to 4.3% during a three month stretch between April and July. The Fed eased interest rates again by 25 basis points at each of the November and December FOMC meetings, which left the Fed Funds rate 100 basis points lower than the start of the year. During December's meeting, the Fed indicated that they expected the pace of future interest rate cuts to slow substantially in 2025. Fixed income investors and Fed watchers were whipsawed throughout 2024 as the FOMC signaled that near-term policy settings were going to be sensitive to economic data readings (overly so, in our view).

The policy volatility was clearly evident during 2024 when tracking the evolution of the Fed's own forecasts for where they collectively expected the Fed Funds rate to end 2025. That median forecast oscillated from 3.625% (December 2023 meeting) to 4.125% (June 2024 meeting) to 3.375% (September meeting) and then 3.875% (December 2024 meeting). Despite 100 basis points in realized Fed rate cuts during year, long-term interest rates rose, with the 10-year Treasury rising 70 basis points from 3.9% to 4.6% over the year as investors (and the Fed) grappled with the prospects for sticky inflation and potentially supportive post-election US growth dynamics.

2024 was another strong performance year for domestic equity markets. The S&P 500 Index generated a total return of 25% in 2024 after climbing 26% in 2023. US Fixed Income returns were largely dictated by interest rate duration exposure. Given a re-steepening of the US yield curve, shorter-duration fixed income markets outperformed longer-duration markets. Treasury bills posted a +5.3% return for the year, while higher long-term yields weighed on the US Aggregate Index's +1.25% annual return. Positively, the US Aggregate outperformed comparable US Treasuries by +0.78% on the back of strong relative performance from Investment Grade corporates and Securitized Credit (namely, ABS and CMBS).

The "plus" fixed income sectors generated solid total returns: US High Yield corporates posted a +8.2% annual return, Leveraged Loans were up +9.0%, Emerging Market sovereigns gained +7.7%, and

Emerging Market corporates returned +7.6%. US dollar exceptionalism continued with a +7.1% rise in the DXY Index and the strongest calendar year advance in nearly a decade.

Market Outlook and Investment Strategy

The consensus outlook for the US economy in 2025 is a “Goldilocks” scenario in which the economy grows at its long-term potential of 2%, the unemployment rate stays steady, inflation continues to decline, the Fed is relatively inactive, and the Trump administration successfully executes on major campaign initiatives. While the above is certainly possible, we expect that actual policy implementation and outcomes will likely deviate from current expectations as the year progresses.

After another year of solid and above-trend domestic growth, we believe that near-term growth has more downside risk than upside. A cooling labor market will likely weigh on income growth which, in turn, should result in slower

consumer spending. We also see the risks to a further rise in the unemployment rate, as the pace of hiring has slowed sharply and now rests below pre-COVID levels. With jobfinding rates down, any uptick in layoffs will have an outsized impact on the unemployment rate.

The sequencing of policy implementation by the Trump administration may also impact the growth trajectory. Lower net immigration and broader tariffs can be implemented relatively quickly, but these could weigh on economic activity and may put upward pressure on inflation as well. While changes in tax policy and lighter regulatory touch should be positive for growth, it will take several months to enact these and may deter sustained business investment until enacted.

After a volatile year for Treasury yields, 2025 opens with fixed income markets 1) offering solid nominal and inflation adjusted compensation to buffer against potential macro and monetary policy uncertainties and 2) positioned to reclaim their longer-term role of income generator and portfolio diversifier. Intermediate-maturity duration exposure is particularly attractive.

Ten-year Treasury yields are once again higher than short-term money market rates and are elevated relative to history on both a nominal and inflation adjusted basis, at 4.6% and 2.3% respectively. Given an average expected short-term rate of 3.9% over the next ten years, the implicit 10-year Treasury “term premium” of 0.7% over average expected short-term rates is also at its highest since 2011. We also believe investors have misinterpreted the Fed’s recent “policy pivot” as a change in how it intends to respond to potential 2025 outcomes. Barring a material upside surprise in inflation, the Fed is likely to deliver more than the 40 basis points of rate cuts currently reflected in interest rate markets for this year.

We have this in mind as we weigh the potential for slower than expected growth during the first half of the year. Specific to sector exposures, the yield premiums for traditional credit risk are relatively small when compared to long-term history. With issuer credit curves still compressed, we continue to prefer higher-quality and shorter to intermediate-term maturities in credit sensitive sectors. Agency MBS remain relatively attractive, and we have recently increased exposure to the sector following underperformance.

Alternatives to traditional fixed income markets such a Securitized Credit and Insurance Linked Securities continue to represent attractive avenues to enhance prospective income and return. To be sure, we will continue to augment these positioning views throughout the year with our relative value investment approach focused on active security selection and sector allocation.

Source: Amundi

Amundi Funds Pioneer US Equity Fundamental Growth

Investment and Market Review

US equities rose in the fourth quarter on the back of better than expected earnings and optimism that the Trump Administration will implement pro-business policies. Growth led the charge, with the Russell 1000 Growth Index returning 7% compared with 2% for the S&P 500 Index and -2% for the Russell 1000 Value Index. The increase in stock prices occurred despite a retreat late in the quarter, after the Fed announced fewer than expected interest rate cuts in 2025 amid sticky inflation.

For the year, equity market performance was essentially a rinse and repeat of 2023. The S&P 500 rose 25%, just shy of the 26% return in 2023. Large cap stocks continued to wallop the cyclically sensitive small cap universe, with the Russell 2000 returning a little less than half the return of the S&P 500 in 2024 after a 17% return in 2023. Similar to 2023, the Magnificent 7 were the biggest driver of returns.

The Portfolio did not participate in the fourth quarter rally in large cap growth equities as there was little that performed well outside of a few mega cap technology stocks and stocks with high price-to-earnings ratios, which returned twice as much as the Russell 1000 Growth Index. Consistent with its investment philosophy, the Portfolio maintained a defensive orientation that included an underweight in the Magnificent 7 for risk control reasons. In the quarter, the Portfolio underperformed the return of the Russell 1000 Growth Index (RLG).

Sector allocation was a slight detractor to performance as most defensive sectors underperformed, including health care, which is a portfolio overweight relative to the benchmark for stock specific reasons. Industrials, also an overweight in the portfolio, fared poorly as the industrial economy remained stagnant. These headwinds were largely offset by the portfolio overweight in consumer discretionary, which performed well as a sector mostly due to one stock: Tesla.

At the security level, the largest individual detractor to portfolio performance was our lack of exposure to Tesla. The stock soared following the election results due to the belief that the Trump Administration would soften regulations related to self-driving vehicles. The portfolio does not hold Tesla due to the highly competitive nature of the electric vehicle market along with a very high stock valuation.

Another detractor for the quarter was our overweight to Uber as the stock fell from recent all-time highs in early October largely due to news on driverless taxis, which has many investors concerned about increased competition. We believe Uber's dominant position in the ride share industry makes it the partner of choice for autonomous vehicle companies.

In addition, UBER is highly cash flow generative, enabling it to return money to shareholders in the form of share repurchases. The Portfolio favors companies with sustainably high levels of profitability.

The largest individual contributor for the quarter was our underweight to Microsoft as the stock declined due to investor apprehension about the company's ability to monetize its AI investments – including its multi-billion dollar bet on ChatGPT parent OpenAI. The Portfolio maintains an underweight in Microsoft due to position size limits.

Another contributor to benchmark relative performance was our overweight in Salesforce with the stock price increasing throughout the months of October and November as the company focused on improving profit margins while integrating AI into its product suite. We believe the result will be double digit earnings per share growth over the next couple of years. At the current valuation, the stock is discounting very little success in AI, in our view, resulting in significant upside potential should our investment case play out as expected.

For the year, the Portfolio underperformed the return of the Russell 1000 Growth Index. With the Magnificent 7 accounting for roughly half the return of the Index, it was difficult for active managers generally and our Portfolio in particular to keep pace with the Index given our focus on limiting position size and overall portfolio risk. Moreover, it was hard to find a substitute for the Magnificent 7. Our investments in semiconductor stocks, for example, did not pay off as investors focused their attention almost entirely on Nvidia. The Portfolio did have some winners in insurance and technology equipment, among other areas, but their impact simply wasn't big enough to offset the underweight in the Magnificent 7.

Market Outlook and Investment Strategy

Near-term momentum for US equities remains positive but high valuations leave little room for error. The Russell 1000 Growth Index trades at approximately 30x next year's estimated earnings, which is high by historical standards in a more normal interest rate environment, which we appeared to be entering during 2024. We are inclined to remain somewhat cautious given the almost universally positive sentiment.

US GDP growth was pretty consistently revised up throughout last year, and risks of imminent recession have receded. The economy has performed well despite rolling weakness in housing and manufacturing. President-elect Trump's proposed tax cuts and regulation may contribute to economic growth, but these positives may be offset at least in part by rising federal deficits, structurally higher interest rates, and tariffs.

Defensive stocks have generally underperformed as cyclicals have taken center stage in anticipation of higher GDP growth under president-elect Trump. From a positioning perspective, we have selectively added cyclical exposure in recent months, but have retained – consistent with our investment philosophy -our overall defensive orientation.

At the sector level, the Portfolio is overweight non-bank financials and health care for stock-specific reasons, and underweight information technology for risk control purposes.

Source: Amundi

Architas Flexible Bond Fund

Investment and Market Review

Architas Flexible Bond Z USD delivered a return of 8.25% for the 1-year period ending 31st December 2024. This was ahead of its internal benchmark (35% ICE BofA Gbl HY TR USD Hdg + 35% JPM EMBI Global Diversified TR USD + 15% Bloomberg Global Aggregate Corporate TR Hedged USD + 15% JP Morgan JACI TR.)

Manager selection was the key driver to outperformance with the emerging market debt sleeve being the largest contributor. Neuberger Berman EM Debt Hard Currency was the top contributor as it outperformed Emerging market debt indices due to its strong credit selection and country allocations, notably exposure to Argentinian bonds. High yield was also a modest detractor with mixed performance across strategies. The largest detractor was the BlackRock Glb HY Sust CrdtScrn fund.

Asset allocation was a detractor to performance in 2024. An underweight to Asian HY detracted in the Asian Bonds sleeve.

The portfolio remains balanced across the fixed income spectrum with allocations to high yield, emerging market debt and investment grade bonds.

Source: Architas

Architas Flexible Equity Fund

Investment and Market Review

Over the course of 2024 the fund returned 14.29% (Gross), underperformed its benchmark (17.18%). Despite outperforming in Q1 and a relatively flat Q4, narrow equity market leadership, particularly in the US (Nvidia) and Asia ex-Japan (TSMC), resulted in a much more challenging environment in Q2 & Q3.

Within the US, NVIDIA accounted for 21% of the MSCI USA return in 2024 and beyond that, the top 5 contributors accounted for 45% of the markets return. The effects of this were visible by the 12%

dispersion between the market cap S&P 500 relative to the equal weighted index. This was even more pronounced in Q2 were the market cap S&P 500 delivered a 4.3% return compared to the 2.6% decline of the equally weighted index. In Asia ex Japan, the narrow market breath could also be seen, as Taiwan Semiconductor accounted for 45% of the markets return on its own.

In that backdrop, manager selection in both regions detracted as active mangers struggled to keep pace. The portfolio was helped by its underweight in European equities and overweight to US.

Additionally, within the US, the bias to growth equities helped. Top contributors were AB American Growth and iShares MSCI EM Asia. A new position was added in Amundi Russell 1000 Growth ETF in early Q4. This was particularly helpful from a contribution point of view while also in stemming the underweight exposure to top US growth names where active manages are structurally underweight due to their weighting in the benchmark and regulation restrictions. On the negative side, Fidelity Asia Pacific Opportunities hurt due to their underweight in TSMC and Indian equities. Elsewhere, Selection US detracted as narrow market breath resulted in lower its upside capture

Source: Architas

Architas Multi-Asset Balanced Fund

<u>Investment and Market Review</u>

Over the course of 2024 the fund returned 9.32%(gross), underperformed its benchmark (10.86%). Despite outperforming in Q1 and a relatively flat Q4, narrow equity market leadership, particularly in the US (Nvidia) and Asia ex-Japan (TSMC), resulted in a much more challenging environment in Q2 & Q3.

Within the US, NVIDIA accounted for 21% of the MSCI USA return in 2024 and beyond that, the top 5 contributors accounted for 45% of the markets return. The effects of this were visible by the 12% dispersion between the market cap S&P 500 relative to the equal weighted index. This was even more pronounced in Q2 were the market cap S&P 500 delivered a 4.3% return compared to the 2.6% decline of the equally weighted index. In Asia ex Japan, the narrow market breath could also be seen, as Taiwan Semiconductor accounted for 45% of the markets return on its own.

Over the course of 2024, asset allocation added to performance driven by an overweight in equities funded by an underweight in global aggregated.

Within the equity , manager selection in both regions detracted as active mangers struggled to keep pace. The portfolio was helped by its underweight in European equities and overweight to US. Additionally, within the US, the bias to growth equities helped. Top contributors were AB American Growth and iShares MSCI EM Asia. A new position was added in Amundi Russell 1000 Growth ETF in early Q4. This was particularly helpful from a contribution point of view while also in stemming the underweight exposure to top US growth names where active manages are structurally underweight due to their weighting in the benchmark and regulation restrictions. On the negative side, Fidelity Asia Pacific Opportunities hurt due to their underweight in TSMC and Indian equities. Elsewhere, Selection US detracted as narrow market breath resulted in lower its upside capture.

Within fixed income, global agg trailed global equities by 15.8% as Central banks in the US and Europe dampened optimism over more aggressive rate cuts in 2024 and 2025. In that back drop, Government Bonds and Credit indices lagged with High Yield and Emerging Debt outperforming.

Within fixed income, an underweight in global aggregated to fund an overweight in global high yield and emerging market debt added to the funds' performance. Manager selection within fixed income was positive across all sub categories with selection in off benchmark, High Yield particularly strong

Source: Architas

AXA World Funds Europe Real Estate

Investment and Market Review/ Outlook

Risk assets largely declined during the month as the Federal Reserve indicated it will cut rates at a much slower pace than investors anticipated next year. Political uncertainty flared up in France and Germany with the French Prime Minister resigning after a no confidence vote and Germany's parliament was dissolved ahead of a snap election in February.

Within the European property sector, performance was broadly negative. Hotels and healthcare outperformed, returning 0.9% and -2.1%, respectively. Meanwhile, logistics and residential underperformed, returning -7.5% and -6.1%, respectively. In terms of regions, Asia-Pacific (-3.0%) was the strongest, outperforming Europe (-4.7%), the US (-5.7%), and Australia (-9.1%) during the month. The European real estate index underperformed the broader European equity index with the FTSE EPRA NAREIT Developed Europe Capped 10% returning -4.7% versus -0.5% for the STOXX Europe 600.

On the monetary front, the Federal Reserve cut interest rates by 25bps and indicated it would probably only lower rates two times next year. The European Central Bank cut interest rates by 25bps and indicated that the disinflation process is well on track. Meanwhile, the Bank of England kept interest rates on hold with policymakers indicating that it needed to stick to its existing gradual approach to cutting rates.

On the economic front, US nonfarm payrolls increased by a meager 227k in November, coming in well above consensus estimates. The unemployment rate slightly increased to 4.2%. US flash PMI data came in at 56.6 in December, marking a 33-month high. Meanwhile, HCOB flash Eurozone Composite PMI came in at 49.5, marking a two-month high. In November, the annualized core inflation rates in the US and the Eurozone held firm at 3.3% and 2.7%, respectively. Meanwhile, core inflation in the UK increased to 3.5%.

Our fund (I EUR share class, net of fees) underperformed its benchmark by 147bps over the month (-6.76% vs. -5.29%) due to selection and allocation effects. Our overweight exposures to Merlin Properties, CTP, and Catena positively contributed. Meanwhile, our overweight exposures to Safestore, TAG Immobilien, and Cellnex negatively contributed.

Source: AXA Investment Manager

AXA World Funds – Global Inflation Bonds (SGD Hedged)

Investment and Market Review

Inflation linked bonds exhibited mixed performance in December. Outright and Breakevens performance was negative over the month. However, 1-3 year maturities outperformed, indicating diverging trends within the bond market. Additionally, the yield curve steepened during the month, reflecting changing sentiment and expectations regarding future economic conditions and term premium.

In line with market expectations, the latest U.S. inflation data for November 2024 showed a slight uptick, with the annual rate rising to 2.7%from 2.6%in October. This marks the second consecutive month of increase, indicating a persistent inflationary trend. Moreover, the core inflation rate, remained steady at 3.3%year-over-year, consistent with the previous month and aligning with forecasts. Against this backdrop, the Federal Reserve's decision to maintain a hawkish tone while lowering rates suggests a cautious approach to managing inflationary pressures and economic stability.

In other markets, the ECB Governing Council decided to lower the depo rate by 25 basis points to 3%, totalling 100bps of monetary policy normalisation since June and resisted to start committing more about future policy decisions which was perceived as hawkish by the market.

In the UK, CPI inflation rose to 2.6%in November, in line with the consensus but 20bps above the Bank of England's forecast laid out in the November Monetary Policy report. The overshoot, however, was in areas the MPC are less concerned with, such as goods and food. As expected, the Bank of England kept Bank Rate unchanged at 4.75%at its final meeting of the year. But the 6:3 vote split was more dovish than anticipated, just one member had been expected to dissent. The MPC appeared broadly happy to look through the recent strength in the CPI and wage data, while five of the six members that voted for a cut. We still expect UK rates to outperform in the medium term as there is little priced in current valuations.

Both absolute and relative performance were negative in December. Japan posted the best performance while UK exhibited the worst performance driven by the long end. In terms of breakeven performance, Canada posted the best performance, while Denmark and the UK posted the worst performance.

Market Outlook and Investment Strategy

Our long-duration bias has weighed on portfolio returns, particularly in the UK. We believe markets have overreacted by pricing in only two rate cuts for next year and we intend to add on further sell off as this is one of our main convictions for 2025. In the US, we have maintained that nominal rates, particularly in the belly of the curve, should rise both in absolute terms and relative to other advanced economies, notably the UK, in the near term. While we remain constructive on real yields, we hold a modest underweight in US rates with a long breakeven bias, as we anticipate inflationary pressures stemming from Trump's policy measures. Additionally, we continue to maintain a steepening position.

Source: AXA Investment Manager

AXA World Funds Europe Small Cap

Investment and Market Review/Outlook

On both sides of the Atlantic, central banks continued the monetary easing that began in the summer of 2024, bringing key rate cuts to 100 basis points. However, the Fed was cautious with regard to the scale of the decline to come. It stated that it's wary of the impacts of the economic policies of newly elected President Trump, while President Biden's expansionary fiscal policies continue to make an impact. This hawkish tone had the immediate effect of driving up yield curves, with the US 10-year rising by nearly 40 basis points to above its end-2023 level. In Europe, the tone is different. The economic growth outlook remains sluggish and there seems to be less risk of runaway inflation than in the United States, but the strong dollar could prevent a more pronounced drop in short-term rates. Ten-year yields in Europe recovered nearly 30 basis points. As such, there will be no end-of-year rally. There was significant dispersion for equity market returns in local currencies: The S&P 500 and the Nasdaq consolidated at the end of the month while posting record high levels and marking another year of strong gains. The EURO STOXX 50 rose in December but posted an average performance for 2024. With the further decline of the yen, the Nikkei continued its upward trend and gained nearly 20%. The Footsie 100 suffered over the month, with expectations of a rate cut also being revised downwards for the UK. Despite a timid rebound at the end of the year, the CAC 40 disappointed with a decline of roughly 3%for 2024. Lastly, the correlation between the performance of small caps and that of long-term rates continued, with the latter lagging significantly behind large caps.

The euro weakened against the dollar and the pound sterling. The yen fell against other currencies. Crude oil traded at around USD 70 per barrel, with developments in Syria being a new factor in the current geopolitical context. Volatility indices rose slightly but remained contained.

Long-duration sectors underperformed value sectors. Utilities, real estate, industrials and consumer staples underperformed automotive, banking and insurance stocks. IT and energy performed well.

Over the month, the fund underperformed its benchmark index, the STOXX Small 200. Stock-picking, particularly in the healthcare, tech and industrial sectors, accounted for most of the underperformance.

Source: AXA Investment Manager

AXA World Funds - Global High Yield Bonds

Investment and Market Review

The AXA World Funds Global High Yield Bonds fund performed in-line (USD, net and gross) with its benchmark, the ICE BofA Developed Markets High Yield Constrained Index (USD hedged), during the month of December. The fund's slight overweight to the European portion of the market had a positive impact on relative performance. Relative performance was negatively impacted by security selection in the highest yielding segment of the market.

From a sector perspective, relative performance was positively impacted by security selection in the Technology & Electronics sector. This was driven by the fund's exposure to CommScope, a provider of specialized telecommunications components, who completed a beneficial refinancing transaction which handled near term maturities. Performance in the Media sector was the largest detractor, primarily due to fund's the lack of exposure to iHeartMedia.

Market Outlook and Investment Strategy

While we acknowledge that there are pockets of weakness in the global economy, we continue to believe that the default rate of the global developed high yield bond market is unlikely to increase to a level significantly higher than its long-term average. Based on our outlook for the global economy and current valuations, we maintain that the global developed high yield market can deliver an attractive carry-driven total return over the next 12 months.

Source: AXA Investment Manager

BlackRock China Fund

Investment and Market Review

• The fund outperformed its benchmark this month.

• China equities rebounded in December with offshore markets driving the returns. China's top policymakers held their annual. Central Economic Work Conference (CEWC) on December 11-12, during which they laid out key tasks and economic policies for 2025. despite increasing rhetoric around boosting domestic demand and stabilizing the property and equity markets, the aggregate guidance came in below market expectations. Greater protectionism under the incoming Trump administration remains an additional source of overhang.

• Our stock selection and overweight allocation to Information Technology was the main driver of this month's outperformance.

• Stock selection in Consumer Staples also helped relative performance.

• On the other hand, Stock picks in Consumer Discretionary was the largest detractor .

• Industrials also detracted due to our stock selection.

• Electronics and EV company Xiaomi was the top contributor to relative performance at a stock level. The stock rallied on the back of its success navigating in the congested EV market, upcoming new launch of all-electric SUV, and the company's business strategy of increasing spending and focus on AI.

• Taiwanese ASIC company Alchip was another significant contributor as the stock gained on the back of strong sentiment towards ASIC segment.

• Chinese cloud provider Kingsoft Cloud also added to relative performance given continued revenue growth from cloud business and expectation of increase in revenue from its in-depth partnership with Xiaomi.

• On the other hand, Ganfeng Lithium was the largest detractor over the month, as the stock fell following lithium prices.

• Copper miner CMOC also detracted as the stock fell on weaker copper prices, stronger US dollar and concerns around US tariffs.

• E-commerce JD.com weighed on relative performance, as investors took profit after its sharp rally in November.

• In December, we initiated a new position in Geely, as we started to see the company catching up with BYD in many fronts, from DMI technology to battery value chain. Geely has higher exposure to high-end EVs and overseas exposure while valuation is lagging behind peers.

• We also bought Kingsoft Cloud, an cloud service provider in China, as we expect strong revenue growth alongside increasing adoption of cloud in China. The partnership with Xiaomi will also help drive up revenue further.

• We also added a new name GDS, which is a leading data center company in China. We believe the company will see strong growth in 2025, due to recovery in capex spending by Chinese tech companies such as Alibaba and Tencent, as well as accelerating revenue from overseas expansion.

• We increased holdings in TSMC as the stock lagged its tech peers recently.

• We topped up JD.com post recent stock price weakness on expectation of more and trade-in subsidies from the government in 2025 to stimulate consumption.

• We trimmed our holdings in Alibaba on concerns around more competition in e-commerce by Tencent and Little Red Book.

• We trimmed BYD to take profits and used the proceeds to allocate to Geely.
• We are most overweight Information Technology, driven by our holdings in Taiwanese tech companies and selective Chinese tech exporters and AI infrastructure companies.

• Industrials sector is a large overweight in the portfolio. We prefer exporters with competitive advantages such as battery, relay and excavators.

• We are also modestly overweight in Materials due to our gold and copper exposure.

• We are most underweight Health Care due to domestic policy and geopolitical risks.

• We are also underweight Energy due to worries around sanction risks.

Market Outlook and Investment Strategy

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Source: BlackRock (Luxembourg) S.A.

BlackRock Global Allocation Fund

Investment and Market Review

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: BlackRock (Luxembourg) S.A.

BlackRock Global Equity Income Fund

<u>Investment and Market Review</u>

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

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

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

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

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

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

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

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

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

Market Outlook and Investment Strategy

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

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

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

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

Given recent stimulus announcements in China, we remain watchful given the broader potential consequences of a recovery in the Chinese economy. In our view, the measures so far announced are unlikely to be sufficient to address the deep-rooted nature of issues within the property market which are impacting local government finances and broader consumer confidence. However, we recognise that a more comprehensive package of measures could impact Energy and Materials markets. We would expect further policy measures to be announced with China's March 2025 economic plenum, following greater clarity overtrade protection measures from the US.

For Japan, we have been cautiously positioned for economic recovery resultant from monetary policy normalisation. In our view, a higher US rate environment for longer may give the Bank of Japan further time to normalise their policy rate environment – we would expect a further rate hike of 25bps in 1Q25.

We continue to see high levels of valuation dispersion across the market, with materially different economic expectations priced into stocks with similar characteristics. We continue to focus on the long-term potential of businesses and look to take advantage of short-term market noise to make investments at attractive valuations. We believe that quality companies offer resilience and are most likely to continue to grow in a volatile environment. Their well-invested brands, pricing power and intellectual property

Source: BlackRock (Luxembourg) S.A.

BlackRock World Energy Fund

Investment and Market Review

The BGF World Energy Fund returned -7.1% during December, compared to its benchmark, the MSCI World Energy 30% buffer 10/40 index, which returned -7.4%.

• Global equity markets ended lower in December. Positive market momentum from November faded as US interest rate expectations shifted towards higher for longer.

• The US Fed cut rates by 0.25% in December, but signalled the pace of future rate cuts may be slower, contributing to a move higher in longer bond yields, as FOMC member inflation expectations were revised higher. The ECB also cut interest rates in December, guiding to likely further reductions in 2025.

• Political events continued to add to market uncertainty in Europe as France appointed its fourth prime minister of 2024.

• Energy equities were broadly lower in December with an apparent reversal in market momentum and away from energy, despite oil prices ending the month higher. Oil demand in China for 2024 has proved weaker than forecast at the beginning of the year, whilst oil production continued to increase, notably from the US, Guyana and Canada, which appeared a contributing factor to the moves.

• The Brent oil price rose 0.6%, whilst the WTI oil price rose 6.1%, ending the month at $75/bbl and $72bbl respectively.

• The US Henry Hub natural gas price rose 7.7% during the month to end at $3.63/mmbtu.

• Within the Fund, stock selections within oilfield services companies and an underweight to the oil refining & marketing sub- sector contributed to relative returns.

• The Fund position in Italian oilfield services group Saipem ended the month higher with continued contract wins, whilst the Fund’s underweight exposure to refining companies was beneficial as refining margins remained weak, on relative demand weakness for refined products (gasoline, diesel).

• Overweight positions in Canadian exploration & production companies (E&Ps) Arc Resources and Tourmaline Oil were relative contributors, falling less than the E&P sub-sector. On the negative side, the Fund’s overweight exposure to midstream pipeline companies detracted from relative returns as holdings in Targa Resources and Pembina Pipeline saw share prices move lower with other perceived “bond proxies” on higher bond yields.

• A modest underweight to integrated oil companies (IOCs), detracted from returns as the stocks fell less than other parts of the energy sector. Within the sub-sector, not owning BP detracted as the shares ended the month close to flat in a market that ended lower.

• During the month the Fund added exposure to an internationally focused E&P company and reduced exposure to Canadian E&Ps and to a European integrated oil company.

Market Outlook and Investment Strategy

• The energy intensity of economic growth appears to be underappreciated, as evidenced by the tightness in parts of the US power sector, and the energy system remains carbon intensive, despite efforts to switch away from oil, particularly in transportation. Global oil demand continues to reach new highs at the same time as EV sales continue to gain share.

• As with 2024, in 2025 new oil production growth is expected to roughly equal the forecast increase in oil demand, which is contributing to near term volatility in the sector, but looking beyond this, we see demand growth persisting and supporting medium term oil prices.

• Importantly, we have seen investors force capital discipline onto the energy sector and many energy companies have committed to return free cash flow to shareholders rather than return to maximising production. Additionally, energy company balance sheets are much stronger today than in the past, suggesting greater resilience.

• We expect inflation to remain sticky (reshoring of supply chains, geopolitics, tighter labour markets, commodity resource constraints) and we believe energy is an attractive portfolio hedge against higher inflation, whilst the duration of oil demand strength is underestimated, in our view and is not reflected in current energy company valuations.

• Geopolitics have increased the focus on energy security. Europe has looked to diversify its energy supplies, which has driven in increased demand for LNG, from the US and Middle East, whilst investment in artificial intelligence linked data centres is likely to create additional demand for natural gas (and renewables).

• OPEC have significant spare production capacity following reduced production targets (in October 2022, 2023 and through 2024), which demonstrates a willingness, in our view, to be more active to manage oil prices. As oil demand increases over the coming years, we expect the cuts to be reversed, contingent on oil demand.

• Within our energy portfolios, key themes that are shaping portfolio construction this year include a bias towards higher- quality international oil producers and selective exposure to US shale. Valuations appear attractive with energy companies expected to maintain capital discipline and deliver high free cash flows.

Source: BlackRock (Luxembourg) S.A.

BlackRock World Gold Fund

Investment and Market Review

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

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

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

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

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

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

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

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

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

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

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

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

Market Outlook and Investment Strategy

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

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

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

Source: BlackRock (Luxembourg) S.A.

BlackRock World HealthScience Fund

Investment and Market Review

The BGF World Healthscience Fund returned -5.6% during the month of December (A2 share class, net of fees in USD), outperforming the MSCI World Health Care Index, which returned -6.1%.

• Global equities experienced negative performance in December with the MSCI World Index returning -2.6% as investors interpreted monetary policy guidance for 2025 and the implications of the incoming Trump Administration.

• In the US, the S&P 500 Index returned -2.4% in one of only three negative months of the calendar year. The Fed announced a 25 basis points (bps) reduction to the benchmark overnight borrowing rate in the third cut of 2024 and indicated that two rate cuts could be expected next year given ongoing inflationary pressures. November CPI revealed YoY inflation of +2.7%, higher than the readouts from September and October.

• In Europe, equities were challenged by political instability. France appointed its fourth prime minister of 2024, leading to volatility in the French CAC 40. In the UK, inflation rose to the highest level since March 2024. The FTSE 100 index fell, driven by disappointing retail sales and concerns of economic stagnation.

• Asian equities were similarly under pressure from global economic uncertainty with evolving US monetary policy and geopolitical tensions affecting regional trade dynamics. The People’s Bank of China committed to supportive monetary policy in the year ahead to enhance liquidity of financial markets and to stabilise economic growth.

• Global sectors had mostly negative performance over the month, with only Communication Services, Consumer Discretionary, and Information Technology experiencing positive returns. Materials and Real Estate were the most challenged sectors.

• From a regional perspective, Europe and North America were challenged over the period.

• In December, the MSCI World Health Care Index returned -6.1%, underperforming broad equity markets. All sub-sectors had negative returns with the health care providers & services (-13.5%) and pharmaceuticals (-5.1%) sub-sectors declining the most. US pharmacy benefit managers (PBMs) faced pressure over the month following the introduction of increased industry regulation in a bipartisan Congressional spending bill. PBMs act as intermediaries between drug manufacturers and insurers, employers, and governments, negotiating rebates from pharmaceutical companies and determining which medications are included in insurance plans. Although the proposed reforms were not ultimately enacted, the incoming Trump Administration indicated the possibility of future government intervention in the sector.

• GLP-1 leader Novo Nordisk announced disappointing clinical trial results for its next-generation weight loss treatment, CagriSema, leading to a decline in its stock. The results followed Eli Lilly’s announcement that its weight loss drug, Zepbound, demonstrated greater effectiveness than Novo Nordisk’s current leading treatment, Wegovy. Previous research indicated Zepbound’s superior efficacy but relied on retrospective data rather than a direct comparison.

• Merck entered the GLP-1 market by acquiring licenses for a preclinical GLP-1 pill from Chinese biotechnology company Hansoh Pharma. The US biopharmaceutical giant joins other drugmakers in advancing oral versions of the medication, which offer improved patient accessibility and lower manufacturing costs.

• Medical device manufacturer Dexcom unveiled an artificial intelligence feature for its Stelo continuous glucose monitor (CGM). Designed for users who do not rely on insulin, Stelo monitors blood sugar levels, with the AI enhancement providing personalized insights into how factors like meals, sleep, and physical activity affect glucose levels.

• Not holding a position in CVS was the top contributor to relative performance as the diversified healthcare company continues to experience fundamental challenges due to elevated costs and policy overhang.

• An overweight position in Boston Scientific was another top contributor to relative returns. The medical device company continued to benefit from continued growth in both its cardiovascular and medical surgery segments.

• An underweight position in Teva Pharmaceutical was the top detractor from relative performance as the company reported positive clinical trial results for its inflammatory bowel disease treatment.

• An underweight position in Novo Nordisk was another top detractor from relative returns. The Fund concluded the month underweight the GLP-1 leader, following a reduction in our overweight position after the company reported weaker-than- anticipated clinical trial results for its next-generation weight-loss drug, CagriSema.

• During the month, the Fund increased exposure to select pharmaceutical and biotechnology companies in anticipation of a new product launches. Elsewhere, we decreased our exposure to the health care providers & services sub-sector as the sub-sector continues to experience negative sentiment and regulatory overhang.

Market Outlook and Investment Strategy

• We continue to 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.

• While the sector may see an uptick in volatility with the transition of the US president and congressional leadership, change is unlikely to be immediate or unilateral. Leaders will need to navigate complex procedural processes involving multiple government levels, with opportunities for public and judicial challenges to reforms at various stages. Heightened dispersion driven by sector-specific impacts of policy changes and ongoing policy uncertainty underscores the importance of active management. Leveraging scientific and industry expertise is essential in identifying undervalued opportunities.

• 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.

BlackRock World Mining Fund

Investment and Market Review

• The BGF World Mining Fund fell -10.1%, underperforming its benchmark, the MSCI ACWI Metals & Mining 30% Buffer 10/40 Index which decreased by -9.4%. Fund performance in US dollar terms and net of fees for the A share class.

• December was a difficult month for the mining sector, which underperformed broader equity markets represented by the MSCI All Country World Index, which declined -2.4%.

• The mining sector was impacted by concerns around US tariffs and their potential implications for global economic growth, particularly in relation to China. This situation has created uncertainty about the extent of stimulus measures that China may implement, resulting in mined commodity prices coming under pressure.

• During the month, the base metals were hit the hardest, with nickel, copper and zinc prices falling by and -3.6% and -2.7% and -5.0% respectively.

• Elsewhere, the iron ore (62% fe) price fell -2.9%.

• In the precious metals space, gold and silver prices fell both fell by -1.3%, as the US dollar strengthened significantly creating a headwind, with the DXY Index increasing from 105.7 to 108.5.

• Turning to the companies, we saw profit-taking in the US-based steel names as interest rate expectations moved higher.

• Underperformance during the month was driven by stock selection, while sub-sector allocation positively contributed to relative performance.

• Not holding Nippon Steel was the largest detractor from relative performance as the market reacted favourably to an increased likelihood of its acquisition of US Steel being blocked.

• Our underweight to steel stocks, including Reliance, Nucor, Posco, and Steel Dynamics, contributed positively to relative returns.

• Our off-benchmark position in Alcoa, an aluminium producer, detracted from relative returns as aluminium prices fell during the month due to declining alumina prices.

• We exited Alcoa, given expectations that aluminium prices will fall further.

• We reduced our position in Vale, as we see cash outflows from Brumadinho and Samarco still posing a significant drag on the business.

• We continue to trim our position in Newmont given ongoing operational challenges.

Market Outlook and Investment Strategy

• Near-term, we expect performance to be driven by the China stimulus situation, which is evolving, and we are watching closely to see if it translates into a pickup in demand.

• Longer-term, we expect mined commodity demand growth to be driven by increased global infrastructure build out, particularly related to the low carbon transition and increased power demand.

• Meanwhile, the supply side of the equation is constrained.

• Mining companies have focused on capital discipline in recent years, meaning they have opted to pay down debt, reduce costs and return capital to shareholders, rather than investing in production growth.

• This is limiting new supply coming online and there is unlikely to be a quick fix, given the time lags involved in investing in new mining projects.

• The cost of new projects has also risen significantly and recent M&A activity in the sector suggests that, like us, strategic buyers see an opportunity in existing assets in the listed market, currently trading well below replacement costs.

• Other issues restricting supply include cases of governments closing mines, permitting issues and a general lack of shovel- ready projects.

• Turning to the companies, balance sheets in the sector are very strong relative to history.

• Despite this, valuations are low relative to historic averages and relative to broader equity markets.

Source: BlackRock (Luxembourg) S.A.

BlackRock World Technology Fund

Investment and Market Review

• The BGF World Technology Fund returned +1.4% in December (A2 share class in USD, net of fees), outperforming its benchmark, the MSCI ACWI Information Technology 10/40 Index, which returned +0.5%.

• Global equities experienced negative performance in December with the MSCI ACWI returning -2.4%. Investors were tasked with interpreting monetary policy guidance for 2025 and the implications of the incoming Trump Administration.

• In the US, the S&P 500 Index returned -2.4% in one of only three negative months of the calendar year. The Fed announced a 25 basis points (bps) reduction to the benchmark overnight borrowing rate in the third cut of 2024 and indicated that two rate cuts could be expected next year given ongoing inflationary pressures. November CPI revealed YoY inflation of +2.7%, higher than the readouts from September and October.

• In Europe, equities were challenged by political instability. France appointed its fourth prime minister of 2024, leading to volatility in the French CAC 40. In the UK, inflation rose to the highest level since March 2024. The FTSE 100 index fell, driven by disappointing retail sales and concerns of economic stagnation.

• Asian equities were similarly under pressure from global economic uncertainty with evolving US monetary policy and geopolitical tensions affecting regional trade dynamics. The People’s Bank of China committed to supportive monetary policy in the year ahead to enhance liquidity of financial markets and to stabilise economic growth.

• Global sectors had mostly negative performance over the month, with only Communication Services, Consumer Discretionary, and Information Technology experiencing positive returns. Materials and Real Estate were the most challenged sectors.

• From a regional perspective, North America had the weakest performance while Emerging Markets recovered over the month.

• In December, the technology sector outperformed broad equity markets with the MSCI ACWI Information Technology Index returning +1.0%. On a sub-sector basis, hardware and semiconductor companies experienced the strongest returns.

• Upgraded AI models, including those with reasoning capabilities, were introduced over the month. OpenAI released o3, the successor to its o1 reasoning model. Google launched Gemini 2.0 Flash Thinking, a multimodal reasoning model with enhanced problem-solving capabilities. Google DeepMind unveiled Veo 2, a video-generating AI. Lastly, IBM shared a new family of open-source models, Granite 3.1, with hallucination detection features.

• Salesforce announced Agentforce 2.0, a digital labour platform with AI integration. Agentforce introduces pre-built skills, advanced reasoning, and retrieval capabilities designed to empower employees and streamline tasks. The firm intends to hire 2,000 employees to sell AI products.

• OpenAI announced new AI features and products in their campaign “12 Days of Shipmas”. New offerings included Sora, the video-generation AI tool, and a paid-tier for unlimited access to existing models. The marketing blitz is part of OpenAI’s aggressive growth plan to remain competitive in the generative AI market.

• China launched an investigation into NVIDIA over suspected violations of the country’s anti-monopoly law. The move was widely seen as a retaliatory probe following the US’s latest limits on the Chinese chip industry. NVIDIA’s most sophisticated chips are already restricted from being sold into China.

• An off-benchmark position in Tesla was the single largest contributor to relative performance. The electric vehicle (EV) stock rose in December due to the increased influence of CEO Elon Musk and the potential benefits for Tesla in terms of federal regulation, subsidies, and overall support for EVs following the US election of President Trump.

• Not holding a position in Adobe also contributed to relative performance as the software company reported earnings in December with weak fiscal guidance for 2025 while the firm struggles to monetize its AI features.

• An overweight position in Fair Isaac was the largest detractor from active performance. The credit reporting stock experienced profit-taking ahead of the company’s planned price increases amidst policy uncertainty.

• Lastly, an overweight position in MongoDB detracted from relative returns after reporting quarterly financials. Despite earnings that exceeded expectations, the software stock traded down as revenue guidance for Atlas, their key offering, was weak.

• In December, the Fund added to its exposure within the AI stack, while trimming select software securities. Positions in hardware stocks, such as Dell Technologies, were reduced in the portfolio given the competitive environment. Elsewhere, we added to AppLovin and other internet stocks where risk-reward profiles appear attractive.

Market Outlook and Investment Strategy

• We believe the fundamentals of the technology companies we invest are strong. Weakness in the technology sector this summer was driven by weaker-than-expected US economic data, drastic currency movements, and a debate around the ROI of AI-related spending. This heightened volatility is typical for the sector when compared to history and creates a constructive backdrop for active stock picking.

• We believe that we are in the early stages of the AI era, which will drive exponential growth and value creation in the tech sector and beyond. AI is the next frontier of innovation and is one of the biggest singular technology trends that the global economy has ever seen. The opportunity it presents to investors is significant and will continue a dynamic we've seen over the past three decades: the technology sector's superior growth to all other sectors as it has disrupted existing industries and created new markets.

• While the initial beneficiaries of the AI theme have been mega-cap tech names building the physical infrastructure required to train generative AI models, we see a variety of opportunities in companies aligned with the theme going forward.

• We maintain our exposure to long-term secular themes within the portfolio, such as artificial intelligence, cloud computing, and electric vehicles, as well as more nascent themes such as metaverse, space, and quantum computing.

Source: BlackRock (Luxembourg) S.A.

FAM Global Income Fund

Investment and Market Review

FGI ended the year with top quartile performance in its Morningstar peer group, continuing to deliver resilient performance despite challenging fixed income market conditions. As reference, the broad fixed income benchmarks i.e. Bloomberg Global Aggregate in USD, is up low single digit for 2024 as a result of rising and volatile rate markets. Instead of bets in interest rate direction, FGI's focus on harvesting income across traditional and alternative income markets allowed it to generate sustainable income amid this environment:

Higher-yielding income opportunities: positions in select higher-yielding fixed income segments, particularly in Emerging Markets and Asia, contributed meaningfully to income and capital gains coming from their more attractive spreads and improving fundamentals since the beginning of 2024 – the high income expectation has since been realized in the past year.

Alternative Income: Diversified allocations to uncorrelated assets, such as insurance-linked securities, reduced exposure to traditional market volatility and added stability to income. We maintain our core allocations here, with spreads remaining wide compared to other traditional fixed income segments.

Dynamic Risk Management: Proactive adjustments to the portfolio allowed FGI to maintain a lower volatility profile vs the peer group during turbulent periods. We had slightly reduced equity exposures towards the end of the year, as we believed that markets were overstretched in the near-term and underestimating upcoming risk events such as Trump's inauguration. Amid rising interest rates, we also anticipate increasing the portfolio's overall duration alongside the overall credit quality.

Market Outlook and Investment Strategy

We expect high income to remain the dominant theme in 2025, but we are gradually shifting up in the quality profile of the portfolio. In contrast to a year ago, 2025 starts with tight credit spreads and lower yields (now below 8% in major high-yield markets); indicating lower return potential compared to the start of 2024. That said, all-in yields continue to attract good demand from investors, and fundamentals continue to be sound for now. In view of high valuations and potential underpriced risk events e.g. looming 'refinancing wall', we are balancing high-income with quality to improve the overall resiliency of our strategy.

FGI is well-positioned to navigate the evolving income landscape. Our flexible approach benefits amid the current higher-for-longer interest rate environment, allowing us to focus on segments of better relative value across traditional and alternative income markets even as income opportunities tighten. Similarly, we are identifying pockets of opportunities within equity markets that are 1. supported by strong earnings growth, 2. likely to benefit from earnings broadening that could play out amid the continued steady economic growth environment. Alongside steady income, these positions provide potential additional capital gains for our investors.

Source: Finexis

FAM Global Opportunities Plus Fund

Investment and Market Review

2024 was a year of contrasts for multi-asset portfolios such as FGOP. If we were to reduce it to one reason, it would be US exceptionalism. Anyone investing on this theme would have done well in equities, but using this theme would not have worked for fixed income.

Equity: US exceptionalism worked

2024 was a good year provided one positioned their portfolio at the start of the year to be very concentrated in US large cap stocks. Indeed, one's investment experience and outcome would have varied enormously on this single decision. 2024 was a case where if one was not in US growth stocks, investing almost anywhere else was a drag. This contributed to lacklustre performance across active strategies including ours.

Fixed income: US exceptionalism did not work

Common income strategies did not fare well relative to even money market funds (cash). Rising and volatile rates proved challenging for many income investors. Our strategy of focusing on high income without making large bets on interest rate direction did well; in particular positions across higher-yielding Emerging Market and Asia High Yield markets.

Alternatives: US exceptionalism does not matter

Having said that, equities are volatile. The S&P 500 suffered its steepest decline (>3%) from Christmas to the end of the year since 1952, as investors reduced their expectations for the pace of Fed rate cuts following a hawkish December policy meeting. While US equities retraced since the December FOMC meeting, other "Trump trades" such as the long (stronger) US dollar maintained their strong momentum through the holiday period.

Alternatives played an important diversifying role when equities and bonds do not do well. Our allocation to Trend-following was positive in Dec when both equities and bonds were down; due to their short positioning in bonds and long US dollar during the hawkish December FOMC meeting. Furthermore, the fund’s exposure to alternative income provided returns even when equity or bond markets declined. Within alternatives, we also like holding gold as a diversifier to hedge against inflation and geopolitical risks into 2025.

Market Outlook and Investment Strategy

Within fixed income; we expect high income to remain the dominant theme in 2025, but we are gradually shifting up in the quality profile of the portfolio given tighter spreads and potential underpriced risk going forward e.g. refinancing wall. Similarly, we are identifying pockets of opportunities within equity markets that are 1. supported by strong earnings growth, 2. likely to benefit from earnings broadening that could play out amid the continued steady economic growth environment. Alongside steady income, these positions provide potential additional capital gains for our investors. Alternatives continue to act as a useful diversifier going forward; amid generally high-valuation and increased uncertainty coming from Trump’s second presidency.

We look forward with cautious optimism and look to utilise different levers available to a multi-asset portfolio to generate compelling risk-adjusted return.

Source: Finexis

FAM Millennium Equity Fund

Investment and Market Review

2024 was a good year provided one positioned their portfolio at the start of the year to be very concentrated in US large cap stocks. Indeed, one's investment experience and outcome would have varied enormously on this single decision. 2024 was a case where if one was not in US growth stocks, investing almost anywhere else was a drag. This contributed to lacklustre performance across many active strategies, and FME was not spared.

But we are optimistic about the future. History shows that past periods of such narrow-leadership are short-lived and eventually make way to a strong broadening cycle – which we expect to benefit from. We continue to be positioned for this scenario but at the same time increasing exposures to the theme of 'US exceptionalism' tactically given increased odds of this continuing at least in the near-term as a result of Trump's anticipated pro-growth policies.

Market Outlook and Investment Strategy

Near term, global equities are expected to continue to do well. The current positive economic backdrop, with the AI-narrative expanding beyond mega-cap tech is overall supportive for risk-assets. In the US, potential tax cuts and de-regulation could also boost corporate earnings, justifying elevated valuations (for now) and allowing for further gains here.

In the near term, the path of least resistance is for markets to be rangebound up till Trump's inauguration on January 20th. More clarity on US policy is required to navigate through Trump's second term, to determine if the same drivers of performance will remain in play. The portfolio is positioned to benefit from further gains in US markets, while being cognizant of risk events that may prompt us to adjust exposures without being too early to leave the party.

Source: Finexis

Fidelity Global Financial Services Fund

Investment and Market Review

Global financial services sector delivered strong positive returns (in euro terms) over the fourth quarter, supported by factors including a robust global macroeconomic environment, strong corporate earnings, and net interest income (NII) staying close to cyclical highs. The sector performance was further buoyed by anticipation of further tax cuts, deregulation, higher growth and the implementation of a more nationalist trade policy under the Trump administration. The Federal Reserve (Fed) reduced interest rates by 25 basis points (bps) each in November and December. However, the Fed scaled back the projected number of interest rates cuts in 2025 and this led to a stock market sell-off in December . European equities declined amid fears of recession and weak sentiment as investors shifted their focus towards the impact of potential US trade tariffs on the eurozone's growth. Sentiment was also impacted by political instability in France and Germany. Japanese equities recorded negative returns (in US dollar terms) as the yen weakened against the dollar as interest rate expectations waned, but economic indicators came in stronger than expected. Emerging markets declined in the face of investor concerns about the impact of Trump's proposed tariffs, particularly on China. At the industry level, all industries within the financial sector closed in positive territory. Consumer finance and capital markets were the notable performers.

The A-Euro share class of the fund returned 10.6% on a net of fees basis during the quarter, while the comparative MSCI AC World Financials (N) index also returned 10.6%. At a portfolio level, robust security selection within banks and an overweight stance in the capital markets added to the relative returns.

US holdings were the key contributors At a stock level, US companies including electronic broker Interactive Brokers Group, wealth manager Morgan Stanley and lenders Wells Fargo & Co and JPMorgan Chase extended gains post Trump's victory. Investors remained optimistic around the incoming US administration's aim to ease financial industry regulations, including parts of the Dodd-Frank Act. The expected deregulation of the financial sector could boost merger and acquisition activity, thereby generating opportunities for private equity, investment banking, and brokers. Rate cuts have also created a favourable market environment by increasing capital market activity.

Uncertainty outside of US amidst shifting trade policies and weakness in China In contrast to US equites, our European holdings faced downward pressure amidst heightened concerns of US tariffs and political instability in France and Germany. Against this backdrop, our holdings in investment company Investor AB, insurer AXA and lender BNP Paribas held back gains. Nevertheless, both AXA and BNP Paribas reported robust third-quarter results. AXA reported an increase in total revenues across business lines, highlighting disciplined pricing, improved customer retention, and market share gains, while BNP Paribas also reported improved performance across key metrics.

Market Outlook and Investment Strategy

The portfolio managers design the portfolio to give the clients interest-rate-sensitivity and market-sensitivity similar to the index, while owning companies with relatively higher quality and/or long-term growth prospects and maintaining a valuation discipline. The fund is overweight in "multi-sector holdings" including Berkshire Hathaway and Investor AB. Their large equity portfolios help them perform well in a "risk on" market and their strong balance sheets help them remain relatively resilient during market corrections. Additionally, Berkshire Hathaway has substantial reinsurance and insurance businesses, which are non-cyclical. The fund is positive on "investment banking & brokerage" (e.g., Interactive Brokers Group) & "asset management & custody banks" (e.g., Ares Management).

Key focus areas

Within insurance, the fund is overweight in "insurance brokers" (e.g., Arthur J. Gallaghar), which have consistent track records of growth and low volatility; and overweight in "reinsurance" (e.g., Munich Re). These companies have strong balance sheets and have better organic growth outlooks and less sensitivity to short-term rates than many balance sheet financials such as banks. Elsewhere, within banking, we are underweight in ex-US "diversified banks". Lower rates and worse credit are bound to impact profitability. The owned banks tend to be less NII-dependent (e.g., JPMorgan Chase and

Singaporean Banks are diversified and not overly reliant on NII) or in geographies with better outlook for loan growth (e.g., India, Indonesia).

Source: FIL Investment Management

Franklin Global Sukuk Fund

Investment and Market Review

Global fixed income markets remained volatile over the first quarter of 2024, falling in January and February before rebounding slightly in March. The US Federal Reserve (Fed) kept the federal funds target rate unchanged at a 23-year high at its two meetings during the quarter and maintained its outlook for three rate cuts in 2024. The European Central Bank also kept its key refinancing rate at a 22-year high over the quarter, reiterating that key interest rates are at levels that, if maintained for a sufficiently long duration, could help it reach its inflation target. Against this backdrop, the Sukuk market rose marginally.

Global bond markets remained volatile throughout the second quarter of 2024, falling in April and then rebounding a little in May and June. The US Federal Reserve (Fed) kept the federal funds target rate unchanged at a 23-year high at its May and June meetings. In June, the Fed updated its 2024 rate-cut projection to one—down from a previous forecast of three—though Fed Chair Jerome Powell left open the possibility of two 2024 rate cuts. The European Central Bank embarked on a monetary policy easing cycle in June with a cut of 25 basis points (bps), as had been widely expected. Against this backdrop, the Sukuk market rose slightly.

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

Global aggregate bond indexes registered negative total returns over the fourth quarter of 2024. The US Federal Reserve (Fed) lowered the federal funds target rate by 25 basis points (bps) in November and by another 25 bps in December. However, following the December meeting, Fed Chair Jerome Powell stated that the central bank would be more cautious about future rate cuts, and its revised projection of only two rate cuts in 2025—down from the four projected in September—weighed on investor sentiment. The European Central Bank also delivered two 25-bp cuts over the period, with the central bank reiterating its data-dependent stance. Against this backdrop, the Sukuk market was also down.

Market Outlook and Investment Strategy

Even though our probability estimates for a significant slowdown in the United States have decreased significantly over the past few months, the possibility still exists. Also, credit spreads have continued to tighten, approaching all-time lows, reinforcing our defensive bias despite the improving US growth outlook. The possibility of tariffs and potential volatility in emerging market currencies after the new administration assumes power in January tempers our non-US dollar allocations.

We still anticipate more market volatility over the next few quarters, given the uncertain economic and (geo)political environment we are trying to navigate, and our outlook continues to support an increase in defensive allocations to higher-quality fixed income sectors—such as global Sukuk.

Our rationale for continued long duration and defensive credit allocations is based on three interrelated themes that we believe are likely to play out during the next year: 1. The possibility of projected rate cuts turning to rate hikes, with a higher impact on shorter US Treasury maturities than longer-dated benchmark rates, and a return of yield-curve inversion. 2. Stretched valuations of risk assets and higher-for-longer interest rates eventually weighing on credit spreads, with a greater impact on high-yield relative to investment-grade issues. 3. Stable oil prices, with the potential for lower prices coming from projected excess supply, exacerbating widening budget deficits in Saudi Arabia and other oil producers in the Gulf Cooperation Council (GCC) as well as Asia.

Mitigating these risks to some extent is the relative economic strength of GCC issuers that have been accumulating reserves and improving debt metrics over the past three years, along with an ongoing market development and structural reform story that continues to attract incremental demand to global Sukuk markets.

However, with 10-year real yields above 2.25% and a Fed keen on lowering rates, as well as equity valuations (as measured using price-earnings multiples) at the higher end of their historical range, our central expectation for our fixed income markets is for solid but restrained performance potential in 2025.

Source: Franklin Templeton

Franklin Income Fund

Investment and Market Review

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

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

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

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

Market Outlook and Investment Strategy

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

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

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

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

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

Source: Franklin Templeton

Franklin India Fund

Investment and Market Review

Indian stocks outperformed most of their emerging market peers during the first quarter of 2024. Improving macroeconomic data led to the solid performance of Indian equities. However, profit-taking and increased regulatory oversight of non-bank finance companies caused certain stocks to decline and curbed overall market gains.

Despite some volatility, Indian equities ended on a positive note for the second quarter of 2024 as the incumbent prime minister won the elections. Expectations of policy continuity were rife despite a coalition government

Indian equities continued to advance in the third quarter of 2024, driven by positive economic data and the reduction in US interest rates, which some investors hoped may lead to foreign investment flows into the Indian equity market. The trading debut of a housing finance company marked India's biggest new equity listing of the year.

In India, subdued corporate earnings results for the second quarter of fiscal-year 2025 led to investor concerns about a probable economic growth slowdown. These concerns were magnified after the country reported its slowest year-over-year gross domestic product growth rate in seven quarters, which also fell short of the Reserve Bank of India's forecast.

Market Outlook and Investment Strategy

Despite a long-anticipated market drop in the fourth quarter, the Indian equity market (as measured by the MSCI India Index) climbed more than 10% for calendar year 2024, in US-dollar terms. We reiterate that this recent weakness does not put a large dent in our longer-term outlook for Indian equities for 2025 and beyond. While we have stood by—and positioned our portfolio accordingly—India's structural growth pillars, there are also less-touted forces that can provide a positive spin to India's economic and market outlook.

While earnings growth of many Indian companies fell below consensus expectations for fiscal second-quarter 2025, we note that during that quarter the country experienced weaker consumption, an extended monsoon season and lower government spending due to elections. We think the government's reduced capital expenditures during the election will likely be compensated for in the latter half of the fiscal year in an effort to meet its capital expenditure target, potentially boosting the overall economy.

At the corporate level, our analysis shows that the balance sheets of the companies in which we have invested are healthy. In our view, healthy balance sheets should buffer these companies against a slow earnings cycle, while helping to position them for a recovery when the cycle becomes more positive. In addition, the prospect for interest-rate reductions in India should provide a silver lining for companies to capitalise for the accompanying improvement in consumption. This also lends a comfortable hand to potentially reap benefits from these corporations' investments in private capital expenditure.

As experienced investors, we are cognisant that equity markets encounter cycles. We remain unfazed by short-term volatility and retain our discipline in adhering to our long-term investment approach to uncover investment opportunities. Our Indian investments reflect our philosophy of owning good quality businesses that, in our assessment, have long-term sustainable earnings power at a discount to intrinsic worth. This, in our view, should enable our portfolio to navigate any short-term uncertainties.

Source: Franklin Templeton

Franklin K2 Alternative Strategies Fund

Investment and Market Review

Global equities collectively posted strong gains for the first quarter of 2024, extending a five-month rally. Better-than-expected fourth-quarter 2023 earnings reports, growth opportunities tied to artificial intelligence and optimism about an economic soft landing in certain regions bolstered investor sentiment. Meanwhile, expectations for interest-rate cuts in the United States and Europe diminished amid cautious central bank comments, along with some higher-than-anticipated US inflation data. Global manufacturing activity returned to growth in February and flash reports indicated continued expansion in several regions in March. The MSCI All Country World Index of stocks returned 8.32% in US-dollar terms for the quarter as nearly all sectors rose, led by information technology and communication services, with real estate the only sector declining. As measured by MSCI indices in US-dollar terms, developed market equities collectively reached a new record high and modestly outperformed a global index, while emerging market equities advanced but significantly underperformed it, weighed down by weakness in China and Latin America. Global growth stocks outpaced global value stocks. Absolute returns were mixed across fixed income sectors, with lower-rated credits generally faring better than their higher-rated counterparts.

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, 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, while developed market equities underperformed it. Global growth stocks significantly outperformed global value stocks. Fixed income spread sectors saw mixed absolute returns during the quarter as financial market sentiment oscillated between caution at hawkish-leaning central bank rhetoric and relief at a resumption of the disinflationary trend in the United States. Lower-rated credits generally fared better than their higher-rated counterparts, with US and major regional high-yield bond indexes posting broadly positive absolute returns.

Global equities collectively rose in local-currency terms in the fourth quarter of 2024, but the US dollar’s strength against most currencies contributed to a slight decline in US-dollar terms. Global stocks were pressured by investor concerns about economic growth, persistent inflation in some regions and the likelihood of further interest-rate cuts in 2025. While Donald Trump’s presidential victory and the potential for additional tax cuts and expansionary fiscal policy supported US equities, investors outside the United States were concerned about the president-elect’s tariff plans and their implications on global trade. As measured by MSCI indexes in US-dollar terms, developed market equities fared better than a global index, while emerging market (EM) equities underperformed it. Global growth stocks significantly outperformed global value stocks. Fixed income spread sectors saw mixed absolute returns. US Treasury (UST) yields moved higher across much of the curve, and aside from the UST market, lower-rated credits generally fared better than their higher-rated counterparts. In the US, investment grade corporate bonds posted a negative return, while those in Europe managed positive returns, as did and US dollar-denominated EM bonds.

Market Outlook and Investment Strategy

Given that the current market environment is characterised by high economic uncertainty, increased geopolitical risks, elevated valuations, and tight credit spreads, the outlook for hedge fund strategies in 2025 is very favourable. These factors are expected to lead to higher volatility across asset classes and increased dispersion within various sectors, as political and economic influences impact sectors differently. This environment is particularly favourable for active strategies that can benefit from being dynamic, non-directional and agile.

We have a positive outlook for discretionary global macro strategies, which are well-positioned to benefit from geopolitical uncertainty, changing interest-rate regimes, and secular shifts in FX rates. Relative value strategies also show promise, as they can capitalise on corporate events and dispersion across asset classes and sectors. Additionally, volatility and risk mitigation strategies present a very attractive entry point due to the low VIX levels (and high valuations), despite the potentially elevated uncertainty and the risk of policy missteps as we head into 2025.

Overall, the combination of these market conditions and the inherent flexibility of hedge fund strategies suggests that 2025 could be a year of significant opportunities for investors who are able to navigate the complexities of the market effectively.

We maintain a neutral rating for long/short equity, with modestly increased conviction quarter-over-quarter. Global deal volumes rebounded in 2024, especially towards the end of the year. Market participants expect that momentum to continue into 2025 with activity likely accelerating under the incoming Trump administration. Long/short equity managers should benefit from higher levels of activity because M&A transactions serve as a catalyst for managers to unlock value in specific positions. More generally, corporate events of all types create complexities and inefficiencies that serve as opportunities for investors who are less constrained and better equipped to analyse these situations.

Despite some modest improvement in some factors for relative value strategies, we retain a neutral outlook. We believe the environment going forward will be characterised by elevated volatility and significantly increased dispersion, prompted by changes in the regulatory regime, potentially less predictable fiscal and monetary policy, and higher geopolitical uncertainty. This should lead to higher volatility, possibly offering better trading opportunities for both directional and relative value managers in that asset class.

We’ve seen a notable improvement in the intermediate outlook for event-driven investing. There is a general belief that regulatory risks that plagued event-driven investing in recent years will abate as new political leadership takes over across major global economies. We are particularly positive in our outlook for activist strategies, which benefit from generally favourable investor sentiment, excess dry powder on corporate balance sheets, and attractive seasonality. Merger volumes have remained generally subdued this year, and there is hope that merger activity will experience a pickup in the new year now that antitrust risks are expected to be less of an overhang.

The outlook remains positive for global macro strategies, albeit with risk around policy implementation and shifting economic data that could disrupt current central bank trends. Many managers are focused on expected changes under a new US administration, which have the potential to create significant opportunities both within the United States and abroad. Tariffs, taxation, regulation and immigration are all areas of focus during the early part of the new administration. Regional dispersion in economic trends has also increased, with the potential for policy shifts at different speeds or even in different directions being increasingly likely.

Source: Franklin Templeton

Franklin Technology Fund

Investment and Market Review

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

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

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

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

Market Outlook and Investment Strate

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

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

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

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

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

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

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

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

Source: Franklin Templeton

Franklin Templeton Western Asset Asian Opportunities

Investment and Market Review

Global government bond yields traded in a wide range during March but ended the month lower. The rhetoric from key central banks remained consistent with a patient and gradual approach to reducing policy rates. By month-end, market pricing was more aligned with this than had been the case at the start of the year, when a much greater scale and pace of monetary policy easing was discounted. The Federal Reserve ("Fed"), European Central Bank (ECB) and Bank of England (BoE) kept interest rates on hold as expected. While inflation has cooled markedly over the past year, market concerns have grown over whether this progress had stalled, most notably in the U.S. Meanwhile, the Asia benchmark government bond index has traded sideways this year (down 0.8% yearto- date) as currency (foreign exchange [FX]) losses offset duration returns. This follows strong returns of roughly 6% in the fourth quarter of 2023. Asia FX, rather than rates, has borne the brunt of U.S. dollar strength. There is a similar story in emerging market (EM) local debt. In Asia, investor concerns about a prolonged China slowdown and yuan weakness are also weighing on the currencies of China's regional trading partners. A less-aggressive monetary policy hiking cycle compared to the rest of the EM universe also puts Asia bonds at a disadvantage, with less room for Asian central banks to ease. India has been Asia's best-performing local debt market, with the gains almost purely from duration and carry.

Fixed income markets fluctuated throughout June, influenced by the trajectory of central bank monetary policy based on incoming data and politically related volatility that affected several key global economies. U.S. Treasury (UST) yields traded in a wide range but ended the month lower. Moderating U.S. inflation and economic data helped to consolidate expectations that the Federal Reserve ("Fed") will soon begin to ease its restrictiveness of its monetary policy. Asia local bond markets generated positive returns for the month, with South Korea outperforming given declining yields. Indonesia bucked the trend with under-performance, driven by concerns of rising fiscal deficits on the back of President-elect Prabowo's campaign promises for nation-wide student lunch program. Asian currencies were a mixed bag in June, with no clear broad drivers. The Chinese yuan and Indonesian rupiah experienced some weakness, whereas the South Korean won outperformed on the back of improving current account flows.

Following weeks of intense speculation, the US Federal Reserve (Fed) delivered its first interest-rate reduction since March 2020, with a 50-basis-point (bp) cut. US Treasuries (USTs) were also supported by a decline in oil prices. Meanwhile, local emerging market (EM) government bond yields followed their developed market counterparts lower. Right before the Fed, Bank Indonesia became the second central bank in Asia to ease after the Philippines. The People's Bank of China followed a week later with a coordinated policy easing package. While these measures alone would not be sufficient to address deflation and weak consumer sentiment, they do indicate that policymakers are increasingly concerned about weakness in the economy and markets. The US dollar weakened versus most major currencies over the month. The Chinese renminbi appreciated following a series of pro-growth announcements.

Global government bond yields rose as US economic data continued to demonstrate resilience and concerns grew that the disinflation trend across major developed market economies may have stalled, as evidenced by actions from the US Federal Reserve (Fed). Despite cutting the fed funds rate by another 25 basis points (bps) in December, the Fed indicated that it expected only 50 bps of cuts in 2025—fewer than the market had anticipated. Global growth was resilient in 2024, anchored by strong service demand which, in turn, anchored tight labor markets and consumer demand, while the broad manufacturing sector continues to be weak. Median headline inflation is generally back to pre-Covid levels and core inflation is about 2% across Asia, with most near or below central bank targets. Asian rates generally outperformed US Treasuries (USTs) in 2024 in local-currency terms. Outperformers were driven by core domestic investor demand, which has been significant in Malaysia, Indonesia and South Korea during 2024, absorbing 60%–80% of net supply.

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

The manager's base case is for further weakening in global growth and further declines in inflation, with a greater emphasis on services disinflation. Goods price inflation is running modestly below pre-pandemic levels, but with ongoing deflationary pressures from Asia, it's hard to see a meaningful persistent uptick going forward.

Growth is slowing in the United States and remains moribund in the rest of the world. The balance of risks, which is highly dependent on US government policy outcomes, suggests a further widening in the growth gap between the United States and the rest of the world. At the same time, lower policy rates and the recent Chinese stimulus package should lessen recessionary fears. The fund remains overweight to interest-rate duration.

Spread sectors have performed well, and the manager expects this to continue if the downwards growth trajectory remains gentle and services disinflation continues. However, valuations have less yield advantage now to offset potential macro and political risks going forward. Emerging market debt appears to remain fundamentally compelling, but both internal and external political risks have hampered performance in some countries.

The manager anticipates a more clouded external environment given the uncertainty brought about by Donald Trump's election and rising trade war risks. Asia's growth is expected to slow to 4.9% in 2025, from 5.1% in 2024, driven by weaker external demand as well as moderating domestic demand.

Monetary policy remains constrained with a shallower US easing cycle and a resurgent US dollar. Indonesia, the Philippines and Malaysia are the most constrained. China, India and South Korea appear likely to be more insulated from global monetary conditions given stronger external buffers.

Source: Franklin Templeton

Franklin Templeton Western Asset Global Bond Trust

Investment and Market Review

Global government bond yields traded in a wide range during March but ended the month lower. The rhetoric from key central banks remained consistent with a patient and gradual approach to reducing policy rates. By month-end, market pricing was more aligned with this than had been the case at the start of the year, when a much greater scale and pace of monetary policy easing was discounted. The Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) kept interest rates on hold as expected. While inflation has cooled markedly over the past year to the end of March, market concerns have grown over whether this progress had stalled, most notably in the US.Market.

Fixed-income markets fluctuated throughout June, influenced by the trajectory of central bank monetary policy rates based on incoming data and political-related volatility that affected several key global economies. US Treasury

(UST) yields traded in a wide range but ended the month lower. Weaker US inflation and economic activity data helped to consolidate expectations that the Federal Reserve (Fed) will soon begin to ease the restrictiveness of monetary policy.

Following weeks of intense speculation, the US Federal Reserve (Fed) delivered its first interest rate reduction since March 2020 with a 50-basis-point (bp) cut that brings the fed funds target rate to a range between 4.75% and 5.0%. Following the decision, Fed Chair Jerome Powell cited greater confidence that inflation is moving sustainably toward the Fed's 2% target while the labour market was in better balance, allowing for the recalibration given the balance of risks to both sides of its dual mandate. US Treasuries (USTs) were also supported by a decline in oil prices, which reflected ongoing concern over global demand as well as reports that Saudi Arabia would soften its position on curtailing supply to support prices.

Global government bond yields rose in December as US economic data continued to demonstrate resilience and concern grew that the disinflation trend across major developed market (DM) economies may have stalled, as evidenced by actions from the Federal Reserve (Fed). Despite cutting the fed funds rate by another 25 basis points (bps), the Fed indicated via its updated Summary of Economic Projections that it expected only 50 bps of cuts in 2025—fewer than the market had anticipated.

Outlook and Investment Strategy

The Fund made several portfolio changes throughout the year. Overall portfolio duration slightly decreased during the year, but importantly where we held duration evolved. US Treasury duration starting the year was primarily invested on the 30-year part of the curve, however, as US economic data came in stronger than expected throughout the year, we rolled down the curve and added 5- and 10-year US Treasury exposure.

After the strong fourth quarter rally, we took some profits on our US Treasury position, and to end the year we remain invested to the 10-year part of the US Treasury curve. In the US, we continue to favour the intermediate part of the curve, as this can perform well either in soft landing or recession scenarios. The fund also initiated exposure to UK Gilts, German bunds and Spanish government bonds in the fourth quarter. The growth slowdown remains more evident in the UK and Euro area, while at the same time these central banks have also indicated an end to their rate hiking cycles. We increased positions to EM local currency sovereign bonds early in the year, and began selectively trimming some of that exposure later on as it performed well. We also trimmed some of our US RMBS exposure for profit taking. Finally, we initiated and then sold a Japan sovereign duration short.

Our base case coming into 2023 was that inflation would decline and it has. With inflation lower and major developed market central banks about to embark on rate-cutting cycles, the macro environment is generally favourable for bonds. With that said, there are still uncertainties in the economy that should dominate headlines in 2024. We are entering the year with major global economies in varying growth trajectories, with the Eurozone in below trend growth, China still weak, and the US economy holding on for now but with various aspects at play that could impact a hard or soft landing.

We therefore feel it's important to employ an active and nimble approach in the coming year, as investors navigate the macro backdrop. We currently hold an overweight to high quality developed market duration, primarily via US Treasury duration, followed by UK Gilts and some European duration (German bunds and Spanish government bonds). In the US, we continue to favor the intermediate part of the curve, as this can perform well either in soft landing or recession scenarios.

It is also important to remember that a number of fixed income sectors continue to have strong yields, and are out yielding the S&P 500 Index, making the case for bonds compelling. We therefore also currently hold select US corporate credits with meaningful yield cushion. We believe US credits are a good place to be right now given that the Fed has reached peak rates and the starting yields remain compelling. With that said we are being selective in our credits and doing the bottom-up work, meaning we like companies with strong balance sheets and management teams. We see opportunities across fixed income sectors and through active, relative yield curve and cross-country positioning. Hard or soft landing, we believe the bonds we are invested should do well given a lower inflation backdrop, a central bank pivot, and higher starting yields. Finally, we believe that our portfolio represents a compelling opportunity, with a 7.3% YTM and an investment grade credit quality rating.

Source: Franklin Templeton

Fullerton Total Return Multi-Asset Advantage Fund

Investment and Market Review

The year 2024 has emerged as another robust period for financial markets, characterised by positive returns across most asset classes. This favorable outcome can be attributed to several key drivers, including the initiation of rate cuts by central banks and stronger-than-expected economic growth, bolstered by substantial policy support, particularly from the U.S. government.

The Fund has an absolute return objective but nonetheless capitalised on the favourable environment and returned 23.6% gross in SGD. As a blended reference, the total return of 80% MSCI AC World Index (translated to SGD) and 20% in FTSE World Government Bond Index (SGD) with monthly rebalancing was 17.2%.

In terms of performance with data in dollars, the MSCI AC World Index recorded a remarkable increase of 17.5% over the year. The MSCI Asia ex-Japan Index also performed well, rising by 12.0%, while the MSCI Europe Index faced challenges, ending the year down -0.9%. Notably, in euro terms, the European index advanced by 8.6%, but this gain was largely negated by the euro's depreciation against a strengthening dollar.

U.S. equities were at the forefront of this positive momentum, with the S&P 500 Index delivering an impressive 25.7% return, closely mirroring the performance of the MSCI US Index. This surge was significantly driven by technology theme stocks, particularly those within the "Magnificent 7" group, which collectively saw a staggering 67.3% increase as measured by the Bloomberg Magnificent 7 Index.

In contrast, Asia's economic landscape presented a mixed picture. China struggled with weak economic activity due to falling property prices and low consumer confidence. Initial investor reactions to Chinese policy responses were tepid; however, a series of cohesive announcements, especially the ones made in September, began to shift market sentiment positively. As a result, Chinese equities rallied in the latter half of the year, with the Shanghai Shenzhen 300 Index achieving a 15.0% return in dollar terms. Meanwhile, Japan's TOPIX Index benefited from renewed optimism regarding deflation and ongoing corporate reforms, returning 7.9% in dollars (and an impressive 20.4% in yen).

The momentum energy sector experienced in the first few months of 2024 failed to follow through. Dated Brent spot price ended the year down -1.6%, primarily due to demand not keeping pace with abundant supply from producers. Conversely, precious metals thrived amid global fiscal deficits and easing monetary policies from central banks. Gold had its strongest rally since 2010, climbing by 27.2%, while silver also saw significant gains of 21.4%, marking its best performance since 2020.

Despite these generally positive trends, financial markets encountered several bumps along the way. The yield on 10-year U.S. Treasuries finished at 4.57%, up from 3.88% at the end of 2023 - a very rare occurrence where bond yields rose despite a cut in Federal Reserve policy rates. This anomaly reflects market expectations that a recession is unlikely and that rate cuts are merely indicative of anticipated declines in inflation towards the Fed's target of 2%. Not surprisingly, JACI Investment Grade Index returned just 4.2% over the year, not materially different from that of cash. The longer duration Bloomberg Global Aggregate Index returned 3.4% and -1.7% in USD hedged and unhedged respectively.

Geopolitical tensions also played a pivotal role in shaping market dynamics throughout 2024. The ongoing conflict between Russia and Ukraine continued to influence global geopolitics, reshaping alliances and economic relationships while diverting European focus from necessary internal reforms. Additionally, conflicts in the Middle East highlighted regional instability and its far-reaching implications for global security and economic stability.

Market Outlook and Investment Strategy

As we look ahead to 2025, we anticipate that China's robust policy response will gradually take shape, attracting renewed investor interest in equity markets. As these initiatives unfold, we expect investors to increase their allocations to Chinese equities beyond their current representation of just over 2% in the MSCI AC World Index.

We do not claim to have extensive insight into the policies and limitations of Trump Administration. Nonetheless, our investment strategy will focus on several key areas:

1. Judiciously Increase Allocation to Asian Equities: The Fund plans to tactically enhance its exposure to Asian markets as they are likely to benefit from China's renewed focus on economic stimulation.
2. Monetary Policy Easing: The dovish pivot from central banks is expected to continue as they respond to softer economic data, creating a favourable environment for risk assets over the next year or longer.
3. Geopolitical Risk Management: We will closely monitor potential trade tensions arising from U.S.-China relations under a new administration and adjust our strategies accordingly to mitigate downside risks.
4. Investment Opportunities in Artificial Intelligence and Technology: We believe that sectors driven by artificial intelligence will continue to exhibit significant growth potential, with leading companies likely to outperform traditional market players.
5. Bond Market Dynamics: Given persistent fiscal deficits, bond vigilantes may demand higher term premia for longer-duration assets, leading to increased volatility as yield curves steepen over time.

In conclusion, we believe that central banks' easing of monetary policies will favour global risk assets more than fixed-income investments in 2025. Our strategy will emphasise capitalising on sectors poised for growth due to rejuvenation policies while maintaining diversification across geographies and sectors to mitigate risks associated with geopolitical developments that could impact inflation or financial stability.

The Fund will maintain an overweight position in U.S. equities due to their clearer corporate earnings growth while recognising long-term opportunities in Asian markets influenced by supportive government policies, particularly in China. Following recent surges in yields, we will judiciously increase bond portfolio duration to offset equity risk while continuing to find credit attractive given stable economic growth prospects.

This balanced approach aims to capture growth opportunities while establishing defensive positions necessary for navigating an increasingly complex global economic landscape characterised by both opportunities and challenges ahead.

Source: Fullerton

Fundsmith Equity Fund

Investment and Market Review

In 2024 operating profit margins were higher in the portfolio companies than in the past. Gross margins and return on capital were steady. Importantly all of these metrics remain significantly better than the companies in the main indices (which include our companies). Moreover, if you own shares in companies during a period of inflation it is better to own those with high returns and gross margins.

Consistently high returns on capital are one sign we look for when seeking companies to invest in. Another is a source of growth — high returns are not much use if the business is not able to grow and deploy more capital at these high rates. So how did our companies fare in that respect in 2024? The weighted average free cash flow (the cash the companies generate after paying for everything except the dividend, and our preferred measure) grew by 15% in 2024. The only metric which continues to lag its historical performance is cash conversion — the degree to which profits are delivered in cash. Although this recovered slightly to 91% in 2023, this is still below its historical level of around 100% and it declined again in 2024 to 86%.

This was due to a sharp rise in capital expenditure at a small groupof companies: Alphabet, Microsoft, Meta and Novo Nordisk. Novo is racing to build production capacity to supply enough of its weight loss drug Wegovy and finished the year spending €10 billion purchasing three manufacturing sites. The tech companies are in a race to build capacity of Artificial Intelligence (‘AI’) in the form of GPU chips and data centres. Whether this arms race produces adequate profits and returns for the amounts expended remains an open question to which I will return later. At least Novo is building capacity to produce a drug for which there is established demand and profitability and in which it currently has a competitive advantage. The average year of foundation of our portfolio companies at the year-end was 1920. Collectively they are over a century old. The second leg of our strategy is about valuation. The weighted average free cash flow (‘FCF’) yield (the free cash flow generated as a percentage of the market value) of the portfolio at the outset of 2024 was 3.0% and ended the year at 3.1%. The year-end median FCF yield on the S&P 500 was 3.7%. Our portfolio consists of companies that are fundamentally a lot better than the average of those in the S&P 500, so it is no surprise that they are valued more highly than the average S&P 500 company. In itself this does not necessarily make the stocks expensive, any more than a lowly rating makes a stock cheap.

However, we expect some of this disparity in valuation to be eradicated in 2025 if, as we expect, the cash conversion of our portfolio companies improves.

Turning to the third leg of our strategy, which we succinctly describe as ‘Do nothing’, minimising portfolio turnover remains one of our objectives and this was again achieved with a portfolio turnover of -1.2% during the period. It is perhaps more helpful to know that we spent a total of just 0.004% (less than half of a basis point) of the Fund’s average value over the year on voluntary dealing (which excludes dealing costs associated with subscriptions and redemptions as these are involuntary). We sold three companies and purchased two. As last year this may seem like a lot of names for what is not a lot of turnover as in some cases the size of the holding sold or bought was small. We have held seven of the portfolio companies since inception in 2011, nine for more than ten years and 15 for over five years.

Why is this important? It helps to minimise costs and minimising the costs of investment is a vital contribution to achieving a satisfactory outcome as an investor. Too often investors, commentators and advisers focus on, or in some cases obsess about, the Annual Management Charge (‘AMC’) or the Ongoing Charges Figure (‘OCF’), which includes some costs over and above the AMC, which are charged to the Fund. The OCF for 2024 for the T Class Accumulation shares was 1.08% (I Class shares 0.94%). The trouble is that the OCF does not include an important element of costs — the costs of dealing. When a fund manager deals by buying or selling,

the fund typically incurs the cost of commission paid to a broker, the bid-offer spread on the stocks dealt in and, in some cases, transaction taxes such as stamp duty in the UK. This can add significantly to the costs of a fund, yet it is not included in the OCF. We provide our own version of this total cost including dealing costs, which we have termed the Total Cost of Investment (‘TCI’). For the T Class Accumulation shares in 2024 the TCI was 1.09% (I Class shares 0.95%), including all costs of dealing for flows into and out of the Fund, not just our voluntary dealing. We are pleased that our TCI is just 0.01% (1 basis point) above our OCF when transaction costs are taken into account. However, we would again caution against becoming obsessed with charges to such an extent that you lose focus on the performance of funds. It is worth pointing out that the performance of our Fund tabled at the beginning of this letter is after charging all fees which should surely be the main focus. We sold our stakes in Diageo, McCormick and Apple during the year.

Diageo, which we had owned since inception, has exhibited problems with its new management, shown by a lack of information about its Latin American business which produced results far worse than the sector in this area. Moreover, we suspect the entire drinks sector is in the early stages of being impacted negatively by weight loss drugs. Indeed, it seems likely that the drugs will eventually be used to treat alcoholism such is their effect on consumption.

We sold McCormick as we had been disappointed by the slow response which the company exhibited in its ability to pass on input cost inflation so compressing its margins, together with its exposure to own label competition which has stiffened as inflation has caused consumers to trade down.

We began purchasing Apple two years ago at about $156 a share when its P/E was below the S&P 500 average and the growth in service revenues had somewhat convinced us that the much talked about ecosystem, tying its users to the products, might really exist.

We correctly foresaw a number of reporting periods ahead when sales growth would be lacklustre and so bought a small stake hoping to add to it as the poor sales performance came to pass. We were right about the sales performance — its sales grew just 2% last year — but wrong about the share price which rose strongly, placing the shares on a rating about 50% higher than the S&P 500. We were not going to buy more stock against that background and it was occupying a place in our portfolio and so we sold our stake.

We started purchasing stakes in Atlas Copco and Texas Instruments during the year.

Atlas Copco is a Swedish industrial company which makes compressors, vacuum equipment, electrical and pneumatic tools and which has three characteristics which we find attractive:

• it outsources much of the manufacturing so making it capital light which enhances returns;

• it is highly decentralised with over 600 operating entities which have considerable autonomy in addressing their local market; and

• there is a controlling stake held by the Wallenberg family vehicle which should lead to good long-term decision-making since they have been in business for 151 years this year.

Texas Instruments is a manufacturer of analogue and embedded microprocessors which go into a wide range of consumer and industrial devices, automobiles, and communications equipment. It is investing ahead of a probable upturn in the semiconductor cycle although it is now apparent that there is not one cycle. Demand for GPUs of the sort made by Nvidia far from being in a down cycle has been on a lunar trajectory, and there are clear differences between the cycle for regular automotive chips and chips for electric vehicles or chips for other appliances, as well as between regions. However, Texas Instruments has a long history of investing well ahead of upswings in demand and producing handsome returns from it. It is also a beneficiary of the onshoring of semiconductor manufacturing to avoid the geopolitical risks of Taiwan and China.

Last year I spent some time in this letter discussing the rise of interest in AI, as one of the driving forces behind the rise of most of the Magnificent Seven stocks and especially Nvidia. This boom/hype (you choose) continued in 2024, but some of its characteristics changed. One is that it may have become more focused. It had been seen as a driver of share prices of companies which we had previously held such as Adobe and Intuit, both of which had blotted their copybook with us by engaging in over-priced and seemingly ill-conceived acquisitions or attempted acquisitions. Both of them significantly underperformed the market in 2024 as reality seemed to dawn on investors that AI may not be of immediate and/or universal benefit and could actually be detrimental. Conversely, this has had the effect of focusing investors' attention on fewer real immediate beneficiaries of the AI boom such as Nvidia.

During this period commentators have frequently asked whether the AI boom is the same as the Dotcom era and therefore will have a similar ending. In response I am tempted to quote Mark Twain, 'History doesn't repeat itself, but it rhymes.' Undoubtedly some of the AI enthusiasm is hype, as was the Dotcom mania, but there are a couple of key differences: 1. The leading company in the AI boom, Nvidia, is very profitable, albeit with a history of some downturns, whereas in the Dotcom boom a lot of the share price performance was driven by reference to clicks and eyeballs in the absence of any profits or even revenues. Even companies which were to rise Phoenix-like from the ashes after the Dotcom meltdown, such as Amazon, were not yet profitable; and 2. The rise of so-called passive or index funds. In late 2023 passive investment via index funds exceeded the amount of assets held in active funds for the first time. They are now more than half of Assets Under Management ('AUM'). However, during the Dotcom boom only about 10% of AUM was in passive funds. As ever we do not always aid understanding with the labels which we sometimes use in investment. Index funds are not truly a passive strategy. There may be no fund manager taking investment decisions, but such index investing is in fact a momentum strategy. The vast majority of index funds are market capitalisation weighted, like the indices on which they are based. The size of holdings in companies in the index fund is based upon their market value compared with the market value of the index. So when there are inflows to index funds the largest portion goes to the largest companies, and vice versa when there are outflows.

The result is that as money flows out of active funds and into index funds, as it has been doing, it drives the performance of the largest companies which are companies whose shares have already performed well which is how they came to be the largest companies by market value.

This is a self-reinforcing feedback loop which will operate until it doesn't. For example, were there to be an economic downturn which led to a reduction in tech spending, which is now so large a proportion of overall spending that it cannot be non-cyclical, one area of vulnerability might be spending on AI as it is not currently generating much revenue. Were the largest companies then to produce disappointing results, their share prices are likely to react badly which will drag down the index performance more than that of those active managers who are underweight in these stocks. But even if some scenario like this awaits us in the future, what exactly will cause this and when it may occur is difficult or impossible to predict. Which brings me back to the subject of volatility which was raised at the start of this letter. We don't agree that true volatility is measured by ratios such as the Sharpe or Sortino ratio which look at the volatility of fund prices or share prices, but they are widely accepted as a measure. Moreover, whilst investors should rationally focus on volatility in the fundamental value of the businesses they invest in and accept higher price volatility if this leads to higher returns, it is easier said than done. One problem is that it is difficult to remain calm and focus on the fundamental characteristics when the price volatility is sharply negative. Take a stock like Nvidia, which has been a spectacular performer for the past two years. The Nvidia share price fell by over two thirds as recently as 2021–2022. Would we or you feel comfortable owning it in such circumstances, and if not, might that share price performance cause us to make poor decisions? We have experience owning this sort of stock, as the performance of Meta demonstrates, but given how difficult they can be to own maybe one is enough for our portfolio at any one time. In 2021–2022 Meta's stock price fell by 76%, but whilst we continued to own it despite this, to our current benefit, there are several key differences between the situation of Meta then and Nvidia now:

• Meta serves some 3.3 billion consumers and several million advertisers. Nvidia's demand is dominated by a literal handful of so-called hyperscalers building data centres to handle Large Language Models for AI.

• People sometimes ask us whether it is dangerous to own consumer stocks in an economic downturn. To which we reply yes, but it is not as dangerous as not being close to the consumer in those circumstances. If you think the performance of consumer companies is a worry in a downturn wait until you see what happens to their suppliers, especially the suppliers of capital equipment like factory machinery. A 5-10% downturn in sales revenues at the consumer companies can translate into a cessation of orders for some suppliers. Nvidia supplies capital goods — its latest generation GPU server sells for about $3m each — and a significant downturn in demand from its clients who do service consumers would be interesting to watch from a safe distance.

• Before its share price fall Meta was on a P/E of 28x whereas Nvidia is currently on a P/E of 54x.

All of which brings me to a reminder of what we are seeking to achieve with the Fundsmith Equity Fund and that is to produce a high likelihood of a satisfactory return rather than the chance of a spectacular return which could be spectacularly good or spectacularly bad.

Goldman Sachs Emerging Markets CORE Equity Portfolio

Investment and Market Review

During the quarter, at a monthly level, the index moved -4.45% in the month of October, followed by -3.59% in November, and finally closing with -0.14% in December.

Among related benchmarks, during the same period, the MSCI EM Asia Index (USD, NTR) slipped -7.89%, the MSCI EM LatAm Index (USD, NTR) slipped -15.84%, while the MSCI EM Europe and Middle East Index (USD, NTR) slipped -1.14%.

Among countries, on a relative basis, stocks in Taiwan and United Arab Emirates contributed most positively to benchmark returns, primarily driven by gains from Information Technology and Real Estate sectors. On the flip side, stocks in India and China contributed most negatively to benchmark returns, primarily driven by challenged performance in Consumer Discretionary and Communication Services sectors.

In terms of size factor, Large caps remained flat with respect to Small caps, during the period under consideration, while in terms of style factors, Value underperformed Growth moderately.

Market Outlook and Investment Strategy

The Goldman Sachs Emerging Markets CORE Equity Portfolio Class I Shares (Acc.) (Close) returned +0.50% during the period, outperforming its benchmark, MSCI Emerging Markets (Net Total Return, Unhedged, USD) (-0.14%), by 63 bps on a net basis. The Goldman Sachs Emerging Markets CORE Equity Portfolio Base Shares (Acc.) (Close) returned +0.47% during the period, outperforming its benchmark, MSCI Emerging Markets (Net Total Return, Unhedged, USD) (-0.14%), by 61 bps on a net basis. The bottom-up stock selection contributed positively to relative performance while the top-down country selection detracted from excess returns over the period.

Among investment themes, signals within the Themes and Trends pillar contributed particularly strongly to relative returns followed by the suite of signals within Sentiment Analysis. Conversely, signals within the Fundamental Mispricings pillar detracted during the period. signals within the High-Quality Business Models pillar remained relatively flat during the period.

Within Themes and Trends, seasonality momentum factors performed well. Meanwhile, signals gauging analyst & management sentiment within the Sentiment Analysis pillar helped relative performance meaningfully. On the downside, factors looking at shareholder yield within the Fundamental Mispricings pillar hurt relative performance the most. These factors assess shareholder yield derived from a company's issuance of shares over the last year. Moreover, within High-Quality Business Models, signals gauging management quality detracted considerably during the period.

Among sectors, holdings within the Information Technology sector contributed the most to relative performance, with an underweight position within the Communications Equipment industry contributing particularly strongly. On the downside, holdings within the Financials sector detracted the most from excess returns, where an overweight position within the Insurance industry hurt relative performance.

At an individual stock level, an overweight position in ZTE Corp, held primarily due to views around Themes and Trends related factors, performed well. Conversely, an overweight position in Samsung Electronics Co Ltd, held primarily due to views on High-Quality Business Models related factors did not do well.

Among countries, the position in China contributed the most to relative performance. Meanwhile, the positioning in Indonesia detracted during the period.

Source: Goldman Sachs

HSBC GIF Asia Bond

Investment and Market Review

The Asia credit market posted positive returns over the past six months. US Treasury yield curve steepened with portion for 5-year maturities and above shifting upward, while the 2-year maturities and below shifted downward. High yield (HY) bonds outperformed investment grade (IG) bonds as HY spreads tightened more than IG spreads over the period.

Within the IG space, the top performers were China real estate, Indonesia consumer and Philippines TMT, while India utilities, India infrastructure and Korea oil & gas were the worst performers. On the HY side, the top performers were Sri Lanka sovereign, Sri Lanka quasi-sovereign and China real estate, while the worst performers were China consumer, Maldives sovereign and China industrials. In particular, Sri Lanka's quasi-sovereign and sovereign bond spreads tightened and strongly outperformed given completed Eurobond restructuring and a sovereign rating upgrade. China real estate also saw resilient performance, particularly in October after the Chinese government announced a series of fiscal stimulus and supportive measures to bolster the economy.

Market Outlook and Investment Strategy

The outlook for Asia credit remains optimistic, supported by a diverse bond market that encompasses various sectors and regions. Credit metrics for Asia's investment-grade issuers have shown significant improvement, with many companies demonstrating strong balance sheets and easy access to local funding. Consequently, the majority of Asian firms are well-equipped to meet their debt obligations in the coming years. This robustness is particularly noteworthy considering the political transitions, such as the recent U.S. administration, as most regional businesses concentrate on domestic operations and maintain a manageable degree of exposure to the U.S. market.

From a valuation standpoint, Asia USD investment-grade bonds continue to present attractive all-in yields. This asset class features relatively low duration, resulting in less volatility compared to other markets. Additionally, strong demand for Asia USD investment-grade bonds from regional investors provides favorable technical support, suggesting that Asia credit spreads may remain tight for an extended period. Strategic developments across the region further enhance the resilience of Asia credit. For example, Indonesia's emphasis on downstream refinery activities in sectors like nickel and lithium strengthens its production value chain, reducing vulnerability to fluctuations in commodity cycles. In the Philippines, a positive agency rating outlook and easing monetary support are encouraging signs. Although India has slightly adjusted its growth outlook due to delays in private capital expenditure, long-term structural support remains robust.

Overall, regional central banks are likely to maintain an accommodative stance, which will support the favorable credit environment. While some volatility is expected, we believe the momentum for Asia credit will persist, offering attractive yields and diversification opportunities.

In terms of positioning, we tactically added some exposure to China real estate after the sell-off since late November, and remained overweight in the sector, mainly in the SOE developers and stronger developers with SOE linkage with the expectation of more supportive measures. That said, we remain cautious about the sustainability of the market rebound and continue to be highly selective. We will be closely monitoring the rollout of the actual fiscal policy and remain vigilant whenever valuations become too rich. Meanwhile, we are overweight China consumer and industrial sectors in a selective manner. The fund continues to favour bank subordinated debt given its relatively defensive nature and attractive yields, particularly those in China, Korea, Australia and Singapore. On the other hand, we remain underweight sovereign and quasi-sovereign bonds given their broadly speaking lower yields than other sectors. Similarly, we are also underweight Korea, Taiwan and Philippines. The fund continues to hold an underweight stance in banks, primarily through an underweight in the China bank senior debt. We slightly reduced overweight in duration amid elevated US treasury yields and anticipation of slower rate cuts. We have also used interest rate futures to help manage our duration exposure actively.

Source: HSBC AM

HSBC GIF Asia Pacific ex Japan Equity High Dividend (SGD)

Investment and Market Review

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

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

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

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

Market Outlook and Investment Strategy

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

Source: HSBC Global Asset Management

HSBC GIF Global Lower Carbon Equity (USD)

Investment and Market Review

The second half of 2024 started with challenges, as risk assets experienced a broad sell-off that started with a correction in mega-cap technology stocks and evolved into worries for the broader US economy and fears of recession. However, by the end of the period, optimistic jobless claims data in the US, the Fed's decisive 50bp rate cut, Chinese announcement of the stimulus package and the definition of the next US president boosted the markets. In the US, equities finished with strong returns. European markets were held back by apprehensions with the possibility of a trade war if US implement new tariffs, and political instability in France and Germany. Asian Pacific ex Japan and Emerging Markets had mixed results, on one hand supported by China's announcement of the economic stimulus package, on the other weighted by the uncertainty around global trade.

Over the review period, at portfolio level, our exposures to Low Carbon and Low Risk contributed to performance. Within alpha factors, the defensive Quality factor finished as the best performing factor. The defensive Low Risk factor also performed relatively well, while the dynamic Industry Momentum ranked in the middle amongst factors, underperforming at December end. Meanwhile, the cyclical Size factor struggled and was unable to regain performance at year end. Finally, the cyclical Value factor lagged throughout the semester and finished as the laggard factor. On an industry basis, our underweight exposures to Food, Beverage & Tobacco and Materials coupled with our overweight allocation to Insurance contributed to performance.

Market Outlook and Investment Strategy

The HGIF Global Lower Carbon Equity Fund's investment strategy uses a systematic bottom-up multi-factor investment process, based on five factors (Value, Quality, Momentum, Low Risk and Size), to maximise the portfolio's risk-adjusted return. The strategy seeks to capture the shift to the lower carbon economy, by integrating lower carbon and ESG in portfolio construction using in-house techniques and deliver a significantly lower carbon intensity and an enhanced ESG profile compared to the reference benchmark the MSCI World index.

A backdrop of active fiscal policy, trade uncertainty, and geopolitical tensions may cause volatility and could leave investors 'spinning around' in 2025. We expect disinflation, resilient growth, and robust corporate profits to progress, allowing the global rate cutting cycle to continue. Growth rates in advanced economies are expected to converge. US growth is cooling but we see little risk of a near-term downturn. The world's premium economic growth rates will be in Asia and Frontier economies. Global conditions are supportive of further market gains in 2025, but rising policy uncertainty is likely to translate to a more volatile market environment.

The strategy's balanced exposure to factors should continue to help navigate the current macro environment and market conditions, and best serve long term outcomes. In addition, the fund's considerations to significantly reduce carbon intensity and enhance the overall ESG profile of the portfolio versus benchmark should also continue to help investors with climate transition and mitigate climate risks in their portfolios in the long run, irrespective of current market scenarios.

Source: HSBC Global Asset Management

HSBC GIF Indian Equity

Investment and Market Review

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

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

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

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

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

Market Outlook and Investment Strategy

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

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

Source: HSBC Global Asset Management

HGIF - Global Short Duration Bond

Investment and Market Review

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

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

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

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

Market Outlook and Investment Strategy

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

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

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

Source: HSBC Global Asset Management

HSBC Portfolios World Select 5 (SGD Hedged)

Investment and Market Review

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

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

Market Outlook and Investment Strategy

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

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

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

• Tilting towards Infrastructure, away from Property and credit;

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

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

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

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

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

Source: HSBC Global Asset Management

Invesco Asia Consumer Demand Fund

Investment and Market Review

Asia ex-Japan equities corrected this month. Most of the Asia markets, including China, Korea, Taiwan and India declined. In terms of sector performance, IT dragged the most. China's market corrected after the rally in the previous months, along with the rest of Asia, mainly dragged by consumer discretionary, after disappointments over no direct consumption stimulus release after the NPC meeting in the month. Meanwhile, healthcare sector noted positive returns. During the month, China government released a 10 trillion yuan ($1.40 trillion) debt package to ease local government financing strains and stabilize flagging economic growth. On other note, US presidential election ended during the month. The market is currently monitoring the potential tariff hikes on China's export to US. On economic data, Caixin manufacturing PMI rose to 51.5 in November, up from 50.3 in October. The pace of growth was the fastest since June. Oct CPI moderated to 0.3% y/y on a 0.1% m/m decline. On inflation, the core CPI inflation remained soft, rising 0.2% y/y in Oct. Meanwhile, nominal retail sales rose 4.8% y/y in Oct.

The Indian market delivered -0.4% in November, in line with the broader Asia market. IT, real estate and communication services are best performing sectors, while utilities, healthcare and energy sectors are laggers this month. The economic data softened. Manufacturing PMI in India recorded 56.5 in November slightly down from the prior month, but still firmly within expansion territory. The GDP in Q3 also slowed as the slower government spending in general election season and also the extreme weather condition that affect the consumer sentiment in India. on the other hand, the service PMI remained strong at 58.4 in November as the employment index reached to an all-time high. New export ordered also increased to a three-month high with higher demand from clients across regions.

In Taiwan, the market also lagged alongside the broader Asia market. The 3Q GDP report shows the economy grew 4.17% compared to a year ago, with downward revision from 2Q GDP growth at 4.89% y/y. On retail market, the retail sales in Taiwan decreased 0.50% in October of 2024 over the same month in the previous year, down from a 3.2% gain in the previous month. At the same time, the October IP grew 8.9% over-year-ago, down from 11.2% y/y in September.

Similarly, the Korean market also lagged this month. The Bank of Korea cut its policy interest rate by 25bps, after another rate cut from Oct meeting. Korea's consumer price index rose 1.3% y/y in Oct from 1.6% in Sep. On positive note, the PMI rose from 48.3 in October to 50.6 in November, signaling a renewed improvement in the manufacturing sector.

ASEAN market also lagged, while outperforming the broader Asia market thanks to the strong performance of Singapore. Singapore's Manufacturing PMI edged up to 51.0 in November 2024 from 50.8 in October, marking the 15th consecutive month of expansion. The bank loans increased to SGD 813.1 billion in October 2024, marking the largest figure since December 2022. Meanwhile, Philippines and Indonesian market lagged the most. The Philippines headline inflation rose to 2.3% in October from 1.9% in September, with higher prices in food, non-alcoholic beverages and transport. In Indonesia, trade surplus narrowed to US$2.5bn in October from US$3.3bn in September.

The fund returned -0.94% over the month, outperforming the MSCI Asia ex-Japan Index by 2.35%, which returned -3.29%. 1The fund ranked 1st quartile this month as compared to Asia ex-Japan peer group. Both selection allocation and stock selection added positively this month. The outperformance of our portfolio is mainly attributable to our strong stock selections. Within consumer discretionary, our top contributor is a non-benchmark stock in Taiwan beverage company. We view positive sales outlook thanks to its competitive product pricing, diversified product offerings, and new product innovation with good quality. Moreover, our holding in a global clothing retailer as well as a leading Chinese restaurant group were also rewarded. Within consumer staples, our quality stock pick in an India beverage manufacturer was rewarded. The company has announced acquisition in two bottling companies, which extended its market share. This move has raised market sentiment and we see this acquisition to be beneficial to the company’s long run development.

Furthermore, within financials, our exposures across Korea and ASEAN banks were rewarded. With the worldwide rate cut cycle gradually kicking in, we believe the banks will benefit from lower borrowing cost, and anticipated loan growth.

Market Outlook and Investment Strategy

This thematic equity fund captures the increasing opportunities in domestic consumption in Asian economies tapping into the mega consumer trends such as: new Asia Consumers, Digital frontier and also Wellness. We adhere to the bottom-up investment process, focusing on companies with sustainable leadership and competitive advantages that we believe are trading at a discount to their fair values. Our sector positioning tilted towards consumer discretionary and staples, and selected internet names. Our top holdings includes ecommerce and online gaming firm in China, banks in ASEAN, café group from Taiwan and electronic company in Korea.

During the month we have increased exposure to consumer staples, where we have initiated new exposure to a manufacturer of hygiene products. We also initiated new exposure within industrials, towards a leading Chinese logistics company. Meanwhile, we trimmed exposure within consumer discretionary selectively, exiting exposure in an Indian auto manufacturer. In China, recent policy easing announcements have revived optimism. The easing measures are positive to underlying consumer-related sectors. We believe there are several key indicators to monitor for assessing China's economic development. These include the rise in brokerage account openings during this rally and the increase in margin financing within the equity market. Additionally, the recovery of property prices and transaction volumes will be crucial, as a sustained rebound in the real estate sector is essential for long-term stability. We are also closely watching savings rates and any further fiscal policies that may arise from the upcoming meetings aimed at stimulating the economy. We see that the Central Economic Work Conference(CEWC) has more emphasis on the pro-growth stance, we anticipate more policy focus on boosting domestic demand, and to stabilize the property market.

In India, we maintain our positive views towards the market. We see India’s economic growth continue to be robust, supported by ongoing reforms, increasing employment and the advancements in digital and physical infrastructure. We believe the manufacturing sector is poised to sustain its robust performance, fueled by both domestic and international demand with support from government policies, especially in electronics and automotive industries. The manufacturing activities has been trending positive structurally and we believe the momentum will continue. On the other hand, domestic consumption is expected to be another growth driver, buoyed by increasing household incomes and consumer confidence.

Taiwan and Korea are well-positioned to leverage their strong tech sectors and the rapid development of Generative AI technology to support long-term growth. The recovery in global demand, particularly for semiconductors, will be a key driver for both economies. In terms of domestic demand, both region has seen moderate recovery, supported by a well-maintained unemployment rate and stable inflation environment. For ASEAN, domestic demand remained resilient with easing inflation and favorable employment conditions, particularly for Indonesia where household spending is likely continue to rise. Meanwhile, FDI inflows are anticipated to be strong, as we see multinational companies seeking to diverse their supply chain and ASEAN is one of the spot to go. In terms of trade, we view that the recovery in global demand, particularly for tech products, will be a key driver for the region’s export sector.

MSCI Asia ex-Japan is trading at around 43% discount to MSCI US. We are positive on the Asia ex-Japan market, given the region's less intense inflation. The current valuation for the Asia market is attractive compared with other developed markets.

Source: Invesco

Invesco Emerging Market ex-China Fund

Investment and Market Review

Fund returns were positive in January, outperforming the benchmark and peer group sector average.

The biggest contributors to relative performance were mostly from LatAM, where exposure to Brazil and stock selection in Mexico contributed positively. The Brazilian equity market and currency rebounded after recent weakness, with insurer Porto Seguro the biggest single contributor, while Telefonica Brasil also made strong gains as investors gravitated towards companies with strong pricing power given persistent local inflation. Brazilian retailer Lojas Renner also added value, while Mexico’s Genomma Lab built on its recent outperformance underpinned by a strong earnings outlook.

The fund’s underweight position in India contributed positively to relative returns, although HDFC Bank and Shriram Finance slipped back on mixed quarterly earnings, with Delhivery and Gujarat Pipavav also notable detractors. In ASEAN, Thailand’s Kasikornbank gained a strong Q4 earnings, while Sea Ltd advanced, with its subsidiary Shopee, which expanded its footprint in Vietnam as competitors Temu and Shein suspended operations under new regulations. However, exposure to Indonesian cement weighed on performance as domestic cement sales volumes remained weak in December 2024.

Market Outlook and Investment Strategy

South Korea and Brazil are the largest overweight positions in the fund while India, Saudi Arabia and Taiwan are the largest underweight reflecting high valuations.

In South Korea, we believe that improvements in corporate governance and dividend pay-outs are being underappreciated by the market, which has provided opportunity to own operationally solid companies, with good balance sheets, as well as an ability and desire to improve shareholder returns over time.

In Brazil, our holdings are spread across energy, financial, consumer and materials stocks. Broadly speaking we believe that valuations remain attractive, below historic average, and with high dividend yields on offer.

The fund continues to have broad exposure to the EM consumer and dominant semiconductor companies in Taiwan and Korea. Excitement surrounding AI-related demand persists, but it seems to us that the semiconductor cycle hasn’t fully played out and the level of semiconductor demand required to support the growth of AI has not fully priced into some Asian tech stocks.

Emerging equity markets have rebounded from their lows with consumer demand showing signs of recovery.

Emerging markets ex China equities are well placed to benefit from an improvement in liquidity conditions, as we approach the peak in rate expectations, with US dollar strength likely to cease being a headwind. Furthermore, compared to previous tightening cycles, Emerging economies enjoy relatively solid fundamentals, suggesting greater monetary policy flexibility should growth headwinds start to build.

We believe that companies operating in emerging economies may see less earnings vulnerability from the global slowdown relative to expectations and what is being implied in valuations. In our view, the continued divergence in performance and valuations between different countries and sectors within the emerging world is providing interesting investment opportunities.

Source: Invesco

Janus Henderson Fund - Continental European Fund

Investment and Market Review

European equity markets remained unsettled in December. The performance of European shares was affected by the sell-off in global equities during the month. This followed hawkish comments from the US Federal Reserve (Fed), which indicated it would make fewer interest rate cuts than previously expected in 2025.

US President-elect Donald Trump's threat to implement trade tariffs against the European Union continued to worry investors.

Political upheaval in Germany and France also sapped investor morale. Germany faces a general election in February after Chancellor Olaf Scholz lost a confidence motion, and French President Macron appointed Francois Bayrou as prime minister after his previously appointed prime minister Michel Barnier also lost a confidence vote.

The European Central Bank (ECB) reduced its deposit rate by 25 basis points (bps) to 3.00%. It was its fourth reduction since June, and while the ECB left the door open to further cuts in 2025, it warned of a weaker economic outlook.

Meanwhile, the Fed cut interest rates by 25 bps during the month.

Novo Nordisk, the Danish pharmaceutical company, was the fund's top detractor in December. The company released the results from its Phase 3 trial of its next-generation weight-loss drug CagriSema. These results showed the average percentage of body weight lost by the trial's participants was 22.7%, which was lower than the market's expectations of 25%. This led to a fall in the company's share price. However, we believe the sell-off in the company's shares was overdone. The Phase 3 trial for CagriSema was 'flexible' not 'fixed', meaning patients had some ability to change their dosing regimen, which meant over 40% of patients trialled did not reach the full dosing levels. The flexibility of the trial likely had a significant effect on the overall weight loss statistics, and it also impedes comparability to previous obesity trials from Novo Nordisk, Eli Lilly and others. We remain confident in Novo Nordisk and continue to hold its shares.

CRH, the biggest highway builder in the US, also detracted. We perceived this to be a partial unwind of November's positive stock market response to Donald Trump's election win, when the holding was one of the fund's top positive contributors. We also think the share price fall was linked to investors taking end-of-year profits, as the company performed well during 2024.

Spanish cell-tower company Cellnex also detracted from returns. Due to the company's capital structure (above-market average indebtedness, which has been invested in highly predictable, long-duration cash flows from cell towers) its share price tends to be sensitive to interest rates. Therefore, expectations of lowering interest rates tend to benefit the company's shares, whereas expectations of higher interest rates generally cause weakness in the company's share price. With the re-election of Donald Trump, the market is expecting inflation to be stickier (where prices remain high despite changes in economic conditions). This will make it harder for the Fed to reduce interest rates, a sentiment evidenced by the Fed in its December meeting, where its interest rate cut expectations for 2025 were seen as more 'hawkish' than market expectations. This resulted in weakness in Cellnex's share price.

The Italian bank UniCredit was a positive contributor during the month. The expectation of 'higher-for-longer' interest rates benefited the banking sector, as it means banks can continue to charge higher interest rates on loans to their customers.

Finally, the technology sector also performed well during the month, which benefited the share prices of ASM International and BESI.

In terms of trading activity, we opened a position in International Airlines Group. Consumer demand for holidays and travel has remained resilient. However, not only is the demand for airline travel holding up well, but the supply dynamic is also favourable: airline production companies, such as Boeing and Airbus, are struggling to produce enough planes to meet demand, meaning there is a relative shortage of new capacity in the market. This positive supply and demand dynamic was key to our purchase.

We sold L'Oréal, the French beauty company. The beauty and skincare segments of the retail market are coming under pressure from the consumer and L'Oréal is struggling to raise its prices. However, we were aware that selling L'Oréal would reduce the fund's exposure to the Chinese economy. Therefore, we bought the bank HSBC, given that its meaningful China exposure could see it benefit from any improved economic activity in the country. We are also hopeful about the bank's new management team.

We topped up the holding in Siemens, the German technology company. This was partly to increase the fund's exposure to China after the previously mentioned sales. Also, we believe Siemens was attractively valued relative to its peers. Many of its business units are exposed to structural growth sectors, such as data centres, electrification, industrial automation and digitalisation. We believe its share price has been held back because of destocking in the company's end markets, such as the automation hardware equipment market in China. We are hopeful the pullback in order momentum in Chinese industrial automation markets will cease in the next few months, which could benefit Siemens.

Finally, we trimmed the holding in CRH. The company performed well over 2024, so we took profits.

Market Outlook and Investment Strategy

Over the coming months, we will remain vigilant about the potential implications of tariffs imposed by the US, and how China in particular will react to these measures. The market currently appears gloomy about Europe's prospects in a multipolar world. However, the lagging performance of Europe relative to other markets over the past two months enables us to spot and invest in high-quality, globally diversified companies.

We believe there may be a reversal in the pro-defensive and anti-cyclical market moves once the market has had time to digest the US election and properly evaluate any effects of Donald Trump's initial policies.

We believe many of the market's longer-term themes are still at play. These include data centre capital expenditure, with 'big-tech' companies affirming this in their recent results season, with strong capital expenditure growth indicated for 2025. There is also the reshoring of supply chains (using suppliers that are based closer to home), along with fiscal stimulus. In the long term, we expect a shift towards a multipolar world, of which deglobalisation is a likely outcome. We may also see a political shift in favour of populist/pro-labour policies. This could mean stronger wage inflation and greater labour market friction. It also leads us to believe equity investors will need to be more sensitive to company valuations when purchasing stocks.

The real economic implications will also present opportunities for stock-pickers in our view. Enablers of deglobalisation (such as industrial automation, digitalisation, electrification and construction materials firms) could thrive, while large incumbents (in industries such as brewing, food catering and enterprise software) could see their already dominant positions enhanced as the end of virtually 'free' money (very low interest rates) tempers the threat of disruption by unprofitable start-ups. Europe offers plentiful opportunities to access these themes, being home to large global champions trading at what we see as reasonable valuations.

Source: Janus Henderson

Janus Henderson Horizon Fund - Japan Opportunities Fund

Investment and Market Review

The benchmark TOPIX Index rose in Japanese yen terms but fell in US dollar terms over the quarter. The Index traded in a narrow range, as foreign investors turned net sellers during the period. Nevertheless, the stock market was supported by large share buyback announcements. The fiscal year-to-date share buybacks were up 70% from the corresponding period in the previous fiscal year.

Concerns that the future Trump administration would ignite a trade war and political instability in Japan, after the Liberal Democratic Party-led coalition lost its parliamentary majority in October's snap election, caused some jitters.

The yen's decline was fuelled by some uncertainty about when the Bank of Japan (BoJ) – which made no changes to its monetary policy – will raise interest rates, although investors generally expect it to announce an increase in early 2025.

Japan's economy continued to expand, although growth weakened to an annualised 1.2% in the third quarter from 2.2% in the previous quarter. The annual core inflation rate, which excludes fresh food prices, remained above the BoJ's 2% target, hitting 2.7% in November, which was up from 2.3% in October.

Over the quarter, there was a high dispersion of returns among sectors, ranging from positive to negative. Financials was the best performing sector amid optimism that higher interest rates would lift banks' earnings. Conversely, utilities was the weakest sector as higher borrowing cost dampened enthusiasm towards the infrastructure asset class in general.

Leading detractors over the quarter were Mercari and Nitori Holdings. The e-commerce firm Mercari reported lower-than-expected first-quarter gross merchandise value (GMV) for its flagship marketplace app, Mercari, and the US market. Furniture retailer Nitori was another key detractor as investors were concerned about the negative impact of a weaker yen.

Leading positive contributors included Shimizu and Toyota Motor. Shares in construction firm Shimizu rose after the company revised upwards its full-year guidance as the company had finally managed to increase its profit margins against a backdrop of higher inflation. The announcements of a higher dividend payout and reduction in cross-shareholdings also augured well as these marked a big change in its capital allocation policy. The share price of Toyota Motor rose towards the end of the quarter after a media report claimed the company might target a much higher return on equity (ROE) as Toyota tries to improve capital allocation.

During the quarter, we initiated new positions in Nippon Sanso and NOF. Nippon Sanso, an industrial gas company, has been able to expand its profit margins by gradually raising prices. We think the large margin gap with its peers would narrow further, creating a strong upside potential in our view. We believe there is great potential in speciality chemical manufacturer NOF's drug delivery system (DDS) business and its other functional chemical businesses. The stock featured on our watch list and we decided to build an initial position by taking advantage of recent weakness in its share price.

Elsewhere, we exited the position in Kokusai Electric as we felt volatility associated with its short-term risk had become too large to bear. We also closed the position in Murata as our original investment case had not been realised.

Market Outlook and Investment Strategy

We remain optimistic about the overall Japanese stock markets, as the market's price-to-earnings ratio fell below the mid-teens while companies' fundamentals remain strong. There is also room for further improvement in corporate governance.

We expect corporate earnings growth to be in the mid-to-high single digits, supported by resilient global growth and moderate inflation in the domestic economy. It is encouraging that wage growth is finally outpacing the consumer price index (CPI). We believe this is likely to continue and set off a positive cycle in the domestic economy. As a result, we expect the BoJ to further raise interest rates to levels deemed neutral, levels that are neither accommodative nor restrictive.

We are focused on the improvement in corporate governance as a key value driver for the fund because we believe that this may ultimately lead to better capital allocation decisions. We have convictions in the stocks that we own and will continue to focus on stock picking, which we believe is a key determinant of fund performance.

Source: Janus Henderson

Janus Henderson Horizon Fund - Pan European Absolute Return Fund

Investment and Market Review

December proved to be another good month for the fund and concluded an overall successful 2024. January has also started well, and we shall focus this commentary on our 2025 outlook.

In our view, 2025 will likely be a challenging one for European equity investors. And we believe absolute return investing (as is the strategy of this fund) offers more promise than passive indexing. The main reasons are that we appear to be at the very cusp of some major geopolitical realignment driven by the incoming US administration, while the economy is weak and recovery prospects from lead indicators are unfortunately not yet that strong.

At the same time, the European equity market had a strong bull market with indices like the Stoxx 600 Index and the DAX Index close to recent all-time highs. Thus, we do not feel there is a huge amount of support to counteract potential disruptions from any forthcoming global economic realignment.

So what is the early evidence of any realignment? We think it is worth quoting from an article written for The Economist, and a podium discussion at the Manhattan Institute in the second half of 2024, in which incoming US Treasury Secretary Bessent talked about geopolitical conditions being at a unique point for a “grand global economic reordering”. He said this was “something on the equivalent of a new Bretton Woods, the Steel Agreements or the Treaty of Versailles”. Bessent's comments hint at a desire for severe, radical change. His answer to Bidenomics was “the solutions are known: slay inflation, achieve energy dominance, execute meaningful deregulation, control federal spending, reorder unsatisfactory trade arrangements, reassert control on immigration, and project strength internationally". Bessen went on to suggest “the status quo in trade creates security vulnerabilities for the US, and the aggregate economic benefits to the US are unclear. We must more closely link economic and security relations to deliver the benefits of free trade”..

We think there are a number of likely drivers for the US to push a sweeping global economic realignment:

US military power is being increasingly challenged. Military scenario planning seems to imply the US probably could not defend Taiwan anymore, which is where the majority of the world's semiconductors come from (and are required to fuel the modern economy).

Different to the period following World War II, the main rival of the US (China) is now a military and economic giant, and is getting richer through trade with the US and its allies. Rarely does a month go by without allegations of yet another spectacular hacking campaign run by China. Plus, China's national security strategy is based on - and joined at the hip with - the strength of its industrial base.

The US financial system is fragile. Outgoing Treasury Secretary Yellen apologised for having failed to make progress on US federal deficit reduction. During her tenure, she also dramatically altered the funding structure from Treasury bonds to short-term bill issuances just when long bond yields are testing the post-pandemic and two-decade highs again. At the same time the Overnight Reverse Repurchase Agreement facility has been almost emptied, falling to below $200 billion from the peak a few years ago (of over $2.4 trillion). This means incremental Treasury funding by bonds relative to value hedge funds is coming to an end. The US Treasury funding strategy needs to change urgently.

The role of the US dollar as the global reserve currency is under threat with more and more value being cleared in other currencies.

The US trade deficit has widened substantially under the Biden presidency, after stabilising during President Trump's first term, and in fact set a just-disclosed new record high in December 2024. The US is transferring its wealth to friendly and unfriendly trading partners all around the world at record pace.

US economic growth is under pressure as the Federal Reserve (Fed) has widely signalled its reluctance to cut interest rates further. Planned regulatory reform will take time to re-stimulate growth.

In light of the above, we have a number of investment themes for 2025. Our belief is that the new US administration will act more quickly, more radically and more assertively than what seems to be priced into financial markets to achieve the desired "grand global economic reordering". This would likely bring many shocks to Europe and the prevalent way of thinking in European financial markets. Thus, we will need to remain agile in portfolio composition. We will likely need to remind ourselves daily not to feel too safe in any scenario given that disruption (even from unintended consequences) seems highly likely.

Common defensive stock 'safe-havens' may indeed turn out to be quite the opposite of safe. To name a few examples, a sharp reduction in US government spending and a reduction in the number of federal employees could have a significant negative impact on European subscription-based business models. Meanwhile, any US trade tariffs could hit European pharmaceutical exports. And less immigration into the US could hit subscriber growth for mass services like mobile telecommunication.

On the long side of the book, we think it is best to align ourselves with the few certainties of the new US administration. That is, much higher defence spending, deregulation in the US banking sector and a mid-term reacceleration in US domestic growth. We favour European companies that earn in US dollars and are being careful with European stocks heavily exposed to China. One key potential positive for Europe is if the new US administration can bring about peace in Ukraine. The signs are certainly increasing to that end. We have some hedges in place to capture this potential outcome, on Eastern European-exposed banks and building materials stocks.

In the short book, our focus is on stocks with significant US export exposure. Also, we are increasingly concerned about a re-emergence of a sovereign bond crisis in some European countries. Sovereign bond yields and spreads in the UK and France are sending clear warning signals.

Market Outlook and Investment Strategy

As with many of Trump's former and new advisers, Treasury Secretary Bessent sees China as the main problem. But it seems that the prevailing thought is that Europe is also complicit. Complicit, that is, due to persistent underspending on defence, being too heavily intertwined with the chief US rivals (Russia until the Ukraine war and China through trade), and of running persistent trade surpluses with the US due to tariff and non-tariff barriers (EU regulations and tax regimes) on US imports.

The view is that Europe got rich by exporting to the US and taking advantage of its trade with China. Now, it seems there will be a new geopolitical identity. Global realignment and rebalancing means separating friends and enemies. It means European allies become the new periphery to the US. In the same Economist article quoted above, Secretary Bessent writes "US security assurances and market access should be linked with commitments from our allies to spend more on our collective security and structure their economies to reduce imbalances over time".

Thus, Europe will have to buy more US goods, especially in defence and energy, but also in the wider economy. Europe may have to commit to investing in new US Treasury bonds with ultra-long maturities as a new, friendly, sustainable source of funds for the Treasury. Europe will have to raise defence spending. And Europe will have to re-commit to the US dollar as the only reserve currency for the West. All of these changes will likely shift some economic growth potential from Europe to the US. Europe will perhaps just have to give up some near-term economic growth potential in the name of the longer-term defence alliance.

In the bargain we envisage the US will do its part. This might be through deregulation, reprivatisation of lending and the economy. And after the period of central bank quantitative easing, and government-sponsored Green transition and post-Covid stimulus, it might seek to reduce the role of state in the economy - which is very different to the recent Biden presidency - and reduce government spending, while providing more energy security to its partners via increased domestic production. All of these initiatives will likely raise US growth and reduce the twin US deficits in trade and government finances. We think any re-strengthening of US economic growth and solidifying its finances probably ultimately means a more stable long-term alliance of the Western world, and likely better prospects for peace and prosperity.

Source: Janus Henderson

JPM Global Income Fund (USD Hedged and SGD Hedged)

Investment and Market Review

Within equities, we broadly maintained our allocation. However, we made a tactical change as we reduced some of our global infrastructure allocation given that the economic backdrop remains less supportive. We moved the proceeds to cash as dry powder to deploy should an opportunity arise. We hold a moderate conviction in equities as we expect a modest Fed cutting cycle to begin by year-end, subject to a further moderation in inflation. However, reaccelerating inflation and hawkish policy remain tail risks.

Our allocation to global equities contributed the most to overall performance as trend-like global growth is supportive of ongoing earnings growth and valuations are supported by the easing cycle. European equities, on the other hand, detracted despite the lowering of policy rates as the fallout from both the European parliamentary elections and the announcement of snap French elections weighed on investor sentiment. Elsewhere, our allocation to emerging market equities contributed, whereas global infrastructure equities detracted from overall performance.

Our dividend focus was a drag and our fixed income portion of the portfolio contributed to overall performance. Our allocation to high yield and investment grade contributed. We believe slower but positive nominal growth provides a good environment for credit. Both the US high yield and European high yield sectors are supported by strong coupon payments, with fading recession fears and improving quality. Our duration position also contributed, but we believe negative carry and the elevated level of rates volatility relative to other assets further reinforce taking a cautious stance to duration.

Our allocation to non-agency securitised contributed to overall performance, whereas our allocation to emerging market debt marginally detracted.

Within hybrids, our allocation to preferred equities contributed to overall performance.

Market Outlook and Investment Strategy

With our base case of cooling inflation and growth moderating to around trend levels, we maintain our pro-risk stance of leaning into equities.

Within duration, as there are challenges to our base case of slowing growth, cooling inflation and easing monetary policy, we have cautious outlook.

We maintain a modestly positive view on US credit, both investment grade and high yield, due to attractive carry and remain neutral on emerging market debt.

We see the greatest opportunity in high yield, which offers the highest yield with the shortest maturity profile.

Source: JPMorgan Asset Management

JPMorgan Funds - Greater China Fund

Investment and Market Review

Greater China equities rose modestly in June, buoyed by contribution from Taiwan. Mainland Chinese equities declined somewhat, with onshore equities extending their year-to-date detraction of offshore equities, as did Hong Kong where retail sales remained weak.

Taiwanese equities led the region, driven mainly by large cap stocks. The annual Computex event was a highlight with Nvidia unveiling next generation GPUs (graphics processing units); supply chain companies in turn showcasing their own latest designs; and a more general mood of the acceleration of technological developments.

Meanwhile the modest pace of China's policy response contributed to risk off sentiment for domestic Chinese investors. The PBOC's reluctance to pursue monetary easing can be explained by a desire not to risk currency weakness. The authorities' purchasing of excess housing inventory is yet to accelerate, despite being endorsed by top policymakers. On the capital markets front the China Securities Regulatory Commission (CSRC) reemphasized shareholder returns and investor protection, but still in the form of "window guidance" (ie informal persuasion) to listed companies, without offering a structural framework.

The stock makes up a substantial percentage of the index, while the fund has a regulatory ceiling for any name of 10%. We hold a number of related names as proxies. AI sensitives such as Aspeed, Quanta, Foxconn Industrial and Delta all contributed. However in a month in which TSMC performed notably strongly it was a challenge to keep up. Elsewhere, internet stock Meituan rose on the announcement of a new buyback programme.

We initiated a position in a tech manufacturer which should benefit from edge computing and the PC replacement cycle. We added to names with improving fundamentals in areas such as gaming and the AI server supply chain. We funded these purchases by following our valuation discipline in other technology stocks and in transportation, and by taking capital out of certain lower conviction internet, consumer and media names.

Market Outlook and Investment Strategy

China's economic growth remains uneven, led by exports and new energy-related capex, while consumption and real estate lag. The Politburo's long-awaited Third Plenum is scheduled to take place in mid-July. These types of conclaves tend to be very high-level and strategic, and thus market expectations have been subdued. With the annual growth target of "around 5%" on track, the urgency for major stimulus remains low. That said, potential fiscal reforms are reportedly going to be discussed as a way to address local government challenges in the wake of the collapse in land sales revenues. In the meantime the AI story is highly positive for large parts of the Taiwanese equity market – although as ever we will need to monitor that valuations don't get ahead of themselves. That said, Asian tech stocks are typically much cheaper than US peers.

In terms of positioning, while the shape of the portfolio is largely unchanged, anchored by optimism around various areas of technology, we continue to pursue cheaper names whilst emphasizing near-term earnings and shareholder returns. For example we actively seek names which offer both dividend yield and growth. Trade tensions are a key near-term risk in this election year, so we have cautiously managed our bets in certain stocks which are highly exposed to exports.

Source: JPMorgan Asset Management

Mirae Asset ESG Asia Great Consumer Equity Fund

Investment and Market Review

The MSCI All Country Asia Ex-Japan Index increased by 12.51% (in USD terms) during 2024. Relative to the rest of the regions, Taiwan and Singapore were the top performers, while Korea and Indonesia were the main underperformers. Sector-wise, Communication Services and Information Technology were the top performers, while Materials and Real Estate were the primary laggards.

China equities showed a recovery in 2024, increasing by 19.67% (in USD terms) over the year. China's stock market plunged at the start of the year, but it had some gains in Q1 and Q2 driven by the improvements in economic data and government efforts to stabilize the financial market, e.g., 'national team's buying, as well as a series of capital market reforms and real estate supportive policies. In the second half of the year, China market recorded the strongest rebounds in September driven by the government's aggressive stimulus package. Then it was followed by a relatively weak Q4 due to lack of near-term policy release catalyst and increasing concerns over tariff hikes on China's exports to the US following Trump's win. China's GDP grew 4.8% y-y in the first three quarters of 2024. For most of 2024, exports, manufacturing investment and green sectors have been outperforming. But the housing market correction has continued to drag on economic performance along with weak consumption.

Indian equities returned 12.41% (in USD terms) in 2024. Indian market delivered steady in the first nine months driven by strong earnings results and supportive domestic portfolio flows. The rose was interrupted by a cyclical slowdown in 4Q but it still ranked among the outperformers. On the investment front, central government capex contracted sharply in Q2 2024, likely due to national elections, and started to pick up in Q3. The consumption in urban areas also start to moderate in Q2. RBI (Reserve Bank of India) decided to keep policy rate unchanged in the December policy meet but cut CRR by 50bps and lowered its GDP growth forecast to more reasonable levels of 6.6% for FY25. FIIs (Foreign Institutional Investors) were net sellers in 2024, while DIIs (Domestic Institutional Investors) are making up for the outflows, with net inflows at historical high levels of around $63bn in 2024.

Taiwan was the leading outperformer in 2024 among all other Asian markets, with equities rising 35.07% (in USD terms), as the most direct beneficiary of AI upside, particularly in 1H24. Taiwan equities delivered stable returns over the year though it was pulled back in July due to the volatility triggered by the US tech sell-off, and tech orders slowdown. In August Taiwan shares rebounded after the AI plunge, and the export orders rebounded by solid tech demand trends. Looking back to 2024, Taiwan's manufacturing PMI readings have trended up steadily through 1H, with moderate easing during July-October, followed by notable rebound towards the year-end. November manufacturing PMI picked up with a solid rise of 1.3-pt to 51.5, and rose further in December to 52.7, reversing four consecutive monthly declines through October, hinting at solid near-term growth momentum in export and industrial sector activity.

Within ASEAN, Singapore was the top outperformer, with equities returning 32.32% (in USD terms) in 2024, followed by Malaysia (+20.75%) and Thailand (+1.62%). On the downside, Indonesia and Philippines were the region's underperformers, with equities down -11.94% and -0.04% (in USD terms) respectively. ASEAN as a whole reacted positively to 'goldilocks' conditions in 3Q, but underperformed through most of the rest of the year. Singapore's economy growth in 2024 was above expectations, with a GDP growth stood at 4% for 2024, faster than the 1.1% reported in 2023. In November, Singapore's core CPI rose by 1.9% y-y, Malaysia's headline CPI came in at 1.8% y-y, and Thailand's CPI rose by 0.9% y-y, mostly were below market expectations. In Indonesia, December's headline CPI rose by 1.6% y-y and 0.2% m-m, slightly above November's figures.

The portfolio returned 5.16% (in USD terms) for the reporting period, underperforming the benchmark by 734bps.

China and Taiwan were the primary detractors, with a total effect of -3.75% and -1.42% (in USD terms) respectively, both attributed to the negative allocation and selection effects. Meanwhile, India and Hong Kong were the leading contributors, with a total effect of 2.73% and 0.68% (in USD terms), with India attributed to the negative allocation effect and positive delection effect, while Hong Kong mainly attributed to the positive allocation effect.

By sector, Financials and Communication Services were the primary detractors, with a total effect of -2.88% and -2.20% (in USD terms), attributed to both negative selection and allocation effects. Meanwhile, Materials and Health Care were the primary contributors, with a total effect of 1.42% and

1.30% (in USD terms) respectively, with Materials mainly attributed to the positive allocation effect, and Health Care attributed to the negative allocation effect and positive selection effect.

Market Outlook and Investment Strategy

The US exceptionalism continued into 2024, with the GDP growth forecast revised upward to 2.7% from an initial estimate of 1.3% at the beginning of the year. Concerns related to a recession have nearly subsided, and the 'Goldilocks' scenario has emerged to describe the state of the US economy. The EPS growth forecast has also been upgraded, primarily driven by technology companies. In light of stronger-than-expected macroeconomic data and expectations surrounding Trump's potentially inflationary policies, the Fed has shifted its tone regarding the pace of the interest rate cut cycle. The yield on the 10-year U.S. Treasury has rebounded above the Fed's latest policy rate band, and we anticipate it will likely remain at elevated levels for an extended period, supported by a strong US dollar, until there is greater clarity on new policies.

This environment presents challenges for emerging Asian markets, which require greater monetary easing but are unable to implement it due to the need to protect their currencies. Additionally, the potential for incremental tariffs from the U.S. introduces even greater uncertainty compared to last year. However, as noted in the November monthly report, we consider several factors that may mitigate the negative impact on emerging Asian markets, including China's counteractive measures, the contradictory nature of many of Trump's policies, and the use of tariff discussions as a negotiation tool rather than their actual implementation.

The Chinese government has indicated enhanced macro policy support and a proactive fiscal strategy for 2025 during the recent Politburo meeting and the annual Central Economic Work Conference. More details are expected to be announced at the Two Sessions in March, which will be key in determining the direction of the Chinese market. While we have observed some improvement in housing transactions and home prices, driven by rising expectations for government policies since late September, effective fiscal measures to boost domestic demand are crucial for sustaining the momentum of recovery. Although macro data for the first quarter may still show slow growth due to a high base, we anticipate a range-bound movement rather than a significant market correction in response. With government support, technology and consumption-related sectors are expected to outperform others in 2025.

For tech exporters, we maintain a more positive outlook on Taiwan compared to Korea. We believe that the global AI investment cycle remains robust, despite some concerns related to monetization in the market. Our positive views extend to leading companies across various sub-sectors in the supply chains, including foundry, chip design, and ODM in Taiwan. The negative impact on these companies from uncertainties surrounding U.S.-China tensions during the Trump 2.0 era is expected to be limited. In contrast, we approach the Korean market very selectively, given the slower pace of innovation among conglomerates, political instability, and uncertainty regarding the progress of the value-up program in Korea.

Elsewhere, we maintain a positive view on India despite the current soft momentum in capital spending and urban consumption. Public capital spending has been partially postponed due to elections and an extended monsoon season; however, the remaining budget is expected to be utilized more effectively in the upcoming quarters. Regarding the weakened consumption trend in urban areas, it may take 1-2 more quarters to see a recovery, but we are beginning to observe signs of reversal. This recovery will also be supported by a more favorable environment for monetary easing. Overall, while GDP growth may be softer than in the previous year, its level remains one of the highest among major countries. Furthermore, the negative impact of uncertainty arising from the Trump 2.0 policies is expected to be more limited compared to other emerging Asian markets.

Source: Mirae

Natixis Loomis Sayles Multisector Income Fund

Investment and Market Review

• The Fund outperformed its Reference Index.
• The underweight to US Treasury contributed to excess performance as the sector generated the greatest returns. Shorter-than-index duration boosted excess performance as yields rose throughout the month.
• Overweight investment grade corporate credit contributed, particularly security selection in communications, consumer non cyclical and insurance.
• Within high yield corporate credit, yield curve effect contributed as well as security selection particularly communications and transportation.
• There were no material negative detractors during the month.

Source: Natixis

Natixis Loomis Sayles Multisector Income Fund

Investment and Market Review

The Mirova Global Sustainable Equity Fund R/A NPF (USD) underperformed the global equity market, represented by the MSCI World Index (Net) EUR, during the month of December. The Fund returned -3.84%, while its benchmark returned -2.61%. Global equity markets were mostly lower in December after stocks rallied in November, with most of the Magnificent 7 names once again outperforming the broad market and some of the areas that got an initial boost from the election of Trump underperforming. Investors reacted to more hawkish-than-expected comments from the Fed's December FOMC meeting in which it cut rates by 25 bps (as expected) but had more defensive messaging on the timing and extent of future rate cuts.

Overall, there was a more defensive sentiment in the market during December. Uncertainty around the pace of central bank easing in Europe also limited gains in European equities as headline inflation rose slightly in the region. Non-US markets were also impacted by concerns around Trump's proposed trade policies and their potential inflationary effect. A strong valuation gap between Europe and US equity markets remains but investors remained cautious. Global developed markets performed about in line with the U.S. during the month on average. The big tech-dominated Consumer Discretionary, Communication Services and Information Technology sectors performed best, with strong performance from the auto sector also contributing to the positive performance within the Consumer Discretionary sector. Materials, Real Estate and Energy were the worst performing sectors for the month.

In this context, in terms of sector attribution, sector positioning effect overall detracted from relative performance due mainly to underweights to the Communication Services and Consumer Discretionary sector, which were led higher by the Magnificent 7 names in these sectors that we do not have exposure to (Alphabet, Meta, Tesla and Amazon), and overweights to the Health Care, Materials and Utilities sectors. However, a lack of exposure to the traditional Energy and Real Estate sectors, as well as our overweight to Information Technology, contributed positively to relative returns.

In terms of stock picking, selection within Information Technology was the key detractor, while stock picking in Financials contributed positively to relative performance. Within Information Technology, stock picking effect was negative mainly due to what we do not own, with the main relative detractor being lack of exposure to Apple and Broadcom, which outperformed during the month. Stock picking within Financials contributed positively to relative performance due to relatively strong performance from our positions in the sector, including positions in digital payments (Adyen, Mastercard and Visa) as well as UK and European banks. As US banks underperformed following their November outperformance in response to the election of Trump, not having exposure to US banks was additive to relative results.

Market Outlook and Investment Strategy

The portfolio continues to invest in companies offering solutions to and/or expected to benefit from the demographic, technological, environmental and governance related transitions that are expected to transform the world's economies and societies during the next decade. Our portfolio also has a structural high-quality bias. Higher-quality companies are generally better positioned to weather difficult environments due to having better financial ability to manage through such periods (stronger balance sheets, lower financial leverage). Overall, we continue to prefer high-quality companies with strong balancesheets, solid management teams, and positive exposure to long-term secular trends. We are also more exposed to sectors such as Health Care and Utilities that are traditionally more defensive and tend do well on a relative basis during recessionary environments.

Geographically, the portfolio continues to have a bias to European names while being underweight U.S. names; this bias is a result of bottom-up fundamental analysis where we have found more attractively priced securities outside of the U.S. given the outperformance of the U.S. markets compared to international markets since 2011. Our European exposure is diversified, and the types of companies we invest in are generally global in their revenue exposure, supply chains and production. In terms of sector exposure, the portfolio currently has no exposure to the GICS Energy (oil & gas extraction), Real Estate, or Communication Services sectors and is underweight Consumer Staples and Financials. This is mainly driven by valuation (Real Estate) and the thematic and sustainability approach we take. As trends like the digitalization of our economy are expected to continue to grow strongly, and support for the health care sector is expected to show solid growth as a result of an aging population and continued focus on health and well-being in the longer term, the portfolio remains strongly exposed to Technology and Health Care. Relative to the benchmark, our exposure to Technology is only a slight overweight, while Health Care is the largest overweight in the portfolio. However, within Health Care, we invest across diversified sub-segments in companies that are very different from one to another with different end markets, that benefit from strong organic growth and are very well managed businesses overall. Our exposure to the GICS Financials sector is comprised in part by digital payment and processing companies, driven by our conviction in the digitalization trend, and we remain underweight traditional banking and financial services companies. While we have an underweight position in the more defensive Consumer Staples sector, it is to some extent offset by an overweight position in Materials (including natural food ingredients and sustainable packaging).

With many governments still committed to keeping global warming limited to a 2° Celsius scenario, we expect climate change to remain a driver of political debate, and the portfolio will continue to shy away from fossil fuel extraction in favor of renewables and companies focused on energy efficiency. The portfolio's overweight to the Utilities sector is driven partly part by the conviction in the transition away from fossil fuels. Our conviction in the long-term growth of renewable energy is further strengthened by increasing power demand driven by digitalization and AI, as well as by shifting geopolitics as the need for energy independence will be critical for many regions and alternative energy will need to be a part of that. Regulation globally, including the passing of the IRA in the U.S. and Green Deal in Europe, at least in the near-term, provides additional visibility on the growth of renewables and energy-efficiency solutions.

Overall, we aim to maintain diversification across and within long-term secular growth drivers and our portfolio continues to deliver that today.

Source: Natixis

Neuberger Berman Strategic Income Fund

Investment and Market Review

Against a backdrop of rising U.S. Treasury yields, the Fund delivered a negative total return for the quarter. From a sector perspective, the Fund's allocations to securitized credit, floating rate loans, CLOs and non-US high yield developed market high yield were the top contributors to absolute performance. From a sector perspective, the Fund's allocation to agency MBS was the largest detractor from absolute performance during the quarter, and IG credit and emerging market debt were secondary detractors from absolute performance.

During the quarter, we made some relative value positioning adjustments. We put some cash to work and also took some profits as we reduced exposure to local currency EMD, longer dated Japanese government bonds and UK gilts as well as US IG credit and TIPS. We added primarily to ABS, European high yield, US Treasuries, credit risk transfers and MBS. We also increased exposure to global interest rate swaps, US high yield, non-agency MBS and Bank Loans, but to a lesser degree.

U.S. investment grade fixed income (as measured by the Bloomberg U.S. Aggregate Index), and global investment grade fixed income (as measured by the Bloomberg Global Aggregate Index, USD hedged), generated negative total returns of -1.64% and

-0.77%, respectively for December and -3.06% and -0.95% in the fourth quarter. Over the month, U.S. investment-grade (IG) corporates, U.S. Commercial Mortgage-Backed Securities (CMBS),

U.S. Treasury Inflation-Protected Securities (TIPS), Pan-European IG corporates, U.S. Agency Mortgage-Backed Securities (MBS), hard currency emerging markets, local currency emerging markets and U.S. high yield all saw negative total returns. However, Pan- European high yield and senior floating rate loans had positive total returns over the month. Year-to-date total returns across fixed income spread sectors were all in positive territory.

U.S. government yields moved higher across the curve on the month, and performance was mixed and mostly negative across fixed income markets. In December, the 2-year yield rose by 9 bps to 4.24%, the 10-year increased by 40 bps to 4.57%, and the 30- year increased by 42 bps to 4.78%. Intermediate yields across the other major developed countries were also higher on the month. The

U.K. 10-year yield was 32 bps higher closing at 4.56% and the German 10-year moved up by 27 bps to 2.36%. The Japanese 10- year moved higher by 5 bps to 1.09%. Over the fourth quarter, sovereign yields across the major developed countries were all higher on shifting expectations for economic growth, inflation and the potential pace and magnitude of future rate cuts.

Despite some volatility after the hawkish Fed rate cut of December 18th and uncertainty around future policy shifts from Trump 2.0, valuations ended the month mixed across fixed income spread sectors but mostly tighter with a few exceptions. Non-investment grade credit markets posted mixed performance with senior floating rate loans benefitting from a demand-driven secondary rally and strong inflows again to the higher yielding asset classes, while U.S. high yield ended the month in slightly negative territory. Pan- European high yield bucked the trend within high yield with solid returns on the month. U.S. high yield corporate spreads widened by

18 bps to 292 bps. Senior floating rate loan spreads were unchanged to close the month at 424 bps, while U.S investment grade corporate credit spreads widened by 2 bps to 80 bps and Pan-European IG corporate credit tightened by -6 bps to a level of 101 bps by month end. Global corporate investment grade spreads were unchanged over the month to close at 89 bps. Equity and credit markets also saw some drawdowns toward the end of the quarter despite stable corporate fundamentals and resilient economic activity.

The November 2024 U.S. employment report showed an increase in non-farm payrolls by 227,000, which is a significant improvement compared to October which was impacted by the hurricanes and related weather. Average hourly earnings rose by 0.4% month-over- month, consistent with the prior release and slightly above expectations. The unemployment rate increased slightly to 4.2% over the prior month's report and slightly above consensus. November inflation remained somewhat stable, with the headline Consumer Price Index (CPI) increasing by 2.7% year-over-year, while core CPI, excluding food and energy, remained unchanged at 3.3% year-over-year. U.S. retail sales increased by 0.7% month- over-month, showing stronger growth compared to the previous month.

U.S. economic activity continues to expand and inflation, while progressing towards the Fed's 2% target, remains slightly above it. Markets are expecting further rate cuts and the Fed remains committed to achieving maximum employment and a 2% inflation rate while paying close attention to the data as they move through the easing cycle. In addition, consumer spending has shown some resilience and corporate balance sheets remain relatively healthy. However, global uncertainties, such as potential trade tensions, geopolitical risks and uncertainty on the shift in policies as a result of Trump 2.0, pose possible challenges to sustained economic growth and inflation.

In the eurozone, inflation remained stable, with headline CPI at 2.3% year-over-year, consistent with expectations, and core CPI at 2.7%, in line with expectations. In the U.K., headline CPI was 2.6% and core CPI was 3.5%, both slightly above the prior month's figures. In Japan, headline CPI increased to 2.9%, and core CPI was 2.4%, both higher than the previous month. Japanese retail sales showed a stronger increase, reported at 2.8% month-over-month, compared to the previous month's 1.6% and much better than expectations of 1.5% for the November report.

China's December Purchasing Managers Index (PMI) showed signs of stability or slight improvement from the previous month. The manufacturing PMI came in at 50.1 and the non-manufacturing PMI was 52.2. This suggests a stabilization in domestic demand. A mild recovery in GDP growth is expected, supported by recent policy measures across monetary, equity, and housing sectors, contributing a modest tailwind to growth. Further incremental fiscal packages are anticipated, focusing on de-risking and stabilizing the system rather than aggressive demand-side stimulus.

Market Outlook and Investment Strategy

With inflation showing signs of improvement, the path of central bank rates continues on a downward trajectory, albeit unevenly across different regions due to the strength of the U.S. economy. In the current climate of political turbulence, focus is increasingly shifting toward fiscal matters—specifically, spending and tax policy—that could influence issuance patterns and yields, particularly at the longer end of the curve.

We are constructive on fixed income for 2025, seeing potential in shorter durations and in optimizing carry amid narrow credit spreads. At the same time, the unpredictability of political cycles could make for an eventful year that requires vigilance in guarding against risk. While economic conditions remain relatively robust but somewhat mixed across the developed countries, strong investor demand has led to narrower corporate credit spreads. This situation highlights the importance of focusing on quality, considering relative valuations, and seizing yield and price opportunities as they arise.

We remain opportunistic in credit markets, predicting that spreads will likely stay range-bound, with the potential for some volatility around geopolitical concerns and Trump 2.0 policy shifts—though a tighter path from current spread levels is possible. In terms of credit, technical demand along with extended maturities and constructive fundamentals have kept spreads tighter, so we are looking for select opportunities leveraging credit research. However, in some ways, the coming year may prove trickier for investors than 2024, as the past high-conviction idea of lower central bank rates has been displaced by political dynamics and questions around the longer- term course of government budgets and interest rates. In the U.S., looming policy shifts, including potential changes to taxes and the use of tariffs could heighten market volatility, and will likely be an ongoing consideration throughout 2025.

The U.S. picture stands out for its relatively robust growth, which we believe could surprise modestly to the upside this year. However, slow progress on inflation may limit the Federal Reserve's capacity to cut interest rates further. Europe appears more vulnerable to a stilted export environment, particularly to China, but with more wriggle room for easing. At the same time, anxiety is growing around the long-term fiscal picture in the U.S. and select other countries, which could pressure longer-term rates and help steepen the yield curve. Given the upward adjustment in longer yields late last year, the chances of further rate shocks appear limited. However, we remain relatively cautious on duration, seeing opportunities for trading more at the shorter end of the curve.

On the political front, 2024 was a time of historic elections affecting over 70 countries. Whether the Labour victory in Britain, snap elections in Germany or legislative losses by the India's ruling party, the varied stories together painted a picture of populist shifts and a willingness to cast out incumbents to foment change. Among all the contests, few were as significant as Donald Trump's victory in the U.S., with the potential for impacts across the country's regulatory environment, tax structure and trade dynamics, with potentially global consequences. We will be considering all of these trends as the year progresses, in assessing impacts on inflation, rates, geographies and issuers. In our view, it seems likely that the policy environment will be eventful in the coming year and beyond— potentially generating price volatility, but also opening up opportunities for those with the ability and desire to capitalize through the timely use of capital.

Despite tight corporate spreads—which are justified by the solid fundamentals of stable leverage and ample cash positions—we find all-in yields attractive. A focus on quality, relative valuations and exploiting market dislocations is prudent, along with maintaining a broad perspective on potential opportunities to capitalize on appealing yields. A broader move to lower policy rates is still expected, but the pace could be more moderate and potentially settling at higher lows than in previous cycles. The varied pace of easing and differences in economic growth may widen the gap between winners and losers in the fixed income spectrum. This environment should enhance opportunities for active managers to navigate the landscape effectively.

Source: Neuberger Berman

Nomura Japan High Conviction Fund

Investment and Market Review

The financial market for the period of October to December 2024 was shaped by the policies of the new Trump administration following the US presidential and congressional elections on November 5, as well as by the pace of interest rate cuts by the Federal Reserve (the Fed). Given a Republican “red sweep” securing the presidency and majorities in both the House and Senate, long-term interest rates rose due to expectations for increased tariffs and fiscal expansion, and the US dollar appreciated in the currency market. The Federal Open Market Committee (FOMC) decided on three consecutive interest rate cuts, while also indicating a cautious stance regarding the pace of rate cuts in 2025, that led to further increases in long-term interest rates and a stronger US dollar leading up to the end of the quarter. Although there were moments of heightened volatility in the US equity market, share prices rose amid expectations of fiscal expansion and regulatory easing.

Market Outlook and Investment Strategy

Based on these assumptions, we believe there is some possibility of a temporary surge in "last-minute trade" activity in the first half of the year, due to incentives to build inventories ahead of tariff hikes in the US. However, from mid-year, we expect this to give way to a contraction in global trade volumes when higher tariffs are actually implemented. In the context of uncertainty surrounding trade policies, we can also expect companies to be cautious with their capital investments. In the US, the restrictions on immigration could impact both the supply and demand sides of the economy.

Meanwhile, China and other countries may be able to mitigate the impact of an economic downturn by implementing fiscal policies, but Europe faces a relatively difficult situation under the EU’s fiscal rules.

Source: Nomura

PGIM Global Total Return Bond Fund

Investment and Market Review

In November, the PGIM Global Total Return Bond Fund underperformed its benchmark, the Bloomberg Global Aggregate Index (USD), by -3 bps (gross) and -7 bps (net).

Market Outlook and Investment Strategy

Developed market rates rebounded in November, rallying 5-20 bps across the board. In the U.S., the rally was led by the long end as the market bull flattened, with 2-year U.S. Treasury Notes rallying 5 bps and longer maturities rallying 20 bps. During the month, the Fed cut rates by 25 bps for the second consecutive FOMC meeting, while continuing to emphasize their data dependent decision making. That stated, the market closed the month pricing in a 65% chance of the Fed lowering rates at the December meeting. In Europe, rates rallied in kind, with 10-year bunds tighter by over 30 bps on the month. The ECB cut its main policy rate by 25 bps due to the combination of broad-based slowing in economic activity across the EA and weaker inflation data. In addition, futures markets are pricing in more than one cut for next month's ECB meeting. For the period, U.S. investment grade corporates and U.S. high-yield bonds posted positive total and excess returns for the month. High quality securitized credit spreads performance was also positive, with CMBS AAA conduit and AAA CLO spreads widening over the month. Meanwhile, the emerging market debt sector posted positive total returns in hard currency and local rates, while total returns for EMFX was negative.

Source: PGIM

Pictet Asian Local Currency Debt Fund

Investment and Market Review

The index returned -5.15% in USD terms over the quarter,resulting in a total return of 1.60% for the year. The quarter saw a significant strengthening of the USD primarily driven by Trump's presidency win, putting significant pressure on EM currencies in the final months of the year. At a country level, South Korea and Indonesia were the worst performers but returns were negative across the board. Against the backdrop of the Fed's 50 bp cut in September as well as the China stimulus packages on both the monetary and fiscal side, the backdrop should have been supportive for risk assets. However, investor caution surrounding the US election alongside continued geopolitical risk weighed on EM asset returns. The market observed a repricing higher of Trump's election chances, which resulted in steeper US yield curves and USD strength but pockets of resilience in credit. In recent weeks, the market has closely monitored Trump's initial messaging, namely his choice of cabinet and, equally as important, any signal of potential policies to come, especially surrounding tariffs. The year ended with a sell-off in US Treasuries alongside another 25 bp cut from the Fed albeit with a more hawkish tone than in previous months, implying that there may be a slowing or a pause in further cuts going into 2025 given potential inflationary pressures from Presidentelect Trump's expected fiscal policies.

Market Outlook and Investment Strategy

As we move into the start of 2025, politics and geopolitics will be in the spotlight, with Trump's inauguration and any immediate policy announcements, particularly in regard to tariffs, being the primary focus. We see the scope for easing next year still in place (primarily in Europe and Asia), which supports our expectation of returns that are moderately higher than carry from local bonds for 2025. In terms of USD, which will be a key determinant of the ultimate performance, we see evidence that tariff risk is being priced in in a front-loaded manner. The post-inauguration period could spell more volatility but we anticipate an eventual turn from very high valuations, likely later in the year after the US exceptionalism and tariff themes play out. Overall, we see opportunities for local rates to perform against a backdrop of disinflation and growth slowdown, with the USD also weaker by the end of the year but with potential for volatility in the near term. We expect the second half of the year to be a return to the normal cyclical trends in the US and lead to more yield-seeking behaviour, which would improve the return outlook dramatically beyond what we cautiously forecast. In this context, we feel EM local allocations provide significant optionality and diversification from the US exceptionalism theme and incorporate attractive carry buffers and valuations for an uncertain 2025.

Post the US election, EM local assets have been under pressure given the continuation of the stronger Dollar theme. From a country-level perspective, interest-rate differentiation will be a key area of focus and, in our view, will be key to identifying outperformers in the coming year. Monetary policy is set to become much more divergent, with local dynamics playing a key role in returns. In the shorter term, we see plenty of scope for differentiation on the FX side, favouring more closed economies with strong policy settings and a strong idiosyncratic setup against key targeted nations like China and other small open economies exposed to trade measures, which could see some further repricing on the currency side. This rich differentiation should allow us to explore a lot more alpha opportunity this year. Active hedging of FX exposures, particularly around tariff discussions, will be needed to preserve more of that carry and improve total return. Key convictions in the rates space at this juncture are overweight positions in the Philippines and India, with the underweight in China moving closer to neutral. In FX, we now reflect a long USD position alongside Malaysian Ringgit and Indonesian Rupiah against underweight positions in Thai Baht and Chinese Renminbi.

Source: Pictet

Pictet Global Emerging Debt Fund

Investment and Market Review

The index returned -1.94% over the quarter, resulting in a total return of 6.54% for the year (in USD terms). High-yield performance has continued to be resilient whereas investment-grade returns have been more muted given their sensitivity to US Treasuries. Against the backdrop of the Fed’s 50 bp cut in September as well as the China stimulus packages on both the monetary and fiscal side, the backdrop should have been supportive for risk assets. However, investor caution surrounding the US election alongside continued geopolitical risk weighed on EM asset returns. The market observed a repricing higher of Trump’s election chances, which resulted in steeper US yield curves and USD strength but pockets of resilience in credit. November’s performance was positive and was broadly defined by Donald Trump’s victory in the US presidential election at the start of the month. Over the month, the market closely monitored Trump’s initial messaging, namely his choice of cabinet and, just as important, any signal of potential policies to come, especially with respect to tariffs. The year ended with a sell-off in US Treasuries alongside another 25 bp cut from the Fed albeit with a more hawkish tone than in previous months, implying that there may be a slowing or a pause in further cuts going into 2025 given potential inflationary pressures from President-elect Trump’s expected fiscal policies.

Market Outlook and Investment Strategy

As we move into the start of 2025, politics and geopolitics will be in the spotlight, with Trump's inauguration and any immediate policy announcements, particularly in regard to tariffs, being the primary focus. Despite uncertainties, we remain constructive on the outlook for EM hard currency debt. We continue to see evidence of fundamental improvements for the asset class, with credit quality and debt dynamics improving last year, more rating upgrades than downgrades and a more sustainable debt/GDP ratio than developed markets overall. We expect these dynamics to continue to play out in 2025. After a number of successful restructurings in 2024, we enter 2025 with a relatively robust universe, with no defaults expected within the universe, the default rate having been 0.1% in 2023 and 0% in 2024. Although the outlook for flows into EM dedicated funds remains challenging, we think that relatively clean positioning should keep technical factors supportive. Index spreads are at multi-year tights, on aggregate, but yields remain attractive and relative to other asset classes, the tightness of EM spreads appears less extreme. Across the EM complex, we anticipate that bottom-up country-level analysis will be key to success as we are unlikely to see uniform returns across the universe.

Post the US election, EM hard currency assets have continued to exhibit resilient performance despite the ongoing uncertainty surrounding Trump and what actions he will take, particularly regarding tariffs. Looking forward, given relatively robust fundamentals for EM sovereigns on the whole, we have a constructive view on the asset class whilst anticipating some near-term volatility as Trump begins to signal his intentions. In recent weeks, we have looked for opportunities to raise cash and take profit in advance of the inauguration as well the expected new issuance that typically comes to market in January. As such, we start the year on a neutral footing in duration terms whilst continuing to maintain our key conviction overweights in Argentina, Ukraine, Egypt, Ghana and Nigeria.

Source: Pictet

Pictet Premium Brands Fund

Investment and Market Review

In Q4, equity markets rallied significantly as investors grew more optimistic after US elections and anticipated pro-business measures to be implemented by the new government, including tax cuts and deregulation. Furthermore, China's Politburo signalled a shift in monetary policy, building market expectations for further stimulus, emphasising plans to "boost consumption" and adopt a "more proactive fiscal policy" in the coming year. In this context, Premium Brands published their Q3 results, which were mixed overall. Companies posting particularly strong figures included Ferrari, Prada, Cucinelli, Ralph Lauren, On Holding, Asics and Lululemon as they benefitted from innovation, relevant styles and excellent management execution. More muted results came from large companies such as Nike, Estée Lauder, LVMH and L'Oréal, all of which are heavily exposed to a disappointing Chinese consumer and to weaker consumer confidence overall.

Market Outlook and Investment Strategy

The outlook for consumer spending is expected to improve globally as inflation subsides in the West and more accommodative monetary policies are implemented, all set to benefit purchasing power. In addition, the Chinese government's stimulus initiatives could help restore investor trust, economic growth and consumer sentiment after a period of weaker trends. Simultaneously, US consumption is bound to reaccelerate as announced lower taxes, deregulation and business-friendly measures are set to boost investment and purchasing power in the US. These factors are likely to gradually enhance consumer spending globally and create favourable conditions for Premium Brands.

The strategy invests in companies with strong brands that fulfil consumers' aspirations. We favour recognised brands with high-quality products, superior services and relevant digital engagement. We evaluate the ability of companies to generate sustainable growth with high profitability and strong cash-flow generation. Premium Brands is benefitting from secular growth drivers in the long term. They tend to gain market share following times of crisis and uncertainty. Valuation levels must be attractive relative to growth prospects.

Source: Pictet

Pictet Security Fund

Investment and Market Review

The global equity market ended the quarter lower (-1.2%) in USD, with a negative month of December (-2.45%). Global bonds lost 1.5 per cent in December in local currency terms, while the Dollar was up 2.1 per cent on the month, thanks to the Fed's hawkish shift and the Trump effect post-election. The Fed's December FOMC meeting takeaways were more hawkish than expected as statement language received a small but important tweak about the committee preparing to look at the "extent and timing" of additional moves. Over the quarter, the Nasdaq outperformed (+7.1%) the other indices, supported by strong performance from Big Tech, such as Nvidia, which was up 13.2%. Over in Europe, we saw negative performance from leading equity indices: the STOXX 50 was down (-2.6%), with divergence among countries, with the DAX up (+3.02%) but the FTSE 100 down 1.4%. In Asia, the Japanese Nikkei rose 5.2% in the quarter while the Hang Seng lost 5.2% in local currency terms.

Market Outlook and Investment Strategy

Given the persistent uncertainties surrounding the current state of the world, we believe that securing the critical infrastructures of countries, protecting citizens' integrity and ensuring the ability of businesses to meet their objectives are top priorities. Given the Russia-Ukraine conflict, key structural themes will redefine Europe, among them Cybersecurity, Reshoring and Security of Supply Chains. Cyber is the new war frontier. The conflict has further highlighted the increasing importance of cybersecurity in conflicts given that the Russian invasion was accompanied by coordinated cyberattacks. Going forward, malware, phishing and attacks on infrastructure are likely to happen at a higher rate. The emergence of generative AI is opening new opportunities in the semiconductor design/ manufacturing space and increasing the need for more space in refurbished data centres (power and thermal management). We therefore remain confident about the fund's ability to outpace the global equity market on earnings and cash-flow growth over the next few years. The fund is an attractive investment opportunity to capture long-term new opportunities benefitting from strong fundamentals and good diversification properties.

Given the importance of the US for global growth and weakness in Europe and China, we expect global growth to remain stable at some 2.8 per cent in 2025. Inflation will continue to drift lower, although developed market central banks are unlikely to hit their 2 per cent targets during the year. There are hopeful signs for China and Europe, which should at least stabilise if not start to recover, with the second half of the year looking better than the first. More generally, support for risk assets is likely to come from further monetary easing as central banks respond to improvements in inflation and the earnings growth rate. Rate cuts from major central banks will continue even if the scale of those cuts may prove less extensive than previously envisaged. This should spur credit demand and private money creation, and this increase in liquidity should underpin what are otherwise rich asset valuations. While geopolitics could yet derail 2025, we think there's more of an upside risk – i.e. that conditions get better rather than worse. But it's a multi-polar world with many moving parts. Resilience will be the distinguishing feature of global equity markets in 2025, with companies likely to deliver steady earnings growth, translating into single-digit returns for investors. In that context, we will take advantage of this situation to allocate a risk budget to buy our main convictions.

Source: Pictet

PIMCO GIS Income Fund

Investment and Market Review

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

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

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

Market Outlook and Investment Strategy

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

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

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

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

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

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

Source: PIMCO

PineBridge Asia ex-Japan Small Cap Equity Fund

Investment and Market Review

The MSCI All Country Asia Pacific ex Japan Small Cap Daily Total Return Net Index fell by 2.25% in December, extending the risk-off sentiment from foreign investors that began in November as the market reacted to rising US Treasury yields after the US presidential election and economic strength in the US.

Korea, Indonesia and India detracted from the Index's performance, while Malaysia, China and Philippines contributed to the Index's performance.

The Federal Reserve's (the Fed's) 25 basis points (bps) rate cut at its December meeting, and its modest rate cut outlook, drove up US Treasury yields, which increased the volatility of Asian ex Japan equities, along with market concerns about the threat of potential tariff impositions and other policy changes. Korea, in particular, also grappled with added uncertainty due to domestic political disturbances.

China bounced back from its recent lows, mainly driven by positive sentiment on AI and datacenter names in the Index, while an uncertain policy rollout, potential tariff impact, and currency depreciation remained the market concerns of the broad China market.

The fund outperformed (gross and net of fees) its benchmark, the MSCI All Country Asia Pacific ex Japan Small Cap Daily Total Return Net Index, during December.

By geographic location, our stock selection in Taiwan, Korea and India contributed to the performance, while stock selection in China detracted from the performance.

By sector, our stock selection in information technology contributed to the fund performance, while our stock selection in consumer staples and underweight in health care detracted from the performance.

By stocks, an Indian Electronic Manufacturing Services (EMS) provider outperformed in Q424, as well as CY24, due to strong growth in revenue, driven by existing, as well as new, clients. Efficient cost management, as well as operational gains, led to an expansion in margins. Another holding, a leading chip design service provider in Taiwan outperformed as the market turned more positive on a customized AI chip demand outlook amid a further delay in Nvidia's next generation AI GPUs, as well as a strong order outlook by key US cloud service providers. On the other hand, an Australian industrial conglomerate underperformed amidst weak market sentiment. Another holding, a consumer goods company in India, underperformed as the demand environment continued to be under pressure.

Market Outlook and Investment Strategy

As a continuation of the November reaction, markets remained under pressure in December, impacted by concerns over potential tariffs from the US, expectation of fewer interest rate cuts by the Fed, and delayed policy responses by China.

Going into 2025, the team expects volatility for equities to persist on the back of uncertainty over potential changes to trade policies as the Trump government takes office. Rising US Treasury yields, and thus stronger US dollars, would increase the volatility of Asian ex Japan currencies, which in turn would impact fund flows to the region.

For China, a sustainable recovery will depend on stabilizing its ailing property market, reforming its fiscal system and defending against geopolitical tensions. While attractive valuations continue to draw investor interest, caution remains as they wait for more concrete fiscal policies.

While we continue to monitor macro developments and stay flexible in portfolio construction, we maintain a disciplined investment strategy with a focus on company-level fundamentals.

Source: PineBridge

Principal Preferred Securities Fund

Investment and Market Review

The month of November was all about the U.S. election and its potential ramifications. The implication for U.S. banks in a Trump administration is clear, with the KBW US Bank Index (BKX Index) rallying by 13.39% in November. The reaction by preferred securities was more muted given spreads that are at multi-year tights with returns for the month being driven by falling rates and coupon income with spreads remaining mostly flat.

The market has repriced its expectations for the number and timing of U.S. Federal Reserve (Fed) rate cuts. As of October 31, 2024, the market was pricing in three 25 basis points (bps) cuts by March 19, 2025, and 4.8 by December 10, 2025. This has now moved to 1.4 rate cuts by March 19, 2025, and 3.2 rate cuts by December 10, 2025. Therefore, the market expects some of the policies of the new administration to be possibly inflationary.

We continue to get robust supply from the U.S. utility industry as it looks to use hybrid capital as a means to fund expanding CapEx requirements to meet the burgeoning demand for electrical power. We have had $23 billion of non-financial issuance year-to-date (YTD) with another $3.7 billion added in November.

Despite a Fed easing cycle, coupons in our strategies remain robust and continue to grow as bonds that were issued as not callable for five years (NC5) in periods with lower rates are now getting refinanced higher. Case in point, Citigroup which recently called their 4.70% coupon preferred and issued a Perpetual NC5 at 6.75%.

Market Outlook and Investment Strategy

Capital security issuance has become standardized with fixed-to-fixed reset coupon structures. This reduces duration risk in our asset class, given the ability for the portfolio to earn higher coupon income in rising rate environments. Discounted fixed-to-fixed reset bonds can move up in price as coupons get reset higher. Coupons on the IIPS Index have gone from about 6.75% to a low of 5.25% in early 2022 as central banks kept rates low. Since then, the coupon has climbed to about 6%. This time around the Fed is cutting rates while the economy is not in a recession. The U.S. economy remains resilient, and this has resulted in a steepening of the yield curve. The expectation for intermediate rates in the future is higher as per the forward curve. Back in late 2021 and early 2022 rates were very low, and bonds were typically issued as long dated NC5 or PerpNC5. These bonds issued in a lower rate environment have coupons with 3 and 4 handles which will either get called away in 2026 and 2027 or get reset higher. This should be constructive for coupon income in our asset class and will put preferred and capital securities in the unique position of being able to increase coupon income in a central bank easing cycle.

The investment universe has grown as a result of issuance from utility and energy companies given the increased demand for power as an offshoot of the growing demand for electricity from data centers as a result of the AI boom. This is constructive from an income perspective because spreads on non-financial hybrids are typically wider than their financial counterparts. This new issuance also allows for sector diversification benefits.

The investment universe has also grown given Tier1 issuance from Canadian banks.

Recently issued corporate hybrids are structured as 30nc10 bonds that have a strong incentive to be called at the first call date given that equity credit from S&P falls off then. Additionally, European and Japanese 30nc10 insurance issuance have 100 bps step-ups which makes extension a more remote possibility.

Credit conditions in banks and insurance companies continue to be healthy.

Nominal yields are at decade long highs despite the recent spread tightening. This bodes well for the asset class as investors are reaching for yield in anticipation of further Fed rate cuts. A steep yield curve will be constructive for total return as we would expect capital to exit the short end of the curve and look for yield in strategies such as ours.

Source: Principal

Robeco SDG Credit Income Fund

Investment and Market Review

Politics, central bank policies and their impact on government bond yields were the most important themes driving markets in the past quarter. Although the Fed has cut an additional 50 bps in the fourth quarter, expectations for future rate cuts were reduced significantly. This was driven by economic data which shows that the continued strength of the US economy. In addition Fed meeting minutes and comments by officials show that the Fed will be patient with additional cuts. The five-year Treasury yield rose 82 bps over the quarter to 4.38%.

The most significant political development undoubtedly was the election of Donald Trump as the 47th US president. This election was positive for risk sentiment in the US, as Trump is perceived as business-friendly and markets tightened further from already tight levels. However markets are worried about the longer term impact on inflation and US government debt, which also partially explains the upward move in Treasury yields.

Another relevant political event was the collapse of the Barnier government in France, following a successful no-confidence vote. This upheaval widened OAT spreads to levels last seen during the Eurozone crisis in 2012. This did not lead to any significant market volatility in credit spreads and even spreads on French bank bonds hardly underperformed.

Before and since his election Trump has been very vocal on his plans to implement trade tariffs. This continues to be an overhang for sectors such as the automotive, a sector has recouped some of the losses from the third quarter, but continues to trade at relatively wide levels.

In emerging markets although there has been some moderate weakness in Latin America. This was partly driven by potential trade tariffs, but also the domestic situation in countries like Brazil where the government continues to run high deficits. In Asia, markets continued to be well bid, although growth momentum in China remains relatively weak. The CEE region did quite well as markets start to price in a potential end to the conflict between Russia and Ukraine.

Market Outlook and Investment Strategy

Market indices show that credit markets are trading pretty close to historical tight levels. From current levels not a lot of tightening is to be expected. With potential risk from the macro and geopolitical side there could be potential spikes in spreads, but these will most likely be short lived as the economy remains robust.

Credit returns will be more driven by carry and roll down than by capital driven by spread compression. On a risk adjusted basis higher spread instruments with lower duration will outperform versus broader market indices in the current environment. Subordinated instruments like CoCo bonds and corporate hybrids are still attractive, but investors should focus on instruments with high call likelihood.

So far there have been little pockets of weakness but it is remarkable that the rise in Treasury yields has not impacted credit markets. In corporate high yield there are still many companies in the lower rating categories with heavily indebted balance sheets. There has been little stress in this part of the market and we would be careful on adding risk here. Also the real estate sector, which benefited from the decline in yields earlier, has not given up any of the earlier gains and could be vulnerable going forward.

The plans of the new government will in the short term be supportive for growth, but will add to inflationary pressure. Therefore we see potential upward pressure on yields, while the chances of a large move lower are not very high given the robustness of the economy. We expect volatility in Treasury yields to remain high in the coming period.

Source: Robeco

Robeco Global Consumer Trends Fund

Investment and Market Review

The European Central Bank (ECB) further cut interest rates, by a quarter of a percentage point, to 3% in order to avoid a potential recession in the euro zone. In the United States, the latest read-out on inflation rose slightly to 2.7%, leading to speculation the Federal Reserve should hit the pause button on further interest rate cuts until inflation is truly contained. Equity markets dropped to reflect the risk that the pace of rate cuts will slow going forward.

The MSCI All Country World Index (in EUR) dropped 0.4% (-2.4% in USD) last month. Robeco Global Consumer Trends slightly outperformed the reference index and returned -0.2% (-2.2% in USD). Calendar year 2024 returns were excellent from an absolute perspective at 20.4% (12.8% in USD) compared to 25.3% (17.5% in USD) for the MSCI ACWI Index. From a sector perspective, unsurprisingly, technology led the gains in 2024, while cyclical sectors like energy and materials lagged. Defensive sectors like staples and health care were basically flat for the year.

Last month was a bit of a weird one for our relative performance. Our themes mostly performed in line with the market (health & wellbeing lagged), so the outperformance versus the broader could be fully explained by the parts of the market we do not own. Energy stocks dropped about 10%, while cyclical segments like industrials, materials, and real estate also underperformed the market by a wide margin.

In our portfolio we saw the digital transformation of consumption theme slightly outperform, with Magnificent Seven components Alphabet (+12%), Apple (+6%) and Amazon (+6%) delivering the goods, while Uber Technologies (-16%) and Fiserv (-7%) lagged. Our health & wellbeing theme underperformed, mostly on the back of a weak Novo Nordisk (-18%, see below) drug update, while dermatology and injectable aesthetics provider Galderma (+12%) continued its strong run, driven by supportive data and a US approval for their potential blockbuster drug Nemluvio. Finally, the rise of the middle-class theme performed mostly in-line with the market. Continued weakness in our Latin America exposure, Nu Holdings (-17%) and Mercadolibre (-14%), was roughly offset by a remarkably solid showing of Tencent Holdings (+5%).

Market Outlook and Investment Strategy

Softer macro-economic data has given central banks in developed markets the necessary ammunition to start cutting interest rates. Both the European Central Bank (ECB) and the Federal Reserve cut rates by at least 100 basis points in 2024, although the pace is expected to slow in 2025. Given the uncertain macro and geopolitical climate, our quality growth style seems well suited for the current investment climate. Our balanced approach should provide downside protection, while also offering the structural growth to participate in the upside.

We remain convinced in our belief that long term investors should focus on high quality businesses with valuable intangible assets, low capital intensity, high margins, and superior returns on capital. Companies with these traits have historically delivered above average returns while offering downside protection. These firms are also poised to deliver healthy revenue and earnings growth in the future, and we expect them to generate attractive long-term returns. Valuations have normalized, although we believe premium valuations for these businesses are justified given the quality of their business models, the high levels of earnings growth and the sustainability of their franchises. We continue to have a positive long-term outlook for our investments.

Source: Robeco

Schroder Asian Growth Fund

Investment and Market Review

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

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

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

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

Market Outlook and Investment Strategy

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

Source: Schroder Investment Management Limited

Schroder Asian Income Fund

Investment and Market Review

Despite pronounced volatility at differing periods over the course of the year, Asia Pacific ex-Japan markets gained in 2024, bolstered by solid corporate earnings, US Federal Reserve interest rate cuts (September – December), and the most robust Chinese stimulus package seen in years, which was announced in September. Taiwan was the best-performing market, buoyed by AI optimism, while India saw strong domestic economic growth and investment inflows, and Mainland Chinese equities benefitted from the government measures. Conversely, South Korean equities declined due to a tepid economy, poor performance from the technology sector (principally heavyweight Samsung Electronics) and political instability, after the country's then-President Yoon Suk Yeol declared martial law in early December. Overall, the MSCI AC Asia Pacific ex-Japan Index returned +13.9% in SGD terms over the year.

In terms of fixed income, the US 10-year Treasury yield increased from 3.88% at end-December 2023, to 4.57% at end-December 2024, although it traversed a wide range of 3.6-4.7% over this period. Despite this volatility, Asian bonds demonstrated remarkable resilience, with the JPM Asia Credit (SGD Hedged) Index rising +3.7% in SGD terms in 2024. Asian high yields outperformed their investment grade counterparts, with a stable regional economy, solid US growth, and high all-in yields attracting investors.

Schroder Asian Income rose a strong +9.8%, net of fees, in 2024 in SGD terms. The Fund outperformed the 50% MSCI AC Asia Pacific ex-Japan + 50% JACI SGD-Hedged reference benchmark which returned 8.8%. Both equities and fixed income contributed positively, as did our tactical positioning in equity futures, led by our long positions in Taiwan index futures, supported by large-cap technology names.

Within equities, the Technology sector led the gains, primarily due to our exposure to Taiwanese semiconductors, driven by AI enthusiasm. China positions also saw a strong contribution, particularly in September, after the country's central bank unveiled the biggest monetary and liquidity stimulus package since the pandemic. In addition, security selection within India delivered positive returns, with the utilities sector benefitting from the country's expansionary budget to support energy and power plants. Our holdings in Singapore banks also added value.

Fixed income returned positively with Hong Kong bonds delivering strong gains, led by insurance, financials, and TMT. Chinese bonds also did well, supported by consumer names in the e-commerce retail space, as did Australian banking and real estate names, and South Korean financials.

Within Global ex-Asia, our exposure to catastrophe bonds and US Semiconductor ETF (now sold) generated alpha. US equity futures also delivered strong gains, as did our US Energy Infrastructure (now sold) which provided attractive alternative yields for the income strategy.

Market Outlook and Investment Strategy

As we enter 2025, the focus shifts towards 'Trumponomics', geopolitical tensions, as well as central banks' rate cutting actions. In the US, we continue to expect fewer rate cuts from the Fed than the market. Over the next few months, we still expect inflation to be quiescent, but there is a risk of inflation accelerating as the year progresses given the likelihood of tighter immigration controls leading to less slack in the labour market.

Outside of the US, while there is uncertainty around Trump's widespread tariffs, we would expect more monetary stimulus from Asian trading partners, such as China, to offset this. The region is likely to experience varying degrees of impact, but countries with a stronger domestic focus and robust growth, such as India and Indonesia, are expected to remain resilient. We continue to favour undervalued companies with a competitive edge within the global market landscape, and sectors that perform well post rate-cutting cycles.

Within fixed income, we prefer to keep duration neutral while staying nimble amid the persistent rate volatility. Asia credit benefits from a shorter duration profile relative to most regions, providing resilience against rate fluctuations especially considering unpredictable Trump policies and resultant reflation concerns. Overall, we remain positive on Asia in 2025 given the strength of domestic economies, but recognize that volatility remains a factor until clearer policies emerge from the newly-elected US government.

Source: Schroder Investment Management Limited

Schroder ISF QEP Global Quality Fund

Investment and Market Review

Considering 2024 overall, the strategy finished behind the MSCI AC World index. The year was characterised by similar themes to those that drove 2023, namely narrow markets and US tech exceptionalism. AI posterchild Nvidia alone, which rose 171% in 2024, was responsible for more than half the total calendar year underperformance with underexposure to Apple, Amazon, Alphabet and Meta making up the remaining impact. While US tech provided a drag, this was partially offset by more affordable structural growth opportunities in Europe and Asia. Stock selection in cyclical areas (e.g. materials & industrials) were additive, whilst avoiding poor quality real estate supported relative performance over the year.

Market Outlook and Investment Strategy

We continue to advocate a balanced approach, with exposure across areas of affordable structural growth, defensives and cyclicals to expose the strategy to a range of themes across

multiple facets of value and quality. We expect such diversification will reduce the risk of a single market environment significantly dominating relative performance and prepares the portfolio for any potential market volatility.

We remained diligent in profit taking during 2024, whilst taking advantage of wide performance dispersion to purchase or top up compelling options higher up the quality spectrum. Specifically, we harvested gains across technology and consumer discretionary where performance was strong. Conversely as opportunities to purchase higher quality names at better entry points opened during periods of volatility, our process naturally repositioned. Notably, we topped up on higher quality cyclicals in financials and industrials, focusing on those with the strongest balance sheets. Whilst we continue to favour traditional defensives, we rotated our exposures, adding to higher quality utilities, which as noted above are a beneficiary of the AI theme, funded in part from staples, due to our declining conviction in home products.

Our disciplined approach to profit taking also provided the flexibility to reduce our underweight exposure to the largest names in US tech given our decision to transition our approach to

stock weighing in the strategy, moving to a maximum permitted active stock weight of +1% versus the reference index. This change has removed our structural underweight to the very largest stocks, although the strategy remains highly diversified.

The strategy starts 2025 with a broad diversified global exposure. Technology is the largest overweight, focused on stocks demonstrating stronger growth characteristics alongside palatable valuations within application software and hardware. Elsewhere we remain discerning in financials due to balance sheet considerations, with our holdings mainly in insurers and high quality diversified banks. In industrials, we remain highly selective but favour manufacturing and business services.

Regionally, our exposure remains consistent with an overweight to North America which still represents the highest quality versus other developed and emerging markets. The UK and Emerging markets remain a source of funding, where we continue to see deteriorating quality, whilst we retain a modest overweight to Europe.

The current consensus is very firmly that the momentum behind equities will continue in 2025, albeit with less vigour. However, we should not be too sanguine about the resilience of most equity markets in the past two years. Plenty of good news is priced in which increases the risks of greater turbulence ahead with several potential catalysts. The incoming Trump administration is clearly a big wildcard in terms of setting the policy backdrop. Meanwhile, the Fed is unlikely to offer a clear pathway for monetary policy but a slower tempo of rate cuts in the US may not be a bad thing if it is driven by firmer growth rather than disappointment on inflation. Of the nine instances of short and small rate cutting cycles in the US since 1960, the market has on average risen by around 10% in the year following the first rate cut. There are two notable historical exceptions to this rosy scenario, as in both 1969 and 1976 equities fell sharply. The former was due to a recession whilst the latter was caused by the resurgence of inflation. It is a repeat of the late 1970s that we should be most concerned about.

These misgivings aside, there are reasons to be optimistic that the market can continue to rise this year, not least the good prospect of double-digit earnings growth in almost all regions this year and next. As well as being the most profitable, the US also stands out with robust eps forecasts even excluding the Mag-7.

Much has been written about the dominance of the big US stocks in the past decade which has led to a rapid rise in market concentration. However, the current high level of market concentration in the US is not unusual by historical standards or when assessed next to global comparisons. What should matter most to investors is mispricing rather than concentration. On this basis, we don't currently see strong evidence that a bubble has formed. Whilst it will be increasingly harder for the outperformance of the dominant stocks to continue at the same pace, US market concentration seems likely to persist for the time being. Of more interest is the greater scope for a rotation in market leadership away from the dominant themes of recent years.

Strong productivity growth in the US is often cited as the key driver of American exceptionalism. The evidence is clear that it has stood apart from the rest of the world over the past couple of decades and forecasts suggest that this will continue. The strongest argument for a reversal in US dominance is valuation based as the US market looks expensive both relative to other regions and its own history, regardless of the impact of the Magnificent-7 stocks. However, the elevated earnings power of US companies does appear to justify the gap. Nevertheless, much of the good news is already discounted and the prospects for attractive opportunities elsewhere have increased, boosting the case for regional diversification.

Looking ahead, the prospects for cheaper stocks appear better than this time last year, mainly because they are not structurally challenged, and investors are increasingly looking for new opportunities outside of US mega caps. Reports of Value's death have been greatly exaggerated as outside of the US, Value actually beat Growth in 2024. A reversion to the longer run discount of value stocks to the market would imply strong relative gains, particularly if this is overlaid with a dual focus on both Value and Quality. We are less optimistic about small caps and emerging markets. Superficially, both groups appear cheap but the former face significant balance sheet risks whilst the latter is very dependent on China's management of its structural economic issues.

A strong US dollar will also weigh on the attractiveness of EM assets. In the short term, the greenback seems supported thanks to Trump's expected policies but longer term it will depend more on the progress of inflation and investor reaction to the country's deteriorating fiscal situation. It seems highly probable that the return to higher interest rates in the post COVID environment after years of ultra loose monetary policy is here to stay. This environment is likely to challenge poorly managed companies and necessitate strategic adjustments by investors, which is why we maintain a firm eye on balance sheet strength in our investments.

In summary, the investment backdrop is not that dissimilar to last year in that equity investors have had a relatively easy ride of late but there are plenty of sources of potential volatility ahead of us. Whilst valuations are not extreme, they leave little room for disappointment. After being caught on the back foot in 2024, market strategists are currently forecasting American exceptionalism to continue. We would suggest that there is scope for the market to broaden without necessitating a reversal in the recent dominance of large cap growth in the US but suspect there will be greater interest in diversification, particularly stocks with more defensive properties. Remaining diversified across the Quality spectrum with a firm eye on valuations will be key.

Source: Schroder Investment Management Limited

Schroder Global Emerging Market Opportunities Fund

Investment and Market Review

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

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

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

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

The fund gained and outperformed its benchmark.

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

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

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

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

Market Outlook and Investment Strategy

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

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

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

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

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

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

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

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

Source: Schroder Investment Management Limited

Schroder Multi-Asset Revolution 30 Fund

Investment and Market Review

Global equity markets notched up strong gains in 2024. This was despite some instances of marked volatility, notably in late July/early August and also in mid-December. US equities led the gains, supported by expectations of a soft economic landing and further interest rate cuts. Resilient corporate earnings in several sectors also supported shares, as did enthusiasm around new technologies and Artificial Intelligence (AI). Eurozone delivered gains although economic momentum weakened significantly over the year. Japanese shares experienced a sharp correction in late July after a surprise BOJ interest rate hike but posted gains for the period overall. Asia Pacific ex-Japan also returned positively over the year. Optimism over the prospects for technology-related stocks helped Taiwanese equities to perform strongly. China was a key laggard for much of the period under review amid worries over its real estate sector. However, hopes of additional stimulus boosted shares towards the end of the period and it ended with gains. Overall, the MSCI AC World Index gained 21.8% in SGD terms over 2024.

In terms of fixed income, yields rose across the major government bond markets in 2024. The first half of the year saw market participants scale back expectations for early interest rate cuts and although subsequently softer inflation data boosted bond markets, particularly in the US, the November elections were the catalyst for a sell-off. Over the 12-month period, the 10-year US Treasury yield rose from 3.88% to 4.57%. Weaker US labour market data prompted the Fed to sanction interest rate cuts in September, November and December although officials subsequently issued more cautious guidance for 2025. Credit spreads tightened significantly, as lower interest rates boosted demand for both investment grade and high yield corporate bonds.

Commodities returned higher, led by precious metals. Gold advanced a strong +31.8% over the period, benefitting from geopolitical tensions in the Middle East, ongoing economic uncertainties and strong demand from central banks around the world. Within currencies, the US Dollar strengthened +7.1% (as measured by the DXY Index) while the SGD weakened -3.4% against the greenback.

SMART 30 delivered positive returns and outperformed their reference benchmarks comfortably for the year 2024.

Equities were the largest return contributors to absolute returns, driven by our allocations to Global and US equities. US equities was the best performer, led by Communication Services and the Tech sectors amid strong earnings and high demand for AI-related technologies; our opportunistic allocations to US small caps and sectors such as US Financials and Nasdaq were also additive to returns. Likewise, Fixed Income exposures contributed positively, due mainly to Global and Asian credit strategies as spreads narrowed, as did our exposure to Gold, which hit a record high over the year.

The Funds outperformed their respective benchmarks, with both asset allocation and security selection contributing to relative performance. Asset allocation was positive with the decision to overweight equities, and a preference for US, contributing strongly to relative performance, while tactical allocations to thematic sectors also helped. Within fixed income, an underweight in duration and a preference for credit over government bonds was beneficial as they outperformed. Our tactical position in Gold and overweight in USD, notably in the first half of 2024, also contributed to relative gains.

Market Outlook and Investment Strategy

As we enter 2025, the focus shifts from ‘landings’ to divergence across economies, central bank actions, and market performance. While we continue to expect inflation to be quiescent, there is a risk of inflation reaccelerating in the US as the year progresses. Together with the sustainability of government debt, this means that sovereign bonds don't offer the same diversification benefits. We continue to prefer credit considering higher all-in yields and strong corporate fundamentals.

We continue to hold a positive view on equities in the medium term, supported by healthy US earnings growth and low recession risks. Regionally, the US remains our preferred market post-election, as renewed confidence is evident. There is also potential for market strength to broaden out further to other regions. Volatility is expected to remain high but this could present buying opportunities.

With the potential for global tariffs in the months ahead, the US Dollar is useful as a diversification hedge. We remain positive on Gold as it should protect against concerns of excessive fiscal spending, although the allocation needs to be tactical rather than structural.

Overall, we think conditions are favourable for good returns to be made in 2025, but there will be challenges to navigate. Looking ahead, key questions going forward include whether yields will continue to rise and affect stability of equity markets, the Federal Reserve's interest rate trajectory, and whether China will implement further stimulus from here.

Source: Schroder Investment Management Limited

Schroder Multi-Asset Revolution 50 Fund

Investment and Market Review

Global equity markets notched up strong gains in 2024. This was despite some instances of marked volatility, notably in late July/early August and also in mid-December. US equities led the gains, supported by expectations of a soft economic landing and further interest rate cuts. Resilient corporate earnings in several sectors also supported shares, as did enthusiasm around new technologies and Artificial Intelligence (AI). Eurozone delivered gains although economic momentum weakened significantly over the year. Japanese shares experienced a sharp correction in late July after a surprise BOJ interest rate hike but posted gains for the period overall. Asia Pacific ex-Japan also returned positively over the year. Optimism over the prospects for technology-related stocks helped Taiwanese equities to perform strongly. China was a key laggard for much of the period under review amid worries over its real estate sector. However, hopes of additional stimulus boosted shares towards the end of the period and it ended with gains. Overall, the MSCI AC World Index gained 21.8% in SGD terms over 2024.

In terms of fixed income, yields rose across the major government bond markets in 2024. The first half of the year saw market participants scale back expectations for early interest rate cuts and although subsequently softer inflation data boosted bond markets, particularly in the US, the November elections were the catalyst for a sell-off. Over the 12-month period, the 10-year US Treasury yield rose from 3.88% to 4.57%. Weaker US labour market data prompted the Fed to sanction interest rate cuts in September, November and December although officials subsequently issued more cautious guidance for 2025. Credit spreads tightened significantly, as lower interest rates boosted demand for both investment grade and high yield corporate bonds.

Commodities returned higher, led by precious metals. Gold advanced a strong +31.8% over the period, benefitting from geopolitical tensions in the Middle East, ongoing economic uncertainties and strong demand from central banks around the world. Within currencies, the US Dollar strengthened +7.1% (as measured by the DXY Index) while the SGD weakened -3.4% against the greenback.

SMART 50 delivered positive returns and outperformed their reference benchmarks comfortably for the year 2024.

Equities were the largest return contributors to absolute returns, driven by our allocations to Global and US equities. US equities was the best performer, led by Communication Services and the Tech sectors amid strong earnings and high demand for AI-related technologies; our opportunistic allocations to US small caps and sectors such as US Financials and Nasdaq were also additive to returns. Likewise, Fixed Income exposures contributed positively, due mainly to Global and Asian credit strategies as spreads narrowed, as did our exposure to Gold, which hit a record high over the year.

The Funds outperformed their respective benchmarks, with both asset allocation and security selection contributing to relative performance. Asset allocation was positive with the decision to overweight equities, and a preference for US, contributing strongly to relative performance, while tactical allocations to thematic sectors also helped. Within fixed income, an underweight in duration and a preference for credit over government bonds was beneficial as they outperformed. Our tactical position in Gold and overweight in USD, notably in the first half of 2024, also contributed to relative gains.

Market Outlook and Investment Strategy

As we enter 2025, the focus shifts from 'landings' to divergence across economies, central bank actions, and market performance. While we continue to expect inflation to be quiescent, there is a risk of inflation reaccelerating in the US as the year progresses. Together with the sustainability of government debt, this means that sovereign bonds don't offer the same diversification benefits. We continue to prefer credit considering higher all-in yields and strong corporate fundamentals.

We continue to hold a positive view on equities in the medium term, supported by healthy US earnings growth and low recession risks. Regionally, the US remains our preferred market post-election, as renewed confidence is evident. There is also potential for market strength to broaden out further to other regions. Volatility is expected to remain high but this could present buying opportunities.

With the potential for global tariffs in the months ahead, the US Dollar is useful as a diversification hedge. We remain positive on Gold as it should protect against concerns of excessive fiscal spending, although the allocation needs to be tactical rather than structural.

Overall, we think conditions are favourable for good returns to be made in 2025, but there will be challenges to navigate. Looking ahead, key questions going forward include whether yields will continue to rise and affect stability of equity markets, the Federal Reserve's interest rate trajectory, and whether China will implement further stimulus from here.

Source: Schroder Investment Management Limited

Schroder Multi-Asset Revolution 70 Fund

Investment and Market Review

Global equity markets notched up strong gains in 2024. This was despite some instances of marked volatility, notably in late July/early August and also in mid-December. US equities led the gains, supported by expectations of a soft economic landing and further interest rate cuts. Resilient corporate earnings in several sectors also supported shares, as did enthusiasm around new technologies and Artificial Intelligence (AI). Eurozone delivered gains although economic momentum weakened significantly over the year. Japanese shares experienced a sharp correction in late July after a surprise BOJ interest rate hike but posted gains for the period overall. Asia Pacific ex-Japan also returned positively over the year. Optimism over the prospects for technology-related stocks helped Taiwanese equities to perform strongly. China was a key laggard for much of the period under review amid worries over its real estate sector. However, hopes of additional stimulus boosted shares towards the end of the period and it ended with gains. Overall, the MSCI AC World Index gained 21.8% in SGD terms over 2024.

In terms of fixed income, yields rose across the major government bond markets in 2024. The first half of the year saw market participants scale back expectations for early interest rate cuts and although subsequently softer inflation data boosted bond markets, particularly in the US, the November elections were the catalyst for a sell-off. Over the 12-month period, the 10-year US Treasury yield rose from 3.88% to 4.57%. Weaker US labour market data prompted the Fed to sanction interest rate cuts in September, November and December although officials subsequently issued more cautious guidance for 2025. Credit spreads tightened significantly, as lower interest rates boosted demand for both investment grade and high yield corporate bonds.

Commodities returned higher, led by precious metals. Gold advanced a strong +31.8% over the period, benefitting from geopolitical tensions in the Middle East, ongoing economic uncertainties and strong demand from central banks around the world. Within currencies, the US Dollar strengthened +7.1% (as measured by the DXY Index) while the SGD weakened -3.4% against the greenback.

SMART 70 delivered positive returns and outperformed their reference benchmarks comfortably for the year 2024.

Equities were the largest return contributors to absolute returns, driven by our allocations to Global and US equities. US equities was the best performer, led by Communication Services and the Tech sectors amid strong earnings and high demand for AI-related technologies; our opportunistic allocations to US small caps and sectors such as US Financials and Nasdaq were also additive to returns. Likewise, Fixed Income exposures contributed positively, due mainly to Global and Asian credit strategies as spreads narrowed, as did our exposure to Gold, which hit a record high over the year.

The Funds outperformed their respective benchmarks, with both asset allocation and security selection contributing to relative performance. Asset allocation was positive with the decision to overweight equities, and a preference for US, contributing strongly to relative performance, while tactical allocations to thematic sectors also helped. Within fixed income, an underweight in duration and a preference for credit over government bonds was beneficial as they outperformed. Our tactical position in Gold and overweight in USD, notably in the first half of 2024, also contributed to relative gains.

Market Outlook and Investment Strategy

As we enter 2025, the focus shifts from ‘landings’ to divergence across economies, central bank actions, and market performance. While we continue to expect inflation to be quiescent, there is a risk of inflation reaccelerating in the US as the year progresses. Together with the sustainability of government debt, this means that sovereign bonds don't offer the same diversification benefits. We continue to prefer credit considering higher all-in yields and strong corporate fundamentals.

We continue to hold a positive view on equities in the medium term, supported by healthy US earnings growth and low recession risks. Regionally, the US remains our preferred market post-election, as renewed confidence is evident. There is also potential for market strength to broaden out further to other regions. Volatility is expected to remain high but this could present buying opportunities.

With the potential for global tariffs in the months ahead, the US Dollar is useful as a diversification hedge. We remain positive on Gold as it should protect against concerns of excessive fiscal spending, although the allocation needs to be tactical rather than structural.

Overall, we think conditions are favourable for good returns to be made in 2025, but there will be challenges to navigate. Looking ahead, key questions going forward include whether yields will continue to rise and affect stability of equity markets, the Federal Reserve's interest rate trajectory, and whether China will implement further stimulus from here.

Source: Schroder Investment Management Limited

Schroder Singapore Fixed Income Fund

Investment and Market Review

2024 was another strong year for risk asset returns, as economic growth surprised on the upside and central banks finally began to cut rates. Yet despite the generally upbeat performance, there were plenty of bumps along the way. Rate cuts took longer than anticipated, leaving sovereign bonds struggling to gain traction. The re-election of Donald Trump triggered renewed outperformance of US last quarter, whereas other markets corrected on the stronger US dollar and reduced Fed easing expectations. The narrative of US exceptionalism soon helped push the US Dollar to its strongest annual close since 2001.

The US economy appears to have achieved an elusive soft landing, with US growth exceptionalism showing continued strength. Economic data points to relatively subdued inflation, sustained resilience in consumer spending, and a more balanced labor market. December inflation print defused market worries that the Fed may not be able to deliver additional cuts to the funds rate. Meanwhile, data on economic activity and spending remain surprisingly resilient, with retail sales, industrial production, and housing starts posting strong gains to close the year. Nonfarm payrolls increased 256k in December, and the unemployment rate declined further. Finally in December, the Fed pivoted in a more hawkish direction. While they cut rates again - bringing their total cuts in 2024 to 100bps - they signaled only 50bps of cuts for 2025, which was more hawkish than expected.

The Chinese economy continued to face persistent growth headwinds entering 2H 2024. A wave of shocks eventually compelled Beijing to pivot in late September by taking much bolder steps to stimulate China’s economy and reflate asset markets. Thereafter, the NPC meeting in November unveiled a well-anticipated fiscal program to swap off-balance-sheet "hidden" local government debts with on-balance-sheet debts. In December, China's top policy makers pledged to increase the fiscal deficit and cut interest rate at the annual Central Economic Work Conference. With regards to the property sector, authorities remain determined to support the downside through more policies. China's economic growth, after underperforming in Q2 and Q3 2024, has recently regained momentum. Growth beat expectations, with Q4 GDP growing 5.4% y/y, driven by industrial production (improved consumption and exports front-loading), and service production. December data reflected an uptick in economic activity, including industrial production, exports, and retail sales, while fixed asset investment slightly disappointed. Real estate data from the NBS indicated mild recovery across sales, construction, and home prices. While China's growth momentum appears to bottom out owing to the government's decisive policy measures to boost domestic demand, uncertainties remain, including the potential trade tensions under Trump 2.0.

Over in Asia, the year has featured a broad and strong export performance from China, a surge in tech/semiconductor exports via Korea, Taiwan, and Malaysia, and healthy domestic demand growth in several Asia economies. Recent high-frequency data have looked a little stronger as China starts to roll out policy support and the Fed easing cycle is underway; lower oil prices have also been a plus for most economies. Inflation has come down to or below targets in most of the region and is falling in the rest. However, Asia central banks have been cautious - balancing growth/inflation backdrop with FX weaknesses. The region appears headed for rougher seas, driven by the fallout from Trump 2.0, China's overcapacity, and a slowing semiconductor cycle.

In Singapore, growth has continued to stay resilient, with real GDP rising 4.4% y/y, driven by net-export growth, as well as government consumption and fixed investment. Electronics export growth remained in double-digit territory, supporting non-oil domestic exports growth. Inflation has long since peaked. The December CPI print affirmed core disinflation, underpinned by softer global energy prices and a rebalanced labour market.

Singapore bonds delivered 4.03% over 2H 2024. The government bonds sector, measured by Markit iBoxx ALBI Singapore Government Total Return Index, returned 4.06%, outperforming the spreads segment, reflected by the Markit iBoxx ALBI Singapore Non-Government Total Return Index, which posted 3.98%.

Market Outlook and Investment Strategy

The Schroder Singapore Fixed Income Fund trailed its benchmark, the Markit iBoxx ALBI Singapore over the second half of 2024. The Fund posted 6-month returns (net of fees) of 3.65% (I SGD Acc share class) and 3.45% (A SGD Acc share class), while its benchmark returned 4.02%.

Rates volatility remained as a hallmark in 2H 2024 as investors were kept on their toes in anticipation of the Fed's next move. Rates strategies weighed on active returns for the period. Gains from the Fund's overweight in the belly (7-10Y) of the SGS curve and underweight Singapore duration stance (positive contribution from carry) were more than offset by losses from the Fund's tactical long US duration positioning via US Treasury futures and an underweight in the front-end of the SGS curve.

Risk assets ended the year in the green and the SGD credits space similarly staged strong outperformance relative to its government bond counterparts. The Fund's overweight to SGD credits in the Financials and TMT sectors meaningfully aided returns. Allocation to the Asian USD credits space via the Schroder Asian Investment Grade Credit Fund marginally detracted.

US economic growth will likely remain stable, supported by resilient US consumer spending, backed by strong wage growth and asset market returns. Amid a still-resilient labour market and disinflation that seems to have stalled, the Fed would likely enter a new phase in their cutting cycle – one characterized by longer pauses and occasional rate cuts. The Treasury's clear indication that it plans to keep coupon supply stable this year should help alleviate long-end yield volatility. That said, a strong USD regime is here to stay with bouts of volatility, as tariffs and still-wide interest rate differentials in this high-for-longer rates environment should be a source of USD support.

Elsewhere in China, the economy continues to face headwinds, including weak nominal GDP growth and ongoing uncertainty in US-China trade relations. While the earlier timing of the Lunar New Year lifted food and services prices, underlying deflationary pressure and continued consumption downgrading remain concerns. Hence, we expect Chinese policymakers to maintain an accommodative stance and remain reactive as they assess potential negative shocks from Trump 2.0.

Singapore's near-term outlook stays resilient, supported by the ongoing upturn in global tech cycle and pre-tariff front-loading activity. However, as an externally dependent economy, it faces growth risks as global trade flows slow. MAS's recent pre-emptive move points to a wait-and-see approach, with a further easing bias should global growth decelerate. The SGD remains vulnerable as it is one of the most exposed currencies to trade tariffs with its high export exposure and beta to RMB.

On the rates front, SGSs are expected to outperform USTs. Unlike the US, which has increased debt issuance to cover budget deficits, Singapore maintains a balanced budget policy and does not rely on government bond issuance to finance its spending. This divergence could put upward pressure on the long end of the UST curve.

In the SGD credit space, spreads should remain tight relative to historical levels, supported by technicals and solid fundamentals. Carry will likely remain the name of the game as rates are expected to stay high for longer. Singapore also offers an oasis of safety in times of heightened geopolitical stress. We continue to favour Financials, the mainstay of credit market, given their solid positioning to navigate the uncertain interest rate trajectory and healthy net interest income. For the Real Estate sector, we stay selective within REITs given interest cost savings (lower rates) from refinancing may take time to materialize.

Source: Schroder Investment Management Limited

Schroder Singapore Trust

Investment and Market Review

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

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

Market Outlook and Investment Strategy

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

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

Convened in August 2024 by the central bank, the review group has set a 12-month timeline to provide their findings and recommendations to the government as to the best way to revitalise the Singapore equities market. There has been much discussion on the best way to further enhance the attractiveness of Singapore as a listing hub, and we do hope that this is given serious thought and consideration by the government when the recommendation report finally comes out. The precedence set by Japan and Korea in revitalising their equities markets have seen decent success, so there is hope that if Singapore was to take this seriously, we could see similar levels of success for the local bourse. If this does happen, it should provide a positive catalyst for the Singapore equities market.

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

Source: Schroder Investment Management Limited

Templeton Shariah Global Equity Fund

Investment and Market Review

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

Although 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, 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 indices 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.

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

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

Market Outlook and Investment Strategy

The year 2025 brings a mixture of opportunities and headwinds, presenting an uneven landscape that will continue to test our price discipline and stock selection expertise. First and foremost, this is the year of Trump 2.0. The re-election of US President-elect Trump—who will take office on 20 January—and the Republican Party's control of the US Congress have excited many investors with promises of business-friendly and pro-growth policies, potentially including corporate tax cuts and deregulation. These policies, if implemented, may support earnings growth and profit-margin expansion, as well as revenue-accretive corporate actions such as mergers and acquisitions. However, the risks of US tariff hikes are tangible, potentially hurting not only American companies relying on overseas supply chains, but also global trade and growth. We recall the sizeable earnings downgrades that hit all regions in the 2018–2019 trade war during President-elect Trump's first term, with Asia bearing the brunt. A similar scenario cannot be ruled out as the second Trump presidency begins.

Meanwhile, expectations of monetary policy easing will remain a key market driver. Further rate cuts by major central banks, including the US Federal Reserve (Fed) and the European Central Bank, are likely in the cards, but uncertainties abound. Sticky inflation is a tail risk that bears watching, especially in the United States, where higher tariffs and near-full employment may keep consumer prices high. Already, the Fed has reduced its projected rate cuts in 2025 from four to two. A slowdown of the easing trajectory has largely been priced in, but further setbacks may be a major downside surprise to both equity returns and earnings growth prospects.

Against this backdrop, we will continue to focus on identifying companies that, in our analysis, are favourably or fairly priced relative to their robust fundamentals. These are businesses that can generate free cash flow, protect profit margins, sustain earnings growth and deliver shareholder returns throughout the business cycle. With a bottom-up perspective, we see these opportunities across multiple sectors and geographies. Health care, for instance, is a sector that may have been oversold despite its defensive growth qualities. The sector's share-price underperformance in 2024 may yield mispricing opportunities that can help enhance the portfolio's defensive bulwark. Energy is another sector where we see value potentially emerging from the selloffs in 2024, with select stocks offering ample free cash flow yield and generous shareholder policies at compelling prices.

Overall, as we stay invested, we will aim for diversified exposures across defensives and cyclicals, maintaining what we believe is a balanced portfolio structure that can sufficiently capture near-term upside and long-term value without eroding our risk/reward profile. Being diversified also means paying attention to the valuation gap between the US market and the rest of the world. After two years of exceptional returns, US equity valuations may have become stretched relative to European and Asian stocks, which are trading at a roughly 40% discount based on one-year forward price-to-earnings ratios. The US market remains critical and we are ready to narrow our underweight gap relative to the benchmark, but this will be done selectively. Recent new additions—including a technology conglomerate and a consumer health giant—followed careful assessment of prices relative to peers and their own intrinsic worth, as well as their future growth trajectories. In balance, we initiated fresh exposure to China, while adding two Danish positions to the portfolio, among other moves. As the year progresses, we will continue to seek idiosyncratic ideas in Europe and Asia for portfolio enhancement.

Source: Franklin Templeton

United SGD Fund

Investment and Market Review

Government bonds: A “red wave” in the US election and Fed speak advocating a patient approach to further rate cuts contributed to a volatile November (2024) in rates markets. Interest rates initially gained on inflationary fears associated with Trump’s Presidential win but corrected swiftly after the appointment of Scott Bessent for Treasury Secretary who is perceived to be more market-oriented. Personal Consumption Expenditures (PCE) price data for October 2024 came broadly in line with expectations coupled with slightly soft consumption data that tilted the market towards a December rate cut. The 2-year and 10-year US Treasury (UST) yields closed at 4.15 per cent (-2 basis points, bps) and 4.17 per cent (-12bps) in November 2024.A series of China’s easing measures were implemented since September 2024 and the debt swap program was announced in November 2024. To maintain a growth target of “around 5 per cent” for 2025, the government is expected to set a significantly higher fiscal deficit aimed at bolstering domestic consumption. The debt swap program will convert Renminbi (RMB) 5.6 trillion of hidden local debt over the next 13 months should enhance local fiscal conditions and provide local governments with more resources to tackle their domestic economic challenges.

Corporate bonds: JP Morgan Asia Credit Index (JACI) Investment Grade credit spread was flat at 106bps, at a historically tight level since 2007. New issuance in Asia ex-Japan G3 currency (bonds issued in US Dollars, Japanese Yen, or Euros) primary bond market was slowed to US$15.6 billion in November 2024 (October 2024: US$16.7 billion, November 2023: US$11.7 billion) as the market took a breather on US politics uncertainties. Total issuance year-to-date was US$170.4 billion, up 35 per cent from $126.0 billion over the same period in 2023.We turned cautious going forward given the following uncertainties: 1) potential increase in trade tensions imposed by the new US administration and 2) the Asia credit market may be more susceptible to any negative developments given the historically tight Asia credit spread. That said, fixed-income investments remain attractive riding on the tailwind of the Federal rate cut cycle.

Market Outlook and Investment Strategy

We look to add credits with relatively attractive spreads and longer maturity (2026/2027). To enhance the portfolio’s all-in yield given tight credit spreads in Asia, we diversified into Australian and Japanese issuers. We continue to maintain our preference for defensive sectors with resilient balance sheets, credits with leading market shares and of systemic importance.

The Fund will continue to:

1) Assess the relative value of bonds in the portfolio;

2) Focus on companies that have good access to capital markets and have defensive business models;

3)Invest in bonds maturing/callable/puttable on rolling three years;

4) Maintain 1-3 per cent cash for liquidity; and 5). Hedge foreign currency risk to Singapore Dollar.

Source: UOB AM

United Asian Bond Fund

Investment and Market Review

Government bonds: A “red wave” in the US election and Fed speak advocating a patient approach to further rate cuts contributed to a volatile November (2024) in rates markets. Interest rates initially gained on inflationary fears associated with Trump’s Presidential win but corrected swiftly after the appointment of Scott Bessent for Treasury Secretary who is perceived to be more market-oriented. Personal Consumption Expenditures (PCE) price data for October 2024 came broadly in line with expectations coupled with slightly soft consumption data that tilted the market towards a December rate cut. The 2-year and 10-year US Treasury (UST) yields closed at 4.15 per cent (-2 basis points, bps) and 4.17 per cent (-12bps) in November 2024.A series of China’s easing measures were implemented since September 2024 and the debt swap program was announced in November 2024. To maintain a growth target of “around 5 per cent” for 2025, the government is expected to set a significantly higher fiscal deficit aimed at bolstering domestic consumption. The debt swap program will convert Renminbi (RMB) 5.6 trillion of hidden local debt over the next 13 months should enhance local fiscal conditions and provide local governments with more resources to tackle their domestic economic challenges.

Corporate bonds: JP Morgan Asia Credit Index (JACI) Investment Grade credit spread was flat at 106bps, at a historically tight level since 2007. In late November 2024, the green energy division under Adani Group (Adani Green Energy Limited) priced a US$600 million bond. However, the bond offering was withdrawn after US prosecutors charged Gautam Adani (the group founder) with participation in an alleged bribery. Although Adani Group denied the bribery allegations, there was a massive sell-off in the Adani dollar bonds. New issuance in Asia ex-Japan G3 currency (bonds issued in US Dollars, Japanese Yen, or Euros) primary bond market was slowed to US$15.6 billion in November 2024 (October 2024: US$16.7 billion, November 2023: US$11.7 billion) as the market took a breather on US politics uncertainties. Total issuance year-to-date was US$170.4 billion, up 35 per cent from $126.0 billion over the same period in 2023.We turned cautious going forward given the following uncertainties: 1) potential increase in trade tensions imposed by the new US administration and 2) the Asia credit market may be more susceptible to any negative developments given the historically tight Asia credit spread. That said, fixed-income investments remain attractive riding on the tailwind of the Federal rate cut cycle.

Market Outlook and Investment Strategy

We continue to stay up in credit quality, maintaining our preference for defensive sectors with resilient balance sheets, credits with leading market shares and of systemic importance. To enhance the portfolio’s all-in yield given tight credit spreads in Asia, we diversified into Australian and Japanese issuers while avoiding China Properties. We are neutral on duration as yields remain volatile from changing rate cut expectations and political shocks. Instead, we continue to focus on corporate bonds with improving fundamentals and credit spread compression.

The Fund will:

1) Assess the relative value of bonds in the portfolio;

2) Focus on companies that have good access to capital markets and have defensive business models;

3) Benchmark duration along the curve relative to the benchmark to capture potential curve steepening;

4) Focus on credit spread compression by selecting corporates with improving fundamentals that have attractive yields/spreads but are not captured in their current pricing

Source: UOB AM

United Emerging Markets Bond Fund

Investment and Market Review

For the six months to December 2024, the Fund rose 5.63% compared to the benchmark, JP Morgan EMBI Global Diversified (EMBIGD) Composite index, which returned 4.88%.

Key contributors to the fund’s performance include our positioning in El Salvador, Argentina, Uzbekistan, Brazil and Mongolia; while Ukraine, Lebanon, Sri Lanka, Kenya and Indonesia were the main detractors to performance.

As of 31 December 2023, the Fund was invested 18.1% in Asia, 33.5% in Latin America, 24.5% in the Middle East, 10.6% in Europe, and 8.6% in Africa. The remainder was held in a combination of cash and cash equivalents.

High-yield (HY) credit has been the best-performing emerging market (EM) asset class in 2024 so far. Ahead of Trump's second term, talk is turning towards how the wars and regional conflicts might finish. As a result, EM bonds rallied in regions such as Lebanon, Ukraine, Iraq, etc. In addition, relatively “friendly” relationship between Argentina’s president Javier Milei and Trump and reduced government spending that brings significant changes to Argentina's economy under Milei's leadership boosted performance of Argentine bonds. The positive global market sentiments also helps in many other EM HY credits such as El Salvador, Ecuador, Bolivia, Sri Lanka, etc.

Market Outlook and Investment Strategy

We think Trump’s “Red Sweep” in the recent U.S. election might change things in 2025. “Trumponomics” will likely keep the global higher-for-longer interest-rate environment and weakens EM currencies against the dollar. This shift could amplify challenges for poorer and weak economy countries. These countries will be vulnerable from any flight of capital after four years of elevated interest rates and constrained market access. As a result, we underweight countries like Ghana (CCC), Mozambique (CCC), Nigeria (CCC+) and South Africa (BB-) as they have increased their gross debt to GDP level by more than 40% in the past 14 years.

While EM credit space provides a reasonably good risk-adjusted return profile based on data since 2004, we learn that EM economic growth trajectory has been mixed and we like investment-grade EM bonds currently. In terms of valuation based on credit spread per duration year, we single-A Asia, triple-B LatAm and single-B Central Eastern Europe. From a fundamental perspective, we dislike countries like Kazakhstan (BBB-), Jordan (BB-), Chile (A), Kenya (CCC+) and Romania (BBB-) due to their high external deficits

Source: UOB AM

United Singapore Bond Fund

Investment and Market Review

Growth momentum continued to remain strong in November 2024. The Gross Domestic Product (GDP) growth for the third quarter of 2024 was revised upwards significantly to +3.2 per cent quarter-on-quarter (q/q) (previously +2.1 per cent q/q), enabling GDP growth for 2024 to track closer to +3.5 per cent. This was driven by an upturn in the electronics and manufacturing sector and the continued resilience of consumer spending. Other growth indicators were mixed as industrial production growth slowed to +1.2 per cent year-on-year (y/y) in October 2024 (September 2024:+9.0 per cent y/y) while the non-oil-domestic exports (NODX) fell to -4.6 per cent y/y (September 2024: +0.9 per cent y/y), driven by the volatile pharmaceutical sub-segment. Change in inflation slowed in October 2024, reversing the previous month’s increase. The headline consumer price Index (CPI) in October 2024 cooled to +1.4 per cent y/y (September 2024: +2.0 per cent y/y) on lower private transport, accommodation, and lower core inflation. Core inflation fell sharply to +2.1 per cent y/y (September 2024: +2.8 per cent), given a large sequential decline in recreation, culture and hotel costs. The share of items with annual inflation above 2 per cent also fell to 43.4 per cent in October 2024 (September 2024: 50.0 per cent).

The new issuance of the SGD credit was lower in November 2024, with SGD 2.84 billion (October 2024: SGD 4.24 billion) issued. Notable issues from the foreign banks included Australia and New Zealand Banking Group Limited (ANZ) issuing SGD 600 million in Basel 3 compliant Tier 2 10NC5 (10-year non-call five-year) at 3.75 per cent coupon, while Barclays PLC issued SGD 600 million Perpetuals NC5.25 (non-call 5.25-year) at 5.4 per cent coupon. Else, real estate issuers GuocoLand Limited issued a 3-year senior unsecured bond at tight pricing of 3.307 per cent coupon.

Fundamentally, our base case for growth is continued expansion, though we believe we are closer to a late expansion phase rather than the early stage of an expansion cycle. We believe that US core inflation will moderate but at a very slow pace and hover around the 2.5 per cent inflation range through 2025. That said, we note that there are upside risks to inflation arising from US policies. Given the above, we have increased our expected 10-year US Treasury bond yield to trade at a range of 4.25 per cent to 4.75 per cent (previously 3.9 per cent to 4.4 per cent).

Singapore's parliament has passed a resolution to raise the debt ceiling under the Government Securities Act to SGD 1.5 trillion (previous SGD 1.065 trillion), lasting until 2029. The Monetary Authority of Singapore (MAS) has also announced 2025's issuance calendar, with no syndication of SGS planned in 2025. While the implication of the rise in SGS means that the supply of SGS may double from current levels, we doubt that will be the case. In any case, MAS will continue to calibrate demand according to interest. We think issuance at the long end of the curve may increase to meet more real money investors' interest and to promote secondary-market trading liquidity.

Market Outlook and Investment Strategy

The Fund continues to overweight corporate credits for the purpose of overall yield enhancement and keeps a neutral duration position relative to the benchmark. We will continue to look for relative-value trades and bonds from good-quality issuers. Singapore Government Securities (SGS) comprises 45 per cent of the Fund, which we may look to lower when we identify suitable investments in corporate bonds. The increase in the weightage of SGS was partly due to the maturities of corporate bonds during October and November 2024. Given the strategy to be neutral on duration relative to the benchmark, we will keep SGS's weightage at a minimum of 40 per cent, especially at the intermediate to long end of the yield curve.

Source: UOB AM