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## HSBC Insurance Asia Equity Fund (SGD)

### Investment and Market Review

#### **Asian equities broadly maintain their positive momentum in 1H24**

Coming off solid gains in the fourth quarter of 2023, Asian stocks maintained their positive momentum and wrapped up a strong first half of 2024 (1H24) with a 9.7% return as measured by the MSCI AC Asia ex Japan Index (Net Total Return) in US dollar (USD) terms. Globally, stocks were fuelled by optimism over a resilient economy, improved corporate earnings and the boom in artificial intelligence (AI) technology. Within the region, the stock markets of Taiwan, India and Singapore were the best performers (as measured by the MSCI indices in USD terms), while those of Thailand, Hong Kong and Indonesia underperformed.

#### **Taiwan the region's best performer; Hong Kong continues its slump**

Taiwan (+29.4%) was the top performer, as investors' enthusiasm in AI continued to fuel its tech-heavy market. Benefitting from the increase in global demand for the hardware underpinning AI technologies, Taiwan's economy expanded 6.5% year-on-year (YoY) during the March quarter. The Democratic Progressive Party was handed a third consecutive presidential victory in January, and Taiwan's central bank unexpectedly raised the benchmark rate by 12.5 basis points (bps) to 2.00% in March, aimed at containing inflation expectations. Meanwhile, South Korea (+0.4%) saw a more muted gain. South Korean authorities unveiled a "Corporate Value-up Program" in February, which seeks to incentivise companies that prioritise shareholder returns, similar to Japan's corporate governance push last year. The Bank of Korea kept its key policy rate at 3.5% throughout 1H24, a level it characterised as restrictive, while reiterating risks around inflationary pressures.

China (+4.7%) recovered some ground in 1H24 following a rough 2023, as authorities unveiled new policy efforts in February, such as slashing their five-year loan prime rate—a benchmark for home loans—by 25 bps and unveiling new trading curbs on short-selling. China then held its annual National People's Congress in March and set an economic growth target of about 5% this year, promising steps to transform the country's development model, defuse property sector risks and curb industrial overcapacity. May saw further sweeping measures to support the struggling housing market, including removing the floor on mortgage rates, lowering downpayment and encouraging local governments to acquire homes to convert them into affordable housing. Still, concerns remain over China's economic outlook and beleaguered property sector. Hong Kong (-10.8%) endured a painful first quarter as appetite from foreign investors remained lacklustre, although it did pare back some losses in the second quarter.

#### **ASEAN markets turn in mixed performance**

Shares of Singapore (+9.0%) and Malaysia (+7.5%) moved higher, outperforming the Philippines (-5.2%), Indonesia (-10.5%) and Thailand (-12.6%). In Singapore, policy continuity is expected as Lawrence Wong assumed the role of Singapore's new prime minister. The city-state's manufacturing sector continued to recover, with the latest reading indicating that industrial production has rebounded back into positive territory. Malaysia's economy expanded faster than initially estimated in the first quarter—as GDP quickened 4.2% YoY—driven by private spending and a rebound in exports. In Indonesia, Prabowo Subianto was declared the winner of the country's presidential election, paving way for him to take the helm later this year. Bank Indonesia also raised its benchmark interest rate to a record high of 6.25% in a

Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for HSBC Life Variable Annuity, Goal Protector and other investment-linked plans for the financial year ended 30 June 2024.

surprise move in April. Meanwhile, its counterparts in the Philippines and Thailand stood pat with their respective key policy rates of 6.5% and 2.5% respectively over the period.

### **Indian shares achieve robust growth**

Indian equities (+16.9%) exhibited robust growth over 1H24. The Indian economy expanded by 7.8% YoY over the first three months of 2024, sharply above initial forecasts. The Reserve Bank of India kept the benchmark repurchase rate at 6.5% over the period, retaining its “withdrawal of accommodation” stance. The 2024 Indian general election commenced in April, which saw Narendra Modi being voted in as India’s prime minister for a third straight term, extending his leadership for another five years despite an electoral setback that saw the Modi-led Bharatiya Janata Party (BJP) fail to secure the simple majority on its own.

### **Fund Performance Review (31 December 2023 to 30 June 2024)**

The Fund returned 6.25% for the review period

Over the review period, the iFast-NAM Asia Premier Trust (the “Fund”) posted a return of 6.25% (SGD terms on a NAV-NAV basis), whereas the benchmark returned 12.75%. At the sector level, active positions in consumer discretionary and real estate were the principal contributors to relative performance, while holdings in healthcare and financials were the biggest drag on relative performance. At the country level, stock selection in India added the most value, while active holdings in China detracted the most from relative performance.

### Market Outlook and Investment Strategy

#### **Await confirmation of real, positive fundamental change before adding more capital in China**

Change remains the sole constant in Asian markets. Despite accelerated easing in China, concerns persist in the property market, which remains the focal point for confidence, consumption and broader markets. While slower growth expectations are now universally accepted, the path forward remains uncertain. The confirmation of the Third Plenum in July is likely the next major milestone for clues regarding future policy direction. Expectations of market-friendly measures are relatively low, and valuations in local equity markets remain exceptionally cheap. We await confirmation of real, positive fundamental change before committing additional capital, and we maintain a highly selective approach. Elsewhere, a combination of AI-induced excitement and positive structural reforms has driven Asian markets higher, particularly in Taiwan, Korea and India.

#### **Still positive on the overall India story**

In India, the shock loss of majority in the election for Prime Minister Modi and the BJP is both a victory for democracy and an opportunity for more balanced growth. We say a victory for democracy because there was a growing risk that Modi’s third term would become increasingly nationalistic with an ever-increasing majority. This has now been checked. Votes were lost on key welfare issues; employment, income, inflation and health and if anything, this likely leads to less emphasis on the corporate sector and more on basic needs and consumption. This does not de-rail the India story which is built on long lasting reforms, productivity gains and its geopolitical positioning. As always, we find a lot of positive fundamental change and sustainable returns on offer in India, and the challenge is finding those at the right price. We have recently been adding to areas of consumption and financials at the expense of healthcare.

### **Taiwan and Korea buoyed by strategic positioning in supplying AI's infrastructure build-out**

Elsewhere, Taiwanese and Korean stocks have emerged as some of the biggest gainers in Asia due to their strategic positioning in supplying AI's infrastructure build-out. While we observe this trend extending to downstream technology products and user applications, we cannot help but draw parallels with the internet era in terms of the market's eagerness to extrapolate future infrastructure capacity expansion. We remain vigilant for any signs of overextension and have shifted our focus toward downstream consumer technology, software and a deeper assessment of how AI is likely to transform labour-intensive business models. In Korea, we will be watching for July's parliamentary sessions and any momentum in tax reform—a key deliverable if the country's shareholder-friendly “value-up” program is to have significant impact.

In ASEAN, we have added our first Malaysian stock for many years. This was on a combination of stability and better top-down policy making, together with bottom-up fundamental change in the technology sector as Malaysia continues to move up the value chain in Southeast Asia. We have tempered our view on Indonesia owing to the long period between the national election and inauguration, a much tighter liquidity environment domestically and weakening Indonesian rupiah.

### **Fund Positioning**

Key overweight sectors include healthcare and information technology, while financials and communication services are the most underweight sectors. In terms of markets, the key overweight markets are India and Indonesia, while Singapore, Thailand and Hong Kong are the key underweights

Source: iFAST Financial Pte Ltd

## HSBC Insurance Asia Focused Income Fund (SGD)

### Investment and Market Review

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

### Market Outlook and Investment Strategy

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

Source: HSBC Global Asset Management

## HSBC Insurance Asian Bond Fund (SGD)

### Investment and Market Review

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

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

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

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

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

### Market Outlook and Investment Strategy

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

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

Increased beta moderately from 1.33 to 1.35.

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

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

USD Duration: Long

The fund has an IG-tilt with 65.2% in IG (including cash) as of end June and a BBB- average rating. APAC IG: This segment remains a resilient source of short-dated carry, has a strong presence of sovereign/quasi sovereign issuers, shorter duration than global IG counterparts and absorbable issuance pipeline. We are comfortable with Indonesia sovereigns and some renewable operators in the private utility space. Thai corporates and financials remain another source of active risk in the fund, although we avoid exposure to the credits linked to ongoing involvement in Myanmar. In Malaysia, we like select exposures in the quasi-sovereign space. In India IG, we like names with dominant market positions and strong balance sheets that we expect should weather through near-term inflation and macro headwinds.

China: As of end June, ATBF has a 21.0% allocation to China - a 12.8% underweight compared to its benchmark. At the same time, we still find a number of attractive opportunities in China. The backdrop of (1) stable fundamentals for most of the Chinese companies, coupled with (2) the lack of issuance due to alternative funding channels onshore and (3) strong demand from Chinese investors is keeping volatility for large segments of the market low. In China offshore state-owned enterprises (SOEs), fundamentals are stable overall, and technicals are strong due to limited supply and supportive onshore banks. While we are selectively positioned in some strategic SOEs, we have an underweight overall in the sector on the back of tight valuations. Within private-owned enterprises (POEs), we like the technology, media, and telecom sector due to improving credit trends as regulatory risks have diminished and the sector remains strategic to China's national interests.

Within financials, we find quite a few attractive opportunities, reflecting a combination of systemic importance, strong shareholders, strong company fundamentals and event-driven trades. As for the China real estate sector, it is now an immaterial component of JACI (less than 2%) and the fund is underweight the sector.

Non-China HY: In India HY, we like renewables, steel companies, infrastructure credits and select non-bank financing companies. There has been pickup in growth, improved access to domestic liquidity and stable credit profiles. In Indonesia HY, we like names in energy, renewables and real estate. Macau gaming is another interesting sector, which has been technically well-supported by the relaxation of Covid policies in China and increase in travel. Fundamentals are improving, credit profiles remain stable and multiple rating upgrades were seen last year. We like select opportunities in Philippines, Hong Kong and smaller issuing countries on a name-by-name basis. For Frontier sovereigns such as Pakistan, Sri Lanka

and Mongolia, we are selectively positioned with a focus on curve selection.

APAC Financials: Asian financials' profitability has been improving due to the higher rates environment. Asset quality has not shown much deterioration from higher funding costs as economy recovery continues. Chinese asset management companies' systemic importance has been illustrated through Huarong's bailout led by Citic Group. Other Chinese financials such as leasing companies have been seeing improving business as China recovers from the pandemic. Korean financials still offer value vs Chinese and some SEA ones even after decent spread tightening. They have been more regular issuers in the market, giving us

opportunities to take exposure. We are comfortable with the fundamentals of the Korean banking system and do not expect the stress in the housing market to exert too much negative impact. Other financial holdings in countries such as Hong Kong, Malaysia and Thailand are mostly in top banks with good fundamentals and/or parental/government support that would help them weather through macro uncertainty.

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

Source: BlackRock (Luxembourg) S.A.

## HSBC Insurance China Equity Fund (SGD)

### Investment and Market Review

Market sentiments towards China remained fragile during the review period, as investors remained very worried about the long-term structural headwinds that China is facing. These include weak demographics, the large debt overhang at the local government level, weak confidence among corporate and consumer, and the decoupling trend. Although the market recovered in Q2 on a more favourable demand/supply dynamics in the equities markets (more share buyback and less foreign selling) and more supportive macro policies, the recovery lost steams towards the end of the period, as investors were unwilling to turn more positive and raise their stakes in China until the recovery in macro data and corporate earnings are more evident. Overall, the Chinese markets, as measured by MSCI China, registered positive return during the period. However, outperformers in the China markets concentrated mainly on state-owned enterprises and defensive sectors including energy, banks and utilities, as investors were still unsure about the growth outlook in China and preferred defensive plays. Growth and small and mid-cap space of the markets, on the other hand, underperformed.

Whether China markets can resume the recovery will depend on the effectiveness of policy support and the sustainability of macro improvement. A meaningful turning point in key macro data as well as corporate guidance are required for a more substantial and sustainable recovery. Externally, a friendlier US-China relationship will also be very helpful to sustain the positive sentiments in the markets, though this may need to wait until after US Presidential Election in November 2024.

### Market Outlook and Investment Strategy

In terms of investment strategy, we will continue to maintain a balanced portfolio as the growth outlook of China remains uncertain. On one hand, we continue to focus on sectors that we see structural growth over the medium term. We like technology sector as select software and technology hardware names will benefit from the “Digital China” development and localisation trend. The internet sector is also back on our radar, as the peak of the regulatory cycle is now behind us and valuations are attractive. For industrial sector, its long-term growth outlook is underpinned by China’s industrial upgrade, increasing automation on the back of escalating labour costs, and a greener China. On the other side of the portfolio, we hold businesses that exhibit higher defensiveness and lower sensitivity to macro environment, including state-owned energy companies, utilities companies as well as gold miners. We remain underweight in Chinese

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banks due to concerns on their asset quality and net interest margin outlook given the weak macro backdrop.

Source: Schroder Investment Management Limited

## HSBC Insurance Chinese Equity Fund (SGD)

### Investment and Market Review

The Chinese Equity Fund rose 4.89% over the past year as of 30 June 2024 (SGD terms), while its benchmark, MSCI China 10/14 Net Total Return Index dropped 2.50% (SGD terms) over the same period.

The pessimistic market sentiment caused by weak consumer sentiment, shrinking property market and geopolitical tensions continued to drive the market down in the second half of 2023. Chinese Equity market rebounded since February 2024, supported by better-than-expected 2024 Q1 macro data, especially in exports and accelerating manufacturing and infrastructure investment. Supportive policy announcements, in property sector in particular, and resilient earnings with improving shareholder returns also improved investors sentiment. However, China economy growth remained subdued and unbalanced. Besides robust exports, industrial production and manufacturing CAPEX, housing and consumption remained sluggish.

Sector allocation effect was negative while security selection effect was positive during the period. The fund performance was mainly driven by favourable stock selection in Information Technology and Energy. However, it was partially offset by negative stock selection in Industrials and Health Care.

### Market Outlook and Investment Strategy

China export momentum remains resilient on the back of capital goods and green products, with the former supported in the near-term by global supply chain derisking. The recent upbeat data has underpinned our belief that China's economy is entering into a cyclical uptrend in the near-term, with more policy easing measures expected to boost the property market and consumer sentiment in the second half of the year.

The Central government has announced a new set of property policy loosening since mid-May. We believe this set of new policy roll out beat expectation as it addresses both demand and supply side. The fast policy response after announcing the study of destocking measures on April 30 shows Central government support to resolve the issue in a more forceful manner, compared to previous rounds of policy loosening which brought limited effect. In that sense, the tail risk of the economy has been largely reduced. We believe a stabilizing China property sector will benefit overall Chinese economy as well as equity market.

Investment team would continue to focus on bottom-up selected quality growth stocks in AI related industries, electric vehicles supply chain and SOE reform beneficiaries, which provide long term structural growth opportunities.

Source: HSBC Global Asset Management



## HSBC Insurance Emerging Markets Equity Fund (SGD)

### Investment and Market Review

Emerging market (EM) equities gained over H1 2024 but underperformed developed market peers. EM returns were buoyed by the ongoing strength in global trade and continued enthusiasm for artificial intelligence (AI). However, the prospect of higher for longer US interest rates was a headwind for rate sensitive EM, and China again proved a drag overall, particularly at the start of the period. In the second quarter, Chinese equities recovered some ground helped by optimism about the authorities' support for the housing sector and President Xi's reform rhetoric.

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

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

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

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

The US economy has been the engine of global growth this year, but there are signs in the latest high frequency data of a potential slowdown ahead. Schroders' economics team had already been expecting a degree of deceleration in 2025, and in the absence of a more severe deterioration in activity data, a soft landing remains the base case. In this scenario, the global goods cycle should remain supportive moving into next year. The global technology cycle is also supportive for EM.

While market-implied expectations for Federal Reserve (Fed) rate cuts this year may well be overdone, there is greater confidence that policy easing will commence in September. Fed rate cuts, against a backdrop of the significant fiscal and current account deficits, should lead to US dollar weakness in the longer-term. Meanwhile, EM inflation ex Turkey has remained sub 4% in recent months, and real policy rates are positive in most economies. However, uncertainty in the external environment outlook has

driven some caution among EM central banks. Indonesia hiked rates in June to protect its currency. Various Latin American and emerging European central banks had been cutting rates but several, notably Brazil, have paused their easing cycles. The potential for near-term policy easing may remain constrained, but this should change once we move into a Fed cutting cycle.

In China, Q2 GDP growth slowed to 4.7% year-on-year (y/y), from 5.3% in Q1, and was behind consensus expectations. The contribution from net exports held up but domestic demand softened due to slower consumption growth, with consumer confidence weak on the back of falling property prices and a sluggish labour market. Policy support has increased on a sequential basis, including 10bps cuts to the one-year and five-year loan prime rates, but appears insufficient to change the outlook. The 3rd Plenum was held in July, which takes place every five years to set out longer term social and economic policy. Expectations were already low, and there was limited tangible action announced. That said, discussion of tax and land reforms is interesting, and could help to address local government financing challenges, as well as labour flexibility and urbanisation. Given ongoing geopolitical uncertainty, most notably stemming from the upcoming US election, there is potential that additional fiscal support is delayed until there is greater visibility on external factors, particularly given that Donald Trump has threatened tariffs of 60% on Chinese goods imports to the US.

The global volatility of early August has also impacted EM; the more cyclical EM, those with high technology sector weight or carry-trade exposure in particular. The sell-off in the US was largely focused in the technology sector, where valuations had become expensive. Although EM technology sector valuations were also high versus the historical median, these were far less extended than in the US. As at 7 August, EM valuations are close to the historical median on 12-month forward price-earnings and price-book measures, and cheap on dividend yield. With the notable exception of India, and on some measures, Taiwan, most individual EM are cheap versus their own history.

#### Market Outlook and Investment Strategy

The outlook for the US economy and the timing of Fed policy easing remains key for EM. The US presidential election in November will also be important for EM given implications for trade and foreign relations. We continue to closely monitor the economic and policy outlook in China. While this is not currently expected, a material pickup in policy support could present upside risk to Chinese equities. The geopolitical outlook, including the path for US-China relations, is an ongoing area to consider. The risk that the conflict in the Middle East widens cannot be ruled out. Meanwhile, recent developments in Russia, with Ukraine launching cross-border actions, raises the prospect of renewed escalation of that conflict. These events have the potential to be inflationary, given potential feedthrough to energy and food prices.

Source: Schroder Investment Management Limited

HSBC Insurance Ethical Global Equity Fund (SGD)

#### Investment and Market Review

Although June political developments in Europe pressured results in that region, enthusiasm about artificial intelligence (AI) helped drive collective gains in global equities during the second quarter of 2024, 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.

The fund lagged its benchmark during the second quarter, when stock selection in the consumer discretionary, materials and consumer staples sectors detracted from relative return. Other major detracting stocks included Salesforce, a position that we have closed, and Albemarle in the materials sector. Albemarle is a leading producer of lithium, which is an essential material for electric vehicle (EV) battery production. Its shares have continued to underperform the broader market amid weak lithium prices and headwinds in the EV industry; lower-than-expected first-quarter earnings (reported on 1 May) further dampened sentiment. We stay invested and regard the stock as part of our exposure to EVs' structural growth potential, which may yet drive lithium demand to potentially rise significantly within this decade.

In contrast, stock selection in the industrials sector added to relative performance during the second quarter, with Hitachi, Ltd. as the top contributing stock. Hitachi's shares performed well in the second quarter, as the company impressed many investors with better-than-expected results for its fiscal year ended 31 March 2024, along with a 200-billion-yen share buyback programme for its current fiscal year. Our view is affirmed: Hitachi is an exemplary company in terms of corporate governance and capital allocation discipline; we also favour its business portfolio, which is geared towards information technology (IT) services, power grid and railways—all with structural growth potential. Meanwhile, our off-benchmark sponsored ADR (American depositary receipt) allocation to Taiwan Semiconductor Manufacturing Company (TSMC) was also a major contributor. Including its on-shore shares, TSMC is one of the fund's top-10 holdings. Against the backdrop of the ongoing AI rally, TSMC commands a very wide competitive moat in terms of technologies, innovations and business track record. A rock-solid balance sheet and generous capital return policies add to the investment case.

### Market Outlook and Investment Strategy

Entering the second half of 2024, we continue to see a range-bound equity market in which sentiment waxes and wanes on macroeconomic, geopolitical and corporate news flow. Expectations surrounding the pace and timing of interest-rate cuts by the US Federal Reserve will remain a key market mover. Without speculating on policy decisions, we will watch this space closely as the rate outlook may impact the portfolio in various ways. For instance, if inflation proves sticky and rates stay higher for longer, growth stocks will likely underperform following their year-to-date rally; value and cyclical stocks may instead fare better.

We will navigate this uneven landscape with Templeton's hallmark expertise in bottom-up stock selection and valuation assessment. We believe our strong focus on identifying companies that, in our analysis, are appealingly priced relative to their long-term fundamentals—especially free cash flow generation, earnings power and shareholder returns—should continue to underpin a diversified and resilient portfolio

Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for HSBC Life Variable Annuity, Goal Protector and other investment-linked plans for the financial year ended 30 June 2024.

that can potentially weather the entire market cycle. This will be coupled with attention to timely risk/reward adjustments, by rotating capital out of fair or fully valued positions to better-priced or higher-conviction ideas.

With that disciplined approach, we look to stay invested across both growth and cyclical sectors. Our high-conviction areas include the IT sector, particularly semiconductor and software stocks that are essential participants in the AI and digitalisation trends; the health care sector, for its defensive qualities and reasonable valuations; as well as the industrials sector, especially companies aligned with the energy transition theme. Geographically, Japan remains appealing to us—we focus on companies that, in our assessment, have a strong prospect of shareholder return enhancements through corporate reforms, along with ample exposure to global earnings amid the potential boost of a weak yen. With that in mind, we recently initiated a new position in a Japanese industrial engineering company with presence in the global aerospace value chain. This followed our decision to exit a Japanese mining and metal stock on the back of its year-to-date rally.

Source: Franklin Templeton

## HSBC Insurance Ethical Global Sukuk Fund (SGD)

### Investment and Market Review

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.

In the second quarter of 2024, the fund's asset allocation detracted from performance, primarily due to an off-benchmark exposure to Treasuries. Currency positioning also hindered fund returns, owing largely to exposure to the Turkish lira. Conversely, the fund's security selection contributed to results, particularly in sovereigns, corporate financials and quasi-sovereigns. Its yield-curve positioning also proved beneficial, primarily due to Turkish-lira duration exposure (notably carry), though this was largely offset by US-dollar duration exposure, particularly at the longer end of the curve.

### Market Outlook and Investment Strategy

Despite improving US inflation readings released in June, with the core personal consumption expenditures price index registering an annual rate of 2.6% in May (down from 2.8% in April) and the annual core Consumer Price Index coming in at 3.4% (down from 3.6%) for the same period, fixed income markets continued to exhibit elevated levels of volatility as participants focused on what fiscal policy and growth may look like under a potential Trump administration. As expected, rates volatility is likely to remain elevated as incoming economic data support conflicting growth and inflation narratives, along with a US presidential election cycle exacerbating policy uncertainty.

Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for HSBC Life Variable Annuity, Goal Protector and other investment-linked plans for the financial year ended 30 June 2024.

The Fed updated its 2024 rate-cut projection to one, down from a previous forecast of three; however, we are maintaining our overweight duration positioning, particularly as credit spreads continue to perform and provide fewer opportunities for returns.

While the market calibrates the timing and magnitude of rate cuts, it is important to keep in focus that the transition from a peak rate environment to a cutting cycle is supportive for interest rates but potentially challenging for risk assets. With the expectation that the Fed may hold rates higher for longer, we believe pressure on consumers, companies and governments will continue to increase—particularly on those with weaker financial profiles.

Geopolitical risks are also increasing, with limited progress on a ceasefire in Gaza and escalating tensions between Israel and Hezbollah that are not reflected in regional spreads and valuations of risk assets more broadly, in our assessment.

Our positioning, therefore, continues to show a preference for higher-quality credits that have financial buffers to manage slowing economic activity. Where we do take on higher-risk positions, they are increasingly selective and idiosyncratic and, in our view, compensate us for the elevated risks involved. On average, however, our portfolios do have higher credit quality than their historical average.

Our outlook supports an increase in defensive allocations to higher-quality fixed income sectors—of which global Sukuk are a good example—as we transition to rate cuts in 2024.

Source: Franklin Templeton

## HSBC Insurance Europe Dynamic Equity Fund (SGD and USD) Investment and Market Review

An underweight position in LVMH, a French luxury goods company, contributed to performance over the quarter. The share price came under pressure due to the overall slowdown in demand for luxury goods, with data showing a softening in China.

An overweight position in Prysmian, an Italy-based electrical cable company, contributed to returns over the quarter. The stock rose after the company announced that it will acquire Encore Wire to grow its presence in North America. This deal will broaden out the company's product offering in the US and will service residential areas and data centres.

An overweight in Adyen, a Dutch payments company, detracted from performance. The company posted a mixed business update, which saw an acceleration in volumes but missed expectations on revenues due to a mix shift towards larger enterprise merchants, driving a lower take rate. The mid-term guidance was reiterated, but the stock price fell after a strong run into results.

Not holding a UK multinational pharmaceutical and biotechnology company, detracted from relative returns. The firm released its first-quarter results, with revenue coming in ahead of market expectations. This was driven by new drug launches and positive dynamics for some of its high-margin products, such as Farxiga and Symbicort.

## Market Outlook and Investment Strategy

Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for HSBC Life Variable Annuity, Goal Protector and other investment-linked plans for the financial year ended 30 June 2024.

We are currently most overweight in energy and media & entertainment. The largest underweight positions are in pharmaceuticals, biotechnology & life sciences and household & personal products.

We added a position in Royal Unibrew, a Danish brewing and beverage company. The company reported strong second-quarter 2024 results, with revenues comfortably exceeding expectations. In addition, the company hiked the EBIT guidance for 2024, with input costs showing signs of normalisation.

We sold out of Melrose Industries, a UK aerospace manufacturer. While first-quarter 2024 results were broadly in line with expectations and guidance was reiterated, we were concerned about the back-end weighting of this outlook statement and, with the stock trading on a premium to historical levels, this led us to look for opportunities elsewhere.

An improved nominal growth outlook has historically translated to stronger corporate earnings. Earnings growth expectations for 2024 have seen steady improvement since late 2023.

Taking elections, trade policies and extreme weather events into consideration, investors need to acknowledge the limitations in preparing for uncertainties with a portfolio that is concentrated in a few geographical markets.

With still-elevated uncertainty around the path for the economy in 2024, a diversified approach appears prudent.

Source: J.P. Morgan Asset Management

## HSBC Insurance Global Bond Fund (SGD) Investment and Market Review

The global fixed income market was volatile in 2023, but ultimately ended the year positive. Expectations for a “higher for longer” interest rate environment given persistent inflation triggered a sell off in the second and third quarters. However, the market rallied sharply in the fourth quarter, as inflation moderated, and the Fed “pivoted” by indicating an end to its monetary tightening campaign. Risk assets also rallied in hopes that the Fed would be able orchestrate a soft landing.

Given this backdrop, the portfolio had strong positive returns for the calendar year. The top contributor to the portfolio was exposure to select emerging market local currency sovereign bonds. The Fund’s exposure to Brazil, Mexico, and Colombia contributed on the back of attractive valuation opportunities driven by high nominal yields and peaking inflation following aggressive and early rate-hiking cycles.

U.S. Corporate high yield also contributed, followed by investment-grade credit. These sectors benefited from high starting yields and the narrowing of spreads. Within US investment grade credit, financials in particular outperformed, followed by industrials. Within US high yield, the communications sector underperformed, but broadly, every other sector performed well. Prime MBS also contributed given the resiliency in the U.S. residential housing market. Finally, UK Gilts that were added later in the year were accretive to the portfolio, as were tactical allocations to German and Spanish government bonds.

On that detractor side, US Treasury duration detracted given the second and third quarter bond sell off. However, we believe the recent fourth quarter rally in duration is encouraging and a sign that the market

has pivoted away from a higher for longer scenario. In addition, a lower inflation backdrop along with the likelihood that central banks have reached peak rates are all encouraging for duration. Finally, a short to Japanese sovereign duration also detracted as did exposure to the Japanese yen.

### Market 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

## HSBC Insurance Global Emerging Markets Bond Fund (SGD and USD)

### Investment and Market Review

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

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

### Market Outlook and Investment Strategy

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

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

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



Overall, a constructive backdrop and relatively resilient fundamentals leads us to maintain constructive positioning. We remain focused on keeping the overall quality of our portfolios high, with sufficient cash levels in order to be able to take advantage of opportunities in a higher volatility environment, as well as new issue concessions in the primary market.

Source: PIMCO

## HSBC Insurance Global Emerging Markets Equity Fund (SGD and USD) Investment and Market Review

Following two very strong years for the fund in 2019 and 2020, the period since 2021 has been one of the most challenging in the strategy's close-to-thirty year history. At a top level, the underperformance of high quality, long duration growth businesses during this period has been an undeniable style headwind for this quality-growth fund. However, we fully acknowledge that it has not been the style environment alone, it has also been a difficult period for stock selection, particularly in China.

China (combining Hong Kong and the mainland) accounted for over 300 basis points of the underperformance in 2023. Nine of the top ten stock detractors for the year were in China or China-related. These were predominantly domestic names, for example Yum China (fast-food restaurant company), Foshan Haitian Flavouring (condiments producer), Wuliangye Yibin (baiju) and AIA (insurance). These companies simply haven't seen the earnings impulse given China's disappointing re-opening, with consumer confidence still very fragile. In e-commerce, the combination of not holding Pinduoduo and an overweight in JD.com cost 200 basis points alone. Pinduoduo has built an unparalleled consumer mindshare in the value-for-money attribute allowing them to benefit from more value-focused consumer spending. At the same time the company has benefited from exponential growth in its international ecommerce arm, Temu (popularly called the dollar store of online shopping). Meanwhile, JD.com doesn't have meaningful overseas exposure and has been negatively impacted by the increased competitive intensity in the e-commerce space.

India has also been a difficult market in this case because we have not participated in the ongoing mid-cap capital formation rally. So while our largest Indian investment, HDFC Bank, was a modest detractor, the real impact was driven by the market's performance being more concentrated in areas not owned in the portfolio. Notably, very richly valued domestically exposed sectors: utilities, industrials and materials. We feel more comfortable with this given valuations and, in fact, the portfolio is now slightly underweight India for the first time in 10 years.

Stock selection in Latin America was bright spot for the portfolio. Mercadolibre in Argentina contributed strongly to returns. Company results showed a business which delivered margin improvement while gaining market share in e-commerce, with its two key markets: Brazil and Mexico, showing 20%+ growth. At the same time, concerns over the company's credit exposure to consumers seems to have been misplaced, with robust risk management limiting credit losses. Additionally, investments in financials across the region Nu Holdings (a digital banking platform) and Itau in Brazil and Banorte in Mexico supported returns.

Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for HSBC Life Variable Annuity, Goal Protector and other investment-linked plans for the financial year ended 30 June 2024.

An overweight exposure to Information Technology contributed to performance. Increasing confidence of a positive inflection point in the hardware demand cycle and AI demand continuing to accelerate aided holdings in Samsung Electronics, TSMC and Realtek Semiconductor.

We still strongly believe that our investment philosophy of compounding superior earnings growth over long periods by owning high-quality businesses remains effective, as does our portfolio design which leads to low turnover and costs, high and consistent levels of active money, and effective diversification.

### Market Outlook and Investment Strategy

The inflation and interest rate narrative in developed markets remains higher for longer. In contrast, many EM central banks have relatively high policy rates, especially compared with domestic inflation. Consequently, EM central banks have ample capacity to cut rates assuming inflation remains on its current downward trajectory: Brazil, Chile, Hungary and Poland have started.

China's economic recovery continues to disappoint as consumer and business confidence remains weak in the face of high youth unemployment and weakness in the all-important property sector. The policy pendulum has swung pro-growth and pro-business and stimulus measures are wide ranging. However, the authorities are more focused on managing risks to growth rather than underwriting a broad-based recovery. Instead, we will need to wait for the cumulative effects to be felt as we move into 2024.

In contrast to China, prospects in other regions look to be more encouraging. Latin America, the GCC and South Asia have attractive domestic growth drivers, while North Asian technology companies look to be entering a new cycle with structural demand for AI, cloud adoption and EVs set to drive growth.

With China's weaker than expected reopening, EM earnings estimates for 2023 are now for a mid-teen decline followed by high teens growth in 2024/5.

2023 was a higher turnover year for the fund, albeit that turnover for the year was still only 25%. This was a reflection of a) changes to our internal estimates in China, which rearranged the ownership hierarchy, b) a higher rate environment raising the importance of up-front return (i.e. dividend yield), and c) re-arranging of the China position.

Allocation-wise the focus has been to neutralize China as much as possible. As discussed earlier, stock selection has been challenging in this market but we have reviewed assumptions and made adjustments where estimates appeared overly optimistic. In some instances, we have exited investments where conviction had diminished, for example Foshan Haitian Flavouring, Wuxi Biologics, Pharmaron Beijing and Dada Nexus.

On a relative basis the weight of India in the fund is the lowest it has been in a long time. During the year we exited Reliance Industries given a low single digit expected return and trimmed positions in Britannia Industries, Kotak Mahindra, HDFC Life Insurance. Valuation-wise we believe this is the right way to be positioned in the market but structurally we acknowledge that India is delivering. In many ways, India is the opposite of China – investors should think of the portfolio as structurally long India but tactically short and conversely the fund will be structurally short China but currently is tactically more neutral.

WEG, a Brazilian company operating globally in electric engineering, power and automation technology, is a new position in the portfolio. A business which has shown innovation, pricing, competitiveness, and

relevance. Having sold many years ago because of valuation, we are now coming back given the franchise quality.

Source: J.P. Morgan Asset Management

## HSBC Insurance Global Equity Fund (SGD)

### Investment and Market Review

Global stocks rose 11.8% during the six-month period ended 30 June 2024, as measured by the MSCI\* World Index.† The US Federal Reserve and other global central banks began to pause rate hikes, and global equity markets rallied early in the period on optimism that the Fed would begin to cut interest rates in 2024. Soft-landing expectations continued to be underpinned by cooling inflation, resilient consumer spending and a softening but still strong jobs market. But a series of firmer inflation readings during the first quarter of 2024 tempered rate-cut expectations as the Fed's inflation fight stalled and hopes for an initial rate cut in June faded. Despite a rollback in rate-cut expectations, US equities continued to rise as artificial intelligence (AI) enthusiasm overshadowed concerns about stubborn inflation. At the end of the period, sentiment was buoyed as softer US economic data fueled optimism that the Fed might cut rates sooner than expected. Within large-cap markets, both growth- and value-oriented stocks rose, but growth significantly outperformed value, led by the technology sector. Large-cap stocks outperformed small-cap stocks, although both rose in absolute terms.

### Market Outlook and Investment Strategy

For the first half of 2024, Class A shares of the Global Equity Blend Portfolio increased in absolute terms but underperformed the Benchmark, the MSCI World, net of fees. Stock selection detracted from relative returns, while sector selection was positive overall. Stock selection within healthcare and technology detracted the most. Contributions from an overweight to technology and an underweight to real estate helped mitigate some of the underperformance.

The Portfolio's underweight position to NVIDIA detracted as shares continued to trade higher throughout the period. NVIDIA maintained its dominance and lead in the AI chip race, with results beating expectations again, positive incrementals on supply/demand and new product launches.

British sports betting and gaming company Entain detracted during the period. Sluggish revenue growth weighed on the stock as the company seeks to refine its strategy and continued regulation is shrinking the market, with the UK Gambling Commission announcing new rulings.

A lack of exposure to Amazon detracted as the company experienced continued strength in its advertising and core retail businesses, as well as a positive reaction to the new CEO of Amazon Web Services.

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

Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for HSBC Life Variable Annuity, Goal Protector and other investment-linked plans for the financial year ended 30 June 2024.

UK retail commercial bank NatWest Group contributed to results. The bank's 1Q:24 revenue and earnings fell from the previous quarter but were down less than expected, helping the stock outperform its peers.

Computer technology company Oracle contributed to performance as the market reacted positively to a quarterly earnings report which showed a strong lift in cloud growth indicators, providing upside risk to near-term earnings growth.

After market performance broadened to start the year, we saw an unfortunate return to the concentration that defined much of 2023. We believe the current environment necessitates a balanced approach. Many investors have been underweight value, which has been out of favor for several years. However, value stocks have historically done well in softer- and harder-landing environments, making them important for a balanced allocation today. On the other hand, market narrowness should end in due course and our growth-focused names remain fundamentally strong and trade at relatively attractive valuations.

We continue to believe that our blend of durable, undervalued and less macro-dependent companies that offer idiosyncratic return drivers provide a compelling path forward, differentiated from the concentrated mega-cap complex.

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

## HSBC Insurance Global Equity Volatility Focused Fund (SGD and USD)

### Investment and Market Review

Global equities rose in the review period driven by the first quarter of 2024 and the fourth quarter of 2023. In Q1 2024, hopes of a soft-landing outcome for western economies and relatively strong earnings boosted sentiment and positively impacted global equities. Global equities also performed strongly in Q4 2023 amidst expectations of future rate cuts. At a regional level, developed market equities continued to benefit from AI-related enthusiasm and outperformed emerging market equities in the review period.

The fund underperformed its market cap weighted index over the review period. While Styles contributed to performance, our exposure to Industries detracted from performance. In terms of Styles, within alpha factors, our exposure to Value contributed to performance the most amidst a continued high interest rate environment. Quality also demonstrated resilience amidst geopolitical tensions and macroeconomic uncertainty while Industry Momentum ranked in the middle amongst factors, finishing slightly below the line. Finally, our exposures to Size and Low Risk detracted from performance.

At Industry level, our overweight allocations to Insurance, Utilities and Commercial & Professional Services contributed to performance. Meanwhile, our underweight exposures to Semiconductors & Semiconductor Equipment, Energy and Banks detracted from performance.

### Market Outlook and Investment Strategy

The HSBC GIF Global Equity Volatility Focused Fund's investment strategy follows a proprietary systematic investment process which focuses on risk premia offered by exposure to factors like Value, Quality, Momentum, Low Risk, and Size. The portfolio construction process seeks to maximize the Fund's risk-adjusted return while reducing volatility and drawdowns during periods of market turbulence.

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Looking ahead, Western and emerging economies look out of sync with elevated valuations in developed markets while emerging market valuations appear more attractive. Our central scenario is consistent with heightened market volatility amidst geopolitical and macroeconomic uncertainty over the near term. A defensive approach to managing equities, if properly built and well-diversified, is designed to weather this uncertainty and limit the downside while providing upside equity market returns.

Source: HSBC Global Asset Management

## HSBC Insurance Global High Income Bond Fund (SGD and USD)

### Investment and Market Review

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

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

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

### Market Outlook and Investment Strategy

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

In the portfolio, while we continue to expect an economic slowdown, in the near term we expect markets can still move tighter. We have however begun to reduce credit beta in developed markets due to tight valuations and recent data pointing to a slowing economy. We continue to maintain attractive carry vs

the universe by taking advantage of the flat yield curve. Regionally allocations have remained largely unchanged over the month and duration is relatively neutral vs the investment universe.

Source: HSBC Global Asset Management

## HSBC Insurance Global Multi-Asset Fund (SGD)

### Investment and Market Review

The period was a mixed one for markets, starting off under challenging conditions but with equities and high yield, in particular, generating strong returns.

It opened with the spectre of inflation looming over markets. Increased concerns over the economic implications of the Russia-Ukraine war, higher global inflation prints and increasing central bank hawkishness all weighed heavy on both equity and credit markets. October brought welcome relief across most equity markets—the US consumer continued to hold up relatively well, while European governments stepped up efforts to avoid an energy crisis over the winter. By November, the picture had improved markedly with US inflation coming in far lower than expected giving investors hope that an end to interest rate rises may be in sight. Then, Chinese authorities announced they were relaxing their strict zero-covid rules to begin an economic reopening. Both equity and credit markets enjoyed an immediate bounce, before running out of steam by the end of the year as global growth concerns replaced global inflation concerns.

After a challenging 2022, the first half of 2023 was far more enjoyable for investors with both equity and bond markets surging. Large cap technology stocks were the stars, with the NASDAQ rallying over 30%, while the broader MSCI All Country World Index enjoyed a 14% gain. Emerging equity markets finished positively, albeit lagging their developed peers as reservations around China's reopening weighed. Credit markets shrugged off a slew of interest rate rises and finished firmly positive, led by the higher-yielding markets in the US and Europe. EM Local denominated debt also finished sharply higher.

All areas of the portfolio contributed positively to returns, with US high yield bonds the standout performer. European high yield and US investment grade also made material contributions, with positive security selection in both providing a further boost to returns. Yields are at some of their highest levels in over a decade helping to underpin portfolio returns and deliver on our income objective. In a positive environment for risk assets, equities also made a material contribution with those in the US standing out, driven by returns in the technology sector. Our position in Japanese equities, initiated in the middle of the period, provided a further boost as one of the best performing developed markets. Emerging Market Debt was also additive, led by allocations to local denominated debt paper in Latin America and Eastern Europe.

### Market Outlook and Investment Strategy

Whilst our overall equity exposure remained stable, we shifted its composition from a broad global allocation, to an income focussed strategy in the US, and high-quality and very attractively valued companies in Japan and Europe. Within credit, after capitalising on the very appealing level of yields on offer in 2022, the team made material cuts to our high yield exposure early in 2023, mitigating the impact of the volatility in these markets, before adding back once yields became more attractive.

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Later in the period, we began to add to alternative sources of income including insurance linked securities and securitised debt, where the high level of yield and diversification characteristics are well suited in the portfolio context. We also increased our exposure to local denominated EMD, through a very selective lens, favouring commodity-focused countries such as Brazil and South Africa, and Eastern Europe. Many emerging economies are further along in the rate hiking cycle, increasing the scope for rate cuts, with early signs of stabilising inflation further boosting the appeal of the asset class. Lastly, we have increased the portfolio's duration, from 2.2 years to 3.4 years.

Over the summer we have continued to see encouraging developments on US inflation. With no sign of an imminent recession, this has supported our expectations of a soft landing and increased the probability that rates in the US have reached a plateau.

Inflation should continue to fall gradually, which combined with the ongoing robustness of the US labour market, means real wages should start to rise, supporting consumption. We believe this relatively benign environment remains supportive of US high yield. Despite valuations, it is hard to ignore the 8% yield on offer, and we retain our positioning here.

While the growth picture in Europe looks more challenging, it should start to turn more positive early next year, supporting our European credit exposure.

On the equity side we remain balanced, blending selective growth names in the US which come with full valuations, with some of the interesting cyclical areas offering attractive yields and pricing very little in terms of growth, including financials, energy, Japan and Europe.

We retain a cautious view on China. We believe, cumulatively, enough is being done to turn the corner although the nature of the announcements means the market take some time to register the impact. As a result we employ a more selective approach towards broader emerging markets, favouring exposure via local currency bond markets.

Source: Schroder Investment Management Limited

## HSBC Insurance Global Sustainable Equity Portfolio Fund (SGD and USD)

### Investment and Market Review

Recession fears dominated the early part of 2023 as the US Federal Reserve continued its steady path of rate increases. Instead, the economy proved resilient and surpassed bearish expectations. Concern about recession has been replaced by hope for "immaculate disinflation," a scenario where inflation slows without a meaningful impact on growth and employment.

The market's narrow rally was fueled by a surprisingly strong economy, the artificial intelligence (AI) ambitions of Big Tech and, lately, the prospect of interest-rate cuts in 2024. Even the bond market has perked up after a historic downturn—one that briefly sent yields to 5%.

Global markets, as measured by the MSCI<sup>1</sup> All Country World Index<sup>2</sup> (ACWI), increased by 7.3% during the second half of 2023, bringing full-year returns to 22.2%, in US-dollar terms. During the fourth quarter, fear of higher-for-longer interest rates was replaced by the prospect of easing of financial conditions in what is widely viewed as a “Fed pivot” on the back of disinflation forces.

From a timing perspective, many of our themes have been overlooked this year given the dominance of the Magnificent Seven. Incredible benchmark concentration reinforces our view that benchmarks are inherently backward looking. In 2023, this concentration has had a negative impact on our relative performance, but we believe that, over the long term, our disciplined process will help us to uncover more attractive investment opportunities for investors. Our portfolios remain highly differentiated as compared to the benchmark with many of the mega-cap names absent from our holdings. Indeed, names that our portfolios actually hold have performed well compared with the rest of the market, arguing that the underlying fundamentals of the majority of our holdings remain strong.

Many of our Portfolio’s companies have seen prices reset even as earnings expectations for the Portfolio as a whole have continued to grow nicely, in line with our expectations. While valuations at the index level have risen dramatically, the increase is distorted by the influence of a few key stocks. In contrast, our portfolios trade at very reasonable valuations and the premium compared with the market is at one of the lowest levels in the past decade.

For the second half of 2023, Class A shares of the AB Sustainable Global Thematic Portfolio increased in absolute terms but underperformed their Benchmark, the MSCI ACWI, which returned 7.3%, net of fees and in US-dollar terms. Both stock and sector selection detracted from overall relative returns during the period. Stock selection within industrials and utilities detracted the most, although this was partially offset by contributions from selection within financials and an overweigh to the technology sector.

BYD, an electric vehicle (EV) manufacturer from our Climate theme, detracted. Shares declined along with Chinese EV peers on recent pricing promotions into the end of the calendar year as the company looks to shed some inventory, which has been slightly above average. We remain optimistic on BYD’s growth and profitability profile given its well-documented cost advantage and the increasing contribution from its premium brands and exports.

TOMRA, a provider of equipment for recycling collection, waste sorting and food sorting, from our Climate theme, detracted. The stock underperformed amid softer recycled materials prices and weaker-than-expected margins. TOMRA’s pricing power has lagged cost inflation, putting near-term negative pressure on margins. The company was also hit by a cyberattack that has resulted in added costs and impaired customer billing, along with a delay in the rollout of Scotland’s deposit recycling scheme. We view these issues as temporary and continue to believe that TOMRA should benefit from strong secular growth in recycling collection machines and food-sorting equipment.

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<sup>1</sup> MSCI indices measure the performance of different stock types in geographic areas. They track the performance of the stocks included in the index and are used as the base for exchange-traded funds.

<sup>2</sup> An investor cannot invest directly in an index, and index results are not indicative of the performance for any specific investment, including an AB fund. Indices do not include sales charges or operating expenses associated with an investment in a mutual fund, which would reduce total returns.



Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for HSBC Life Variable Annuity, Goal Protector and other investment-linked plans for the financial year ended 30 June 2024.

Alcon, an eye-care product maker from our Health theme, detracted after the company reported mixed earnings results and trimmed the high end of its guidance, citing foreign exchange headwinds and weaker surgical segment results.

Intuit, a software company specializing in financial services, from our Empowerment theme, contributed. The company reported strong earnings results that displayed the strength of its platform—especially in its mission-critical small business offerings (including its QuickBooks accounting services), which empower and equip small businesses with the necessary financial tools and data to make decisions that help them thrive. Intuit has been investing in AI for the past decade, and the company is uniquely well positioned to accelerate growth in its core products via new generative features, as management highlighted at a recent investor day.

Fair Isaac Corporation (FICO), a predictive analytics company best known for its market-dominant FICO score, from our Empowerment theme, contributed as shares were buoyed by strong fourth-quarter results and solid 2024 guidance. The company highlighted continued opportunity for price hikes as well as a robust pipeline for software sales.

TopBuild, an installer and specialty distributor of insulation and building material products from our Empowerment theme, contributed. Shares traded higher amid rate tailwinds and management’s cautious optimism that residential demand could hold up relatively well in 1H:24, supported by improving trends in single-family housing starts and a steady cadence of growth in multifamily units.

Amid all the noise, our themes continue to move forward as broad shifts in the global economy run their course. Global challenges such as access to healthcare and infrastructure needs are not solved overnight. Entering the year with a more defensive mindset did not help; however, our core thematic exposures continue to offer robust growth potential.

We believe a portfolio with high-quality companies on the right side of change, trading at reasonable valuations, provides a strong combination for the current market environment. Resilient fundamentals and narrow leadership in the market have created a powerful setup for a group of companies that fit this profile.

Within information, communication and technologies, the latest earnings results from a number of leaders like NVIDIA, AMD and the cloud providers demonstrate that society’s move toward intelligent digital economies is leading to increased demand for bigger networks, more powerful and energy efficient data centers, and new consumption models. We continue to expect the key AI enablers—companies that facilitate the training and running of AI models in an energy-efficient way—and the adopters that successfully integrate AI in their applications will enjoy strong tailwinds in the near term.

Within transportation, secular shifts in automotives continue—EV global sales rose more than 50% through September 2023 versus 63% growth in 2022. EV adoption continues to grow, but it will not be a straight line. Additionally, automotive original equipment manufacturer (OEM) stocks are still in a discovery phase, learning what features have the greatest appeal with consumers. As with our other themes, our focus on the enablers of vehicle electrification is driving an earnings tailwind despite OEM-specific challenges. Every EV rolling off the line contains significantly more electronic content, benefiting suppliers in this ecosystem. We’re also seeing a standardization of charging standards in the US, which should encourage further adoption.

In our Health theme, there have been a few dynamics at play in 2023. A lot of the diagnostic and testing companies benefited from robust demand during the early days of COVID. Lead time to get products significantly increased, so customers ordered more to ensure supply. In 2023, we saw the reverse as lead times decreased. We are going through a period of inventory digestion (for life sciences and diagnostic tools particularly) along with macroeconomic weakness in China—a double whammy of sorts for suppliers into this ecosystem. The underlying growth rate of their customers (biopharmaceutical production) remains in the double digits. The market enthusiasm around weight loss has also drawn investor attention and buying activity, further depressing valuations for companies outside this group. We expect 2024 should see an improvement in inventory profiles and growth rates for suppliers of medical innovation products as well.

As Ben Graham said, “In the short run, the market is a voting machine but in the long run it is a weighing machine.” Rather than chasing the market’s chosen few, our focus continues to be on identifying powerful themes and the companies best positioned to capitalize on these opportunities. This approach has delivered strong results for our clients over time and we are highly confident in its ability to do so in the future.

### Market Outlook and Investment Strategy

The US economy is slowly weakening. Unemployment is rising, although far more gradually than most had anticipated. That said, some lead indicators point to further deceleration in the first half of 2024, including the drop in M2 money supply. Regardless of the level, it is virtually certain that the growth rate is declining. Financial conditions have certainly eased of late—a trend that has been noticed by the markets and is likely to continue as long as disinflation persists. The fact that it’s an election year increases the chances of a supportive fiscal, and perhaps monetary, environment—though elevated perceived risks relating to the outcome could dampen equity valuations.

The strong equity market rally in 2023 has masked more muted returns for most stocks. The 10 largest stocks in the S&P 500<sup>3</sup> (largely big technology-oriented companies) accounted for an abnormally large share of its weight and year-to-date returns. The equal-weighted S&P 500 underperformed the cap-weighted S&P 500 by 12.4%, while the equal-weighted MSCI ACWI underperformed the cap-weighted MSCI ACWI by 13.3%.

Although some of the returns are justified by the superior profitability of these mega-cap technology stocks and the new growth avenues that AI has provided, the narrowness will likely end in due course, as it has in the past. Catalysts for a change in leadership are often difficult to predict, but a few logical ones include: a recovery in growth from sectors such as healthcare and communications that have been plagued with excess inventories; a recognition that the generative AI wave will benefit more than just the cloud providers as related earnings materialize; and weaker results, and/or multiple compression from historically elevated levels, in one of the individual market leaders that leads investors to question the whole group.

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

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<sup>3</sup> The S&P 500 is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States.

## HSBC Insurance India Equity Fund (SGD and USD)

### Investment and Market Review

The Indian Equity Fund rose 31.91% over the past year as of 30 June 2024 (SGD terms), while its benchmark, S&P IFCI/India Gross Index gained 38.78% (SGD terms) over the same period.

India was one of the few markets to outperform the region in the second half of 2023 driven by continued economic and earnings resilience, while net foreign and domestic inflows continue to support the market. The ruling party's landslide victory in the December state elections gave the market a further boost towards year end as investors expect policy continuity from the ruling party. Stepping into 2024, India stock market remained strong in the first half, with major gains led by small and mid-cap names thanks to growing demand from retail investors and the country's solid economic fundamentals.

The fund underperformed against the benchmark on a rolling 1-year basis. At sector level, positive allocation effect in Real estate and favorable selection effects in Consumer Discretionary contributed to performance, which was offset by the unfavorable allocation effect in Utilities and negative selection effect in Materials. Top stock contributors include Phoenix Mills, Zomato and Bharat Electronics, while major stock detractors include Housing Development Finance, SBI Cards and Payment Services and Dalmia Bharat.

### Market Outlook and Investment Strategy

We are of the view that even with a reduced majority, policy continuity should remain intact at the broader level. Solid fundamentals and macro strength allow us to maintain our constructive view on Indian equities. It is worth noting that history shows any temporary post-election pullbacks have always been good opportunities for investors to add on India (e.g. in 2004 when BJP, contrary to opinion polls, lost the national elections). Currently foreign positioning is light and can potentially pick up as the entry points become more attractive. Domestic institutions continued to buy the market post elections, providing support despite foreign outflows.

We remain positive in the medium to long term structural growth story in India driven by themes such as favorable demographics, supply chain diversification and already implemented reforms that are working through the economy. The improvement of the balance sheet strength of Indian corporates and the much-improved health of the banking system is another advantage.

Source: HSBC Global Asset Management

## HSBC Insurance Pacific Equity Fund (SGD and USD)

### Investment and Market Review

Asian equities continued to perform well over the year as inflationary pressures eased and investors welcomed signals from the US Federal Reserve that it was moving its monetary policy towards potential rate cuts in 2024. Early in the period, sentiment was weighed down by concerns about China's stalled recovery amid continued property woes, a higher for longer interest rate environment and conflict in the Middle East. The Chinese authorities implemented various measures through the review period to support

sentiment, financial markets and the broader economy. While there are still concerns about the possibility of further US tariffs and sanctions, investor sentiment towards the mainland China market improved towards the end of the period.

The technology-heavy market of Taiwan was the top performer in the region as investors judged that the semiconductor cycle was nearing its trough and responded to rapid developments in artificial intelligence (AI). Indian equities also made strong gains thanks to the buoyant economy, growth in the corporate sector and substantial foreign capital inflows. Investors shrugged off initial concerns about the uncertain outcome of the general election and the market recovered quickly. By contrast, the Hong Kong market was among the key laggards, with concerns over China's macro outlook compounded by the impact of heavy foreign capital outflows.

### Market Outlook and Investment Strategy

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

Source: abrdn Asia Limited.

## HSBC Insurance Premium Balanced Fund (SGD)

### Market Outlook and Investment Strategy

iFAST - DWS Premier Select Trust's current investment strategy is to invest into 2 ETFs i.e more than 70% of its net asset value into the Xtrackers II Singapore Government Bond UCITS ETF ("SGB-ETF") and less than 30% into the Xtrackers MSCI World UCITS ETF ("MSCI ETF").

By investing into SGB-ETF, the Trust aims track the performance (before fees and expenses) of the underlying reference index (i.e. the FTSE Singapore Government Bond Index) which represents the performance of fixed-rate, local currency sovereign debt issued by the Singapore government.

Similarly, by investing into MSCI-ETF, the Trust aims to track the performance (before fees and expenses) of the underlying reference index (i.e. the MSCI Total Return Net World Index) which was designed to reflect the performance of the shares of certain companies in various developed countries. The companies making up the MSCI Total Return Net World Index are large and medium sized companies based on the combined value of a company's readily available shares as compared to other companies.

Although the intention is to maintain the above asset allocations, we intend to adopt a static allocation of the Trust's investments in each of the underlying ETFs and will re-adjust the investments at least on a semi-annual basis.

As of 30 June 2024, the Trust as is 70.38% invested into SGB-ETF and 29.33% invested into MSCI ETF.

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Source: iFAST Financial Pte Ltd

## HSBC Insurance Singapore Bond Fund (SGD)

### Investment and Market Review

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

### Market Outlook and Investment Strategy

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

The fund maintains an overweight duration positioning. The fund holds a meaningful size of SGD denominated investment grade bonds, despite underweight against the benchmark. At the same time, it also diversifies into the USD Asian credit market which offers a wider selection of bonds across the credit rating spectrum than the SGD bond market. From a sectoral standpoint, the fund prefers corporates over sovereigns and agency bonds. The fund has a major allocation to Singapore REITs for their stable income. We also favour bank subordinated debt such as those from Europe and broader Asia Pacific region given their relatively defensive nature and attractive yields. Also, the fund overweight Macau gaming and Japan financials. Moreover, it holds a certain exposure to high quality quasi-sovereign names in Singapore for yield carry."

Source: HSBC Global Asset Management

## HSBC Insurance Singapore Equity Fund (SGD)

### Investment and Market Review

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

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

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

### Market Outlook and Investment Strategy

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

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

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

As we transit from a peak interest rate environment into a potential rate cut cycle, this is likely to lead to more market volatility as markets toggles between the hope of lower rates benefitting the bottom line versus the risk of a further economic slowdown as post-Covid recovery spending eases back to more normal levels. We continue to believe that well-managed companies with prudent debt levels will outperform in the longer term and will look to pick up stocks that provide a good balance of asset quality and valuations when opportunities present themselves.

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Source: Schroder Investment Management Limited

## HSBC Insurance US Equity Portfolio Fund (SGD and USD)

### Investment and Market Review

US equities rose significantly in the review period as AI-related investor enthusiasm continued to support large technology stocks. Towards the end of 2023, slowing inflation raised investor hopes that the Fed would pivot towards cutting rates in 2024. While interest rates and inflation remained relatively high in the first half of 2024, these pressures were mitigated by solid earnings reports, hopes of a soft landing and leadership from quality growth which helped push US equities upwards.

Over the 12-months rolling to June 2024, the HGIF Economic Scale US Equity fund rose significantly. Although the fund does not have an official reference benchmark, when comparing to the S&P 500 Index, the fund underperformed the index with both our asset allocation and stock selection weighing on performance. On a sector basis, our underweight exposures to Health Care, Utilities and Real Estate contributed to performance. Conversely, our overweight allocations to Consumer Staples and Industrials coupled with our underweight exposure to Information Technology weighed on performance. In terms of stock positions, our underweight exposures to Tesla Inc (Consumer Discretionary) and Apple Inc (Information Technology) coupled with our overweight allocation to Dell Technologies -C (Information Technology) contributed to performance. Conversely, our underweight exposures to Nvidia Corp (Information Technology), Alphabet Inc-Cl A (Communication Services) and Eli Lilly & Co (Health Care) weighed on performance.

### Market Outlook and Investment Strategy

HSBC Economic Scale strategy aims to outperform the market cap index in the long run by using an alternatively weighting scheme which uses the contribution to Gross National Product (GNP). The chosen fundamental measure to weight stocks is "Value added". It is the difference between a company's output (sales) and inputs (its purchases of goods and services from other businesses). It is an intuitive measure generally less affected by accounting standards than many other metrics and is also less affected by economic cycles. The strategy displays tempered Value and Small cap biases compared to a market capitalisation weighting scheme, which tends to have implicit large cap and momentum biases.

Looking at the outlook, positive momentum in equities driven by robust earnings and expectations of rate cuts has left valuations stretched in some areas. Evidence of a slowdown, as well as geopolitical concerns, do not appear to be priced in, with tighter credit conditions potentially posing a risk to profitability. Rate expectations have been reset in 2024, but recent signs of economic cooling have revived hopes of near-term easing. As a result, we expect two cuts from the Fed in 2024. In the event of a reversal of the strong performance of mega cap growth stocks which have driven the US market, we believe that the strategy is well positioned with its tempered Value and Small cap biases.

Source: HSBC Global Asset Management

## HSBC Insurance US Opportunities Equity Fund (SGD)

### Investment and Market Review

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

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

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

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

### Market Outlook and Investment Strategy

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

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

We are mindful of the macroeconomic environment while using active management and fundamental research to act swiftly and effectively in today's dynamic markets. We have been identifying opportunities in what we deem to be high-quality businesses that can benefit from lasting secular growth trends and



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maintain leading competitive positions along with strong balance sheets. In terms of portfolio positioning, we have been conducting partial sales amidst share-price strength in some of our mega-cap tech holdings and reinvesting the proceeds into areas that have lagged the rally but, in our analysis, can potentially offer high-quality revenue and earnings growth. Additionally, we continue to focus on areas of the mid- and large-capitalisation tiers where valuations are appealing, in our assessment. Many of these companies are high-quality businesses with sustainable multiyear growth prospects. Currently, our largest sector exposure is in IT, where we favour software companies, especially those driving the future of AI.

Source: Franklin Templeton

HSBC Insurance World Selection 1 Fund (SGD and USD)

#### Investment and Market Review

During the second half of 2023 global asset markets continued to deliver investors very strong returns as Over the year the portfolio delivered strong positive returns, as equities, bonds and alternatives posted positive returns. Equity markets were supported by continued economic strength, strong company earnings growth, and market optimism around Artificial Intelligence. Fixed income markets were more volatile, as major central banks continued to hike rates early in the period. However, the later pause in monetary tightening, as well as the exceedingly attractive level of yield on offer, supported total returns.

#### Market Outlook and Investment Strategy

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

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

Source: HSBC Global Asset Management

HSBC Insurance World Selection 2 Fund (SGD and USD)

#### Investment and Market Review

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

#### Market Outlook and Investment Strategy

Global growth remains robust, with some signs of cooling in the US amid restrictive policy while we expect emerging markets to see steady growth and cyclical upside. While inflation has proven sticky, we expect

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price pressure to ease later this year. As a result, central banks in Europe and the UK will be able to cut rates this summer, ahead of the Fed later in the year. Lower government spending looks set to be a slight drag on growth in 2024, but we do not expect a return to 2010s-style austerity measures.

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

Source: HSBC Global Asset Management

### HSBC Insurance World Selection 3 Fund (SGD and USD)

#### Investment and Market Review

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

#### Market Outlook and Investment Strategy

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

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

Source: HSBC Global Asset Management

### HSBC Insurance World Selection 4 Fund (SGD and USD)

#### Investment and Market Review

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

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### Market Outlook and Investment Strategy

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

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

Source: HSBC Global Asset Management

## HSBC Insurance World Selection 5 Fund (SGD and USD)

### Investment and Market Review

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

### Market Outlook and Investment Strategy

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

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

Source: HSBC Global Asset Management

## HSBC Life FlexConcept Fund (USD)

### Investment and Market Review

Central bank policies around the world and especially in the US dominated the market narrative over the second quarter of 2024 (31.03.2024 - 30.06.2024). US inflation data for March were published above

projections, which caused markets to abandon overly optimistic rate cut expectations for the Federal Reserve (FED). Higher expected rates in turn lead to higher discount factors for bond and equities, causing valuations to wipe out about two months of gains. FED chairman Jerome Powell was able to turn the rudder around by giving a surprisingly dovish speech after the FOMC meeting on May 1st. In addition, May and June produced a generally softer macroeconomic picture on both sides of the Atlantic.

For the US GDP growth slowed down and unemployment rates ticked up, rekindling the rate cut bets. In Europe the European Central Bank (ECB) delivered a long expected 25bp cut in June. Meanwhile, in Japan, the economy remains stagnant, prompting the Bank of Japan (BOJ) to maintain its cautious stance. Nonetheless, markets price in at least one hike for the remaining year, due to the ongoing devaluation of the Japanese Yen versus the US Dollar.

### Market Outlook and Investment Strategy

The Index could not keep up the positive traction from the last quarters during the second quarter of the year and closed -2.08% QoQ. The Fund closely tracked the index with a tracking error of 0.33% over the period. After costs, the Fund closed the period down -2.28% QoQ.

The fixed income allocation of the Index in Q2 2024 trended slightly negative. Overall, the global rates landscape remained relatively unchanged quarter on quarter while swap rates peaked at the end of April in the US and Europe due to the inflation worries mentioned above. The Index's fixed income bucket is designed with an average duration of approx. 9 years and was thus penalised by the rising global interest rates during the first month of the quarter. In particular, 30y US Treasury futures were punished as market participants pushed back expected rate cuts into 2025. By the end of Q2 2024 the yield curves closed only slightly above their starting levels which enabled the fixed income allocation to recoup most of their previous negative performance.

The equity basket was able to outperform the Index's fixed income allocation. After an initial setback due to rising rates expectations, the markets regained momentum by mid-April. US stock markets were mainly driven by the ongoing euphoria for Tech and AI, with companies in this space continuing to outperform their peers. Valuations of Japanese stocks were initially suppressed by inflation concerns until new data in mid-April revised expectations lower and paved the way for more upside momentum. European Elections in June per se yielded the expected results with a general right shift across the continent while pro-European parties remained in control. French president Emanuel Macron, however, called in snap elections due to the strong result of far-right National Rally, sending shivers of uncertainty across Europe with OAT-Bund spread widening to 80bps and European equities selling off -3.5% the week following the elections, which was reflected in an overall lower closing level for the quarter. With economic headaches around the national real estate sector in China moving into the background, the Hang Seng regained its positive momentum and was thus allocated in the Index at the beginning of May.

With the addition of the Hang Seng in May, all available equity markets of the index were allocated, restoring an equal weighting between equities and bonds, as shown in Figure 3. Index leverage, aimed at keeping index volatility at around 10%, started at around 190% in April. Due to increased volatility during the second quarter of the year, the index decreased its leverage to around 115% at its lowest point, before climbing up to 160% at the quarter end.

Source: Munich Re Investment Partners GmbH

Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for HSBC Life Variable Annuity, Goal Protector and other investment-linked plans for the financial year ended 30 June 2024.