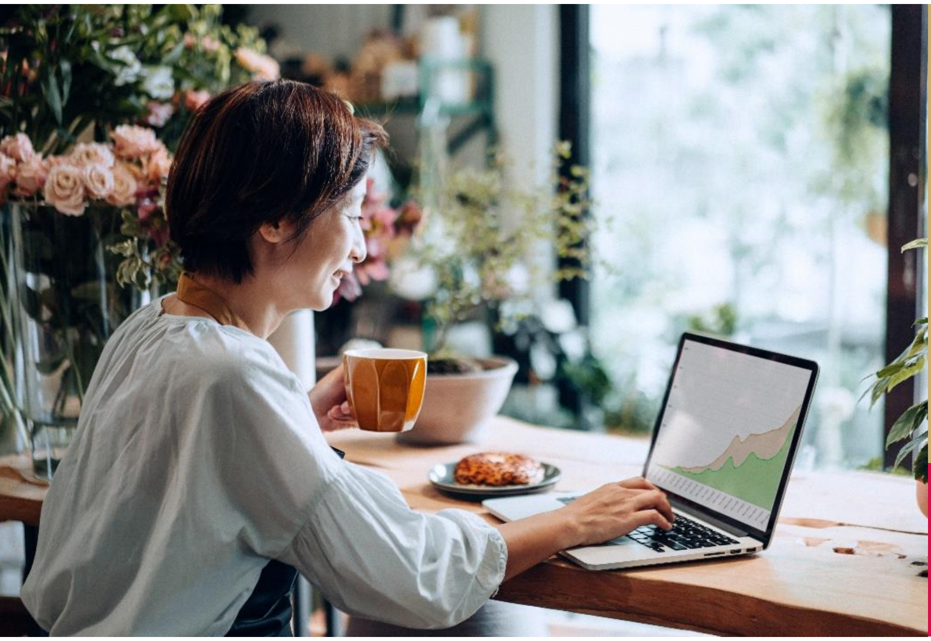


US Economy Moderates, Political Future Uncertain

Quarterly Investment Insights

2nd Quarter 2024

Key Takeaway

- **US economic growth surprises with strong Q2 GDP print, but political risks remain uncertain:** The US economy accelerated its expansion in the second quarter, powered by consumer spending and business investment.

- **Inflation cools down sequentially:** Core consumer price index moderated further in June, driven by lower service inflation and housing costs. This reinforces expectations of Fed's policy rate cut in September as inflation pressures ease.

- We are in a **reduced overweight position in Global Equities** as economic growth is expected to slow down into the second half of 2024. While strong corporate profits and expected Federal Reserve rate cuts offer support, we remain cautious over recent narrow market leadership and upcoming US election.

- We maintain a **neutral stance on Fixed Income**. While bond yields have declined in anticipation of interest rate cuts, we expect near-term market volatility and potential upside risk for long-term government bond yields.

Market Recap

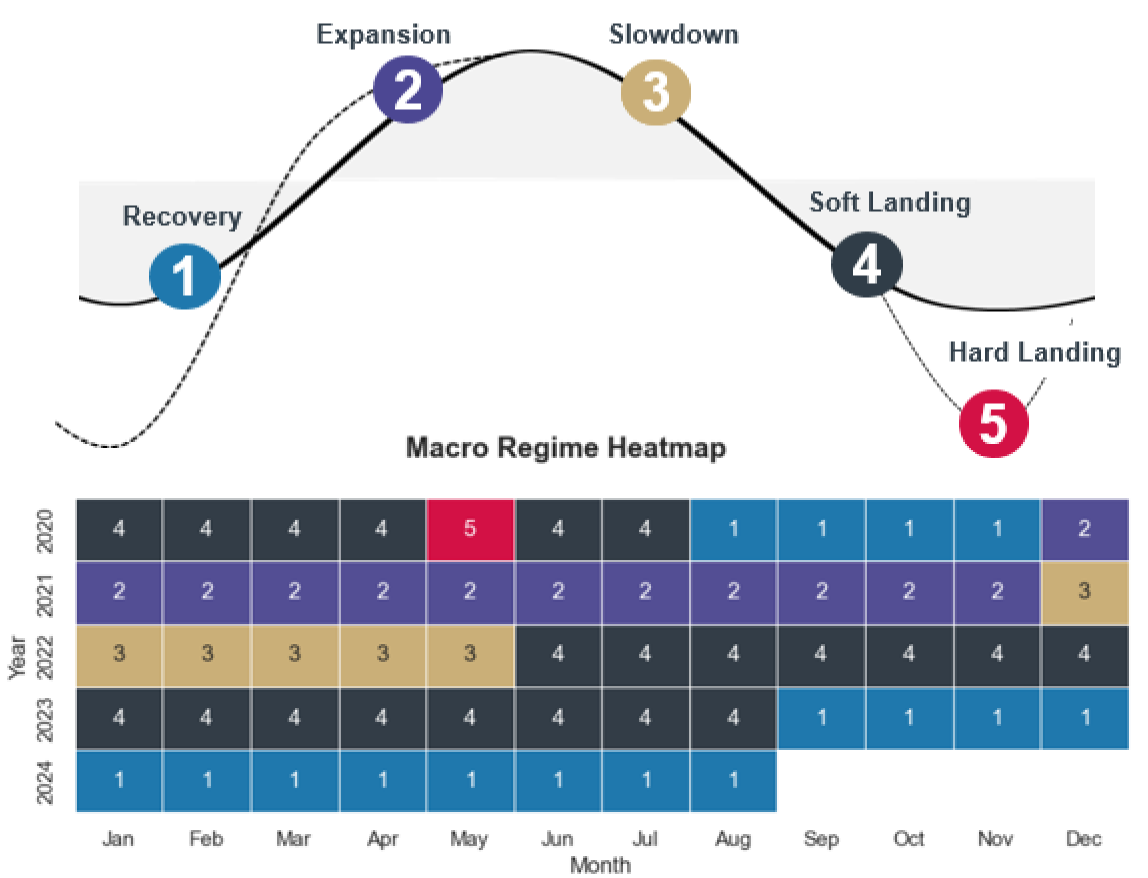
US Economy Surprises with Strong Q2 Growth, But Political Risks Remain Uncertain

The US economy accelerated its expansion in the second quarter compared to the first, defying expectations amid sustained high interest rates and elevated inflation. Driven by increased consumer spending and business investment, the economy is showing resilience.

This strong performance has fueled optimism for a "soft landing," where inflation subsides without a recession. Our economic models support this outlook, suggesting continued recovery amid risk of slowing macro momentum (chart 1). As a result, markets are increasingly expecting the Federal Reserve (Fed) to cut policy rates in September.

However, the economic backdrop hasn't translated to political gains for President Biden, who recently withdrew from the race of presidential election. Vice President Kamala Harris, now the likely Democratic nominee, faces the challenge of addressing economic concerns during her campaign.

Chart 1 US Economy Cycle -Five Macro Regimes



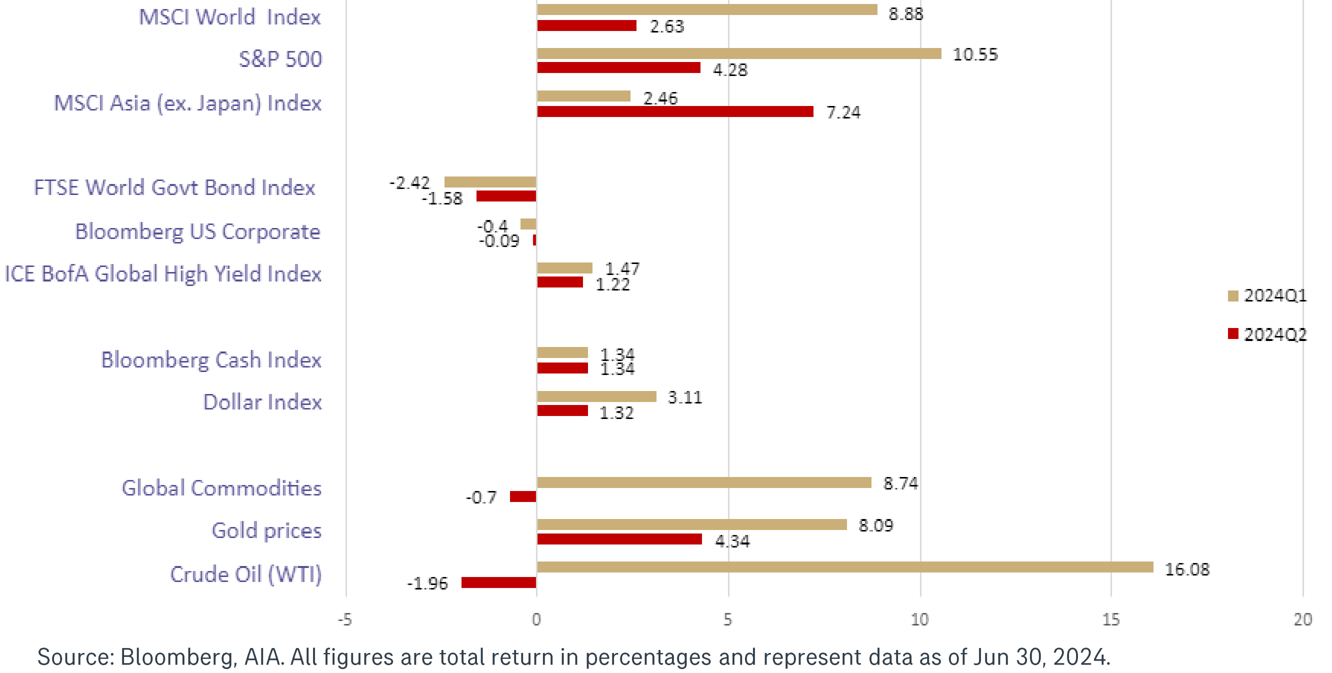
Source: AIA, as of Jul 31, 2024

Inflation Cools Down Sequentially

Core consumer price index moderated further in June, driven by lower service inflation and housing costs. This reinforces expectations of Fed's policy rate cut in September as inflation pressures ease.

While a rate cut is justified, the Fed still emphasize that its decisions will be data-dependent and that the ultimate goal is to bring inflation back to 2% target.

Market Performance Review



Source: Bloomberg, AIA. All figures are total return in percentages and represent data as of Jun 30, 2024.

Equity markets extended their gains into the second quarter, though April brought increased volatility. A small group of tech giants, often referred to as the "Magnificent Seven," dominated market performance. While these companies thrived, the broader market saw more modest growth. Factors driving overall market gains included strong corporate profits, easing inflation concerns, and anticipation of productivity boosts from artificial intelligence.

Asia ex-Japan equities rallied in Q2, led by Taiwan, India, and Singapore. China also rebounded, benefiting from government's incremental policy stimulus. AI optimism boosted Taiwan, while India's strong economic outlook drove its market to record highs. Hong Kong and South Korea underperformed amid global economic concerns and cautious investor sentiment.

Global bond markets experienced a volatile quarter. The period began with a downturn as concerns over persistent US inflation led investors to reconsider the timing of interest rate cuts. However, a subsequent improvement in market conditions was driven by easing labor market pressures and more favorable inflation data.

High-yield bonds outperformed both government and investment-grade corporate bonds. While G**overnment bond yields fluctuated.** US Treasury yields initially surged but later declined as inflation fears subsided. European bond markets were temporarily impacted by France's election, widening the yield spread between French and German sovereign bonds.

Key takeaways from China's Third Plenum 2024

China's Third Plenum outlined a blueprint for balanced economic growth, innovation-driven development, and increased local autonomy.

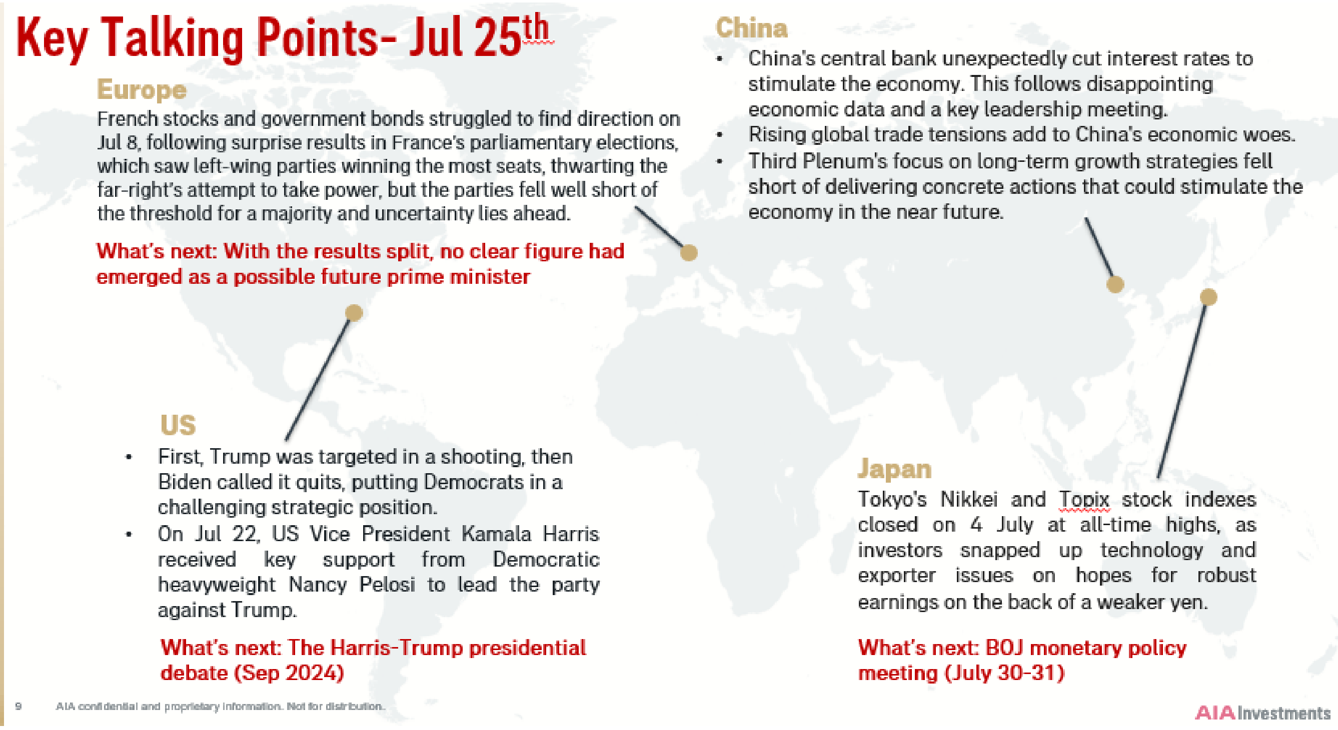
The Plenum emphasized a stronger role for the private sector, while also reinforcing the importance of state-owned enterprises. A focus on science and technology as a key driver of growth was highlighted, with an emphasis on domestic talent cultivation.

To bolster economic resilience, the government pledged to increase domestic consumption by addressing social and economic imbalances. Additionally, the Plenum underscored the importance of green transformation and environmental sustainability.

While China maintains an open-door policy, it is also preparing for potential trade challenges, emphasizing self-reliance and risk management.

While the Plenum focus on long-term growth strategies, it fell short of delivering concrete actions that could stimulate the economy in the near future. Nevertheless, the overall tone signals a China that is increasingly confident in its economic trajectory, while remaining mindful of global uncertainties.

Quarterly Spotlight



Thinking Ahead

We expect portfolios to continue performing well, supported by declining interest rates and robust corporate earnings. However, after a strong start to the year, some market consolidation is likely into the second half of 2024.

Key risks to monitor include inflation developments and potential geopolitical tensions arising from upcoming US elections.

We maintain an overweight position in global equities, thought to a lesser extend than previous quarter, given the moderating growth environment. Strong earnings and anticipated Fed rate cuts will underpin markets, but recent narrow market leadership and election risks warrant vigilance.

Within equities, we are neutral to Asia ex-Japan due to AI and trade concerns but could benefit from potential Fed easing and a weaker dollar.

Fixed Income is maintained neutral as bond yields have fallen, reflecting expected rate cuts. Near-term volatility may impact spreads, and we foresee upside risk to long-term yields given high US fiscal deficit outlook.

Given the expectation of decreased cash rates, we favor deploying cash into opportunistic areas.

Today's complex investment environment demands a sophisticated approach. AIA Stewardship offers expert guidance, a long-term perspective, and a global outlook with an aim to help your clients to achieve their financial goals. Beyond maximizing returns, we prioritize sustainable investing, ensuring your wealth aligns with a better future. Our team's deep expertise and global network empower us to navigate market challenges and build resilient portfolios for long-term growth.

Portfolio Performance

Our investment approach focuses on long-term opportunities and application of bi-directional risk management. For Elite Funds, we combine AIA stewardship with best-in-class managers to seek long term opportunities. For Q2 2024, Elite Funds continued to build on the performance of 2023 and delivered positive absolute returns. Over the quarter, Equities continued to outperform Fixed Income. Thus, the higher Equity allocation in Elite Funds delivered higher returns than Fixed Income.

Over a longer timeframe, Elite Adventurous SGD and USD funds delivered high single digit returns of around 9% annualized since inception. This is a clear testament to the benefits of staying the course and having a disciplined approach to investing.

A summary of absolute portfolio performances is set out below.

Absolute Performance		Q2 - 24	1 Year	2 Year	3 Year	Since Inception*
SGD Funds	AIA Elite Adventurous Fund [1]	1.87%	14.95%	13.18%	0.73%	8.88%
	AIA Elite Balanced Fund [2]	1.69%	11.63%	9.12%	-0.88%	4.91%
	AIA Elite Conservative Fund [3]	1.30%	8.10%	5.06%	-2.76%	1.84%
USD Funds	AIA Elite Adventurous Fund [4]	1.38%	14.96%	14.46%	0.70%	9.19%
	AIA Elite Balanced Fund [5]	1.04%	11.44%	10.25%	-0.84%	6.51%
	AIA Elite Conservative Fund [6]	0.82%	8.10%	6.16%	-2.78%	2.29%

Source: AIA Investment Management, as of 30 Jun 2024
Performance figures for a period greater than a year are annualised
Performance of the funds are on a bid-to-bid basis with net dividends reinvested, without taking into consideration the fees and charges payable through deduction of premium or cancellation of units
**Fund inception date: [1] 24/7/2019; [2] 25/7/2019; [3] 1/8/2019; [4] 20/7/2019; [5] 31/7/2019; [6] 20/12/2019*

Past performance is not necessarily indicative of future performance

Elite funds/SICAV funds featured are not locally registered in Singapore and are only offered to related entities within AIA Group through local insurance wrappers (if appropriate) since they are not offered directly to retail investors.

Investment Strategy

The outlook for equities over the medium term remains constructive. Fundamentals continue to hold up with earnings growth poised to continue their positive trajectory. There are signs that economic growth could be slowing though unlikely at recessionary levels. While there are signs of breadth divergence, historically such divergence has not necessarily been followed by imminent equity sell-off. Meanwhile, market participants are selective in risk taking and there are little signs of exuberance other than specific themes. Expectations of upcoming easing from the Fed is expected to keep markets supported. Thus, the Elite Funds hold a calibrated exposure to Equities. Within the Equity sub-portfolio, Elite Funds' investment strategy is to invest with a long-term horizon and invest in opportunities that are deemed to have the most attractive risk reward proposition on a forward-looking basis. With liquidity support from major developed market central banks, the rally could broaden, and the Elite Funds are positioned to benefit should leadership shift to other sectors of the Equity market.

Fund Allocation as of 30 June 2024

SGD Funds		AIA Elite Adventurous Fund	AIA Elite Balanced Fund	AIA Elite Conservative Fund
Equity	AIA Global Select Equity Fund	32.9%	22.6%	12.5%
	AIA New Multinationals Fund	29.8%	19.4%	9.9%
	AIA Global Multi-Factor Equity Fund	10.2%	6.4%	3.5%
	AIA Global Quality Growth Fund	8.8%	4.5%	2.0%
	Vanguard Global Stock Index Fund Acc	5.7%	5.5%	1.5%
	iShares Core MSCI Asia ex Japan ETF	2.1%	1.8%	1.4%
	iShares Core MSCI World UCITS ETF	1.4%	1.5%	1.0%
	Amundi Index MSCI World Fund	0.1%	0.1%	0.2%
Fixed Income	AIA Diversified Fixed Income Fund	7.8%	36.8%	66.9%
Money Market Fund & Cash	JPMorgan Liquidity Funds - SGD	1.0%	1.1%	0.6%
	AIA SGD Money Market Fund	0.2%	0.2%	0.1%
	Cash	0.1%	0.1%	0.6%
	TOTAL		100%	

USD Funds		AIA Elite Adventurous Fund	AIA Elite Balanced Fund	AIA Elite Conservative Fund
Equity	AIA Global Select Equity Fund	33.3%	22.4%	11.7%
	AIA New Multinationals Fund	30.3%	19.5%	9.8%
	AIA Global Multi-Factor Equity Fund	9.7%	6.5%	3.4%
	AIA Global Quality Growth Fund	8.9%	4.5%	2.0%
	Vanguard Global Stock Index Fund Acc	5.4%	4.1%	1.4%
	iShares Core MSCI World UCITS ETF	2.0%	3.1%	1.6%
	iShares Core MSCI Asia ex Japan ETF	1.4%	1.6%	1.8%
	Amundi Index MSCI World Fund	0.1%	0.1%	0.2%
Fixed Income	AIA Diversified Fixed Income Fund	7.9%	37.4%	67.3%
Money Market Fund & Cash	JPMorgan Liquidity Funds - USD	0.5%	0.5%	0.5%
	Morgan Stanley Liquidity Fund - USD	0.3%	0.2%	0.2%
	Cash	0.2%	0.1%	0.1%
	TOTAL		100%	

Note: Total Fund Allocation may not sum up to 100% due to rounding

Elite funds/SICAV funds featured are not locally registered in Singapore and are only offered to related entities within AIA Group through local insurance wrappers (if appropriate) since they are not offered directly to retail investors.

Stewardship Insights:

Exploring Investment Excellence with Baillie Gifford™

Given the AIA Global Quality Growth Fund's focus towards long-term sustainable growth companies, what are some recent enhancements or changes made to improve the performance of the portfolio?

Baillie Gifford: At the beginning of 2023 we established a full-time research desk for the strategy, having previously managed the portfolio with a decentralized group of investors embedded in our regional equity teams. We did so because we wanted to deepen the integration of sustainability analysis within our investment process, and because we felt the fund would benefit from the oversight of two full time portfolio managers viewing its exposures holistically.

18 months on we observe a portfolio that is demonstrably more resilient, better diversified and of a higher sustainability standard than previously. We are pleased to have been able to make these enhancements without compromising on the fund's growth potential, with forecast earnings growth still comfortably in the double digits and ahead of the index. In this respect, the enhancements made have been a success.

However, these improvements to fundamentals have not yet manifested in performance improvements. While absolute returns over the past year and a half have been good, with the fund up more than a quarter in US dollar terms, this has been short of the index return. Given we run an active portfolio that aims to outperform its benchmark this is a disappointing result. Over this period, the market has focused on a few very large, very successful technology stocks. To be clear, we have had exposure to some of these – names like NVIDIA, Alphabet and Amazon – however, not owning others - companies such as Microsoft, Meta and Apple – has been painful for relative returns.

More importantly, beyond Magnificent 7 / Artificial Intelligence, the portfolio has exposure to many structural growth trends that are currently overlooked or out of favor, whether those are the life science companies underpinning health innovation, the industrials facilitating the energy transition, or the fintech's deepening financial inclusion. We have high conviction that these will deliver outsized returns over the long term, despite weighing on relative returns esp. in 2024 so far.

Can you elaborate on your approach to achieving "growth at a reasonable price" (GARP) in today's market environment? Specifically, how do you balance the potential for high growth while ensuring that valuation reflects the company's future prospects?

Baillie Gifford: We would not describe our approach as "growth at a reasonable price", indeed we are willing to pay what may seem unreasonable prices for companies that look capable of maintaining double-digit earnings growth that can persist for long periods. This is because we know that, in the long term, the companies that grow their earnings fastest are rewarded with the biggest gains in share price terms.

While price is less of a consideration, valuation is not – even as growth investors we are in the business of buying stocks that we think will be worth many times more in the future. Many investors look at price-to-earnings ratios as shorthand for an investment's value, but our view is that these do not tell you much about a firm's true worth, especially when that company has the potential to innovate and create entirely new products or services over time. Amazon, for example, would have looked very expensive on 50x earnings back in 2004, but has turned out to be a phenomenal investment.

Typically, our insight when it comes to valuation is a much longer-term view of a company's prospects than other investors are willing or able to take. This is what has allowed us to make early investments in companies like NVIDIA (2016), Shopify (2017) or indeed Tesla (2015), which we sold this quarter realizing a 14x return on our original investment. How then do you go about valuing a company that is likely to look very different at the end of your decade-long investment horizon? The key is to think with imagination about what it might become, not extrapolating from what it currently is. To free up our thinking we try to assign probabilities to different scenarios that might play out. We didn't know that NVIDIA's GPUs would become dominant in machine learning, but we did see it as one possibility amongst several others.

We would also not describe our mission as entirely focused on finding "high growth" companies. Growth can come in many forms, and one enhancement we have made in the recent past is to bring better balance to the growth profiles the portfolio is exposed to. Besides high growth, your Global Quality Growth portfolio also has healthy allocations to through-cycle winners and steady compounders. The former category might see some peaks and troughs as economies rise and fall but will produce good returns over long time periods as the structural shifts they are exposed to play out. The latter group can grind out respectable returns no matter the backdrop, with incremental improvements year-on-year adding up to healthy returns in time. We know that the best performing stocks in price terms exhibit double-digit earnings growth over long periods, and this is the key thing to look for, but whether this is delivered quickly, slowly, or even in a lumpy fashion is of less importance.

While the Fund focuses on long-term fundamentals, how do you assess the potential impact of the upcoming US election on the overall performance of the Fund, considering the possible changes in economic policies and regulations?

Baillie Gifford: We aim to invest in companies that are resilient by their nature, those that can prosper in a range of economic and political environments. This features prominently in our investment process, with the second question in our research framework asking, "how much control does this company have over its own success".

We focus on company resilience in this way because we have no edge over the next investor in predicting the outcome of elections. However, it is a risk we must consider when analysing existing and prospective investments. Our assessment is that a democratic win would largely result in the status quo, with relative stability in economic policy terms. A republican win on the other hand may presage big changes, with two areas in particular relevant for your portfolio: geopolitics and the environment.

Geopolitical tensions are likely to heighten under a Trump administration. He has stated that he could 'end the war between Ukraine and Russia in 24 hours'. What this means in practice is relatively unknown. However, relations between the US and Europe could well sour in such a scenario. US/China tensions could also escalate, with tariffs on imports likely. Taiwan in particular has the potential to be a flashpoint, with a Trump government unlikely to tolerate the reliance of the US tech sector on companies such as TSMC to manufacture their most advanced chips. To this end, 'deglobalisation' is a risk we must pay attention to across all our investments. More positively, a Trump administration is likely to boost investment in the country's crumbling infrastructure, something you have exposure to through holdings in companies like Advanced Drainage Systems, Schneider Electric and Wabtec.

The environment is unlikely to be a priority for a Trump administration. This would threaten some of the Biden-administration policies that have supported moving towards a more sustainable world: IRA, IFRA etc. This is significant for those companies innovating in climate solutions and formed part of the discussion when we recently sold out of holdings in Tesla and Nibe (heat pumps). However, we know that our world is warming too quickly, and that action needs to be taken to address disastrous outcomes for millions of people and investment opportunities will arise from this need, whether in the US or elsewhere in the world.

Historically the impact of elections has not been significant for stock markets. However, the polarised debate surrounding campaigning in the US so far suggests this time could be different. We will prepare for this by assessing the resilience of your portfolio holdings and by debating how each may fare in a republican or democratic led US economy. Whichever party takes charge we know that companies solving immense global challenges will prosper, whether that's the healthcare firms serving an aging population or those designing the chips that will power AI into every aspect of our lives. In this regard, your portfolio will be driven forward by the inexorable changes happening around the world, regardless of who is in government.

What are the long-term trends and opportunities that Baillie Gifford believe can deliver long-term sustainable growth?

Baillie Gifford: We believe that companies which are creating value for society – either through the impact of their products/services, or through the positive influence of their business practices – are best placed to deliver long term sustainable growth. Companies creating such value are typically doing so by tackling one of three big global challenges:

People – We must address the basic needs of our growing global population, for example, by extending healthy life expectancy, improving food security and deepening financial inclusion. Individual companies in the portfolio that are aligned with these challenges include gene sequencing pioneer Illumina, or biotech company, Moderna. With a growing and ageing population, demands for broader, better, and more accessible healthcare is a huge unmet need. These companies are helping to reduce the costs of drug development and creating new treatments that could save lives.

Planet – The energy transition could be the most significant mandated growth driver of our time. Solutions will be required from air conditioning (Beijer Ref) to recyclable tyres for EVs (Bridgestone). Climate adaptation may be required if we fail to transition in an orderly fashion, for example with increased flood risk we will need better storm water solutions (Advanced Drainage Systems). And to enable all of this, we need to get critical minerals out of the group in a more resource-efficient way (Metso) and generally do more with less, particularly in heavy industries (Atlas Copco).

Prosperity – There remains much work to do worldwide, lifting people out of poverty, improving standards of living, and enabling populations to thrive. A huge trend that we expect to continue for the next decade and beyond, is the continuing automation within our lives, helping to improve efficiencies, productivity, and output. Companies such as NVIDIA and Cognex are both examples in the portfolio which are doing just that. Furthermore, processes will continue to be digitalised (Alphabet), and innovation enables entrepreneurship, improving incomes for millions (MercadoLibre). Finally, this is likely to see employers wage a war for talent with best practice recruitment (Recruit), and employee engagement (Workday).

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