AIA Investments

AIA Elite Funds Update

- Steady in face of volatility

Aug 2024

Key messages

- ✓ Volatility is part and parcel of investing and even in equity bull markets, drawdowns to the tune of 10% to 15% can happen
- ✓ While the economy is showing signs of slowing, our base case is that the economy **will not fall into a recession imminently**, and we thus expect equities to eventually recover
- ✓ Stewardship comes to the fore during volatile times & we remain vigilant as volatility is expected to remain elevated over the short term
- ✓ AIA Elite Funds entered the current bout of volatility in a position of strength, riding on **strong absolute returns of 2023 & positive returns in 1H 2024, alongside first quartile peer ranking since inception**
- ✓ Diversification is key & the fixed income sub-portfolio of AIA Elite Funds is holding up well in the current stress episode, offering stability to the Elite Funds
- ✓ Within the equity sub-portfolio, AIA Elite Funds are invested in best-in-class managers with a diversified mix of complementary tilts across different investment styles
- ✓ Our assessment is that over the long term, our investment approach for AIA Elite Funds is poised to shine through

AIA Elite Funds entered the current bout of volatility in a position of strength

AIA Elite Funds have benefitted significantly from the ongoing equity bull market. In 2023, AIA Elite Adventurous returned 14.89%. This was followed by a solid return of 11.42% in 1H 2024. Since inception, AIA Elite Adventurous has returned 8.88% annualized returns. When compared to peers, AIA Elite Conservative, Balanced and Adventurous are ranked first quartile since inception. Figure 1 below illustrates the peer comparison for AIA Elite Adventurous since inception.

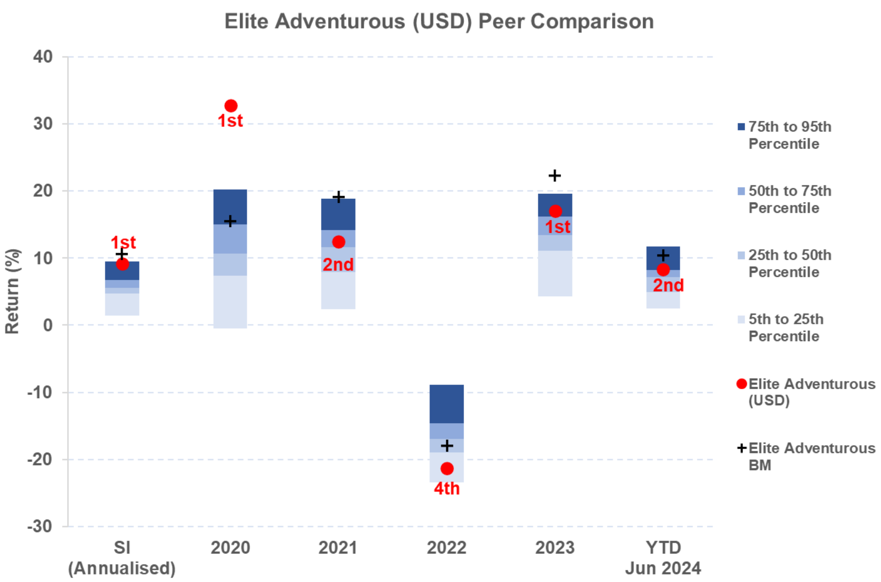

Figure 1: AIA Elite Adventurous (USD) strong positive returns & quartile 1 ranking since inception

Source: Morningstar, AIAIM. Peer comparison is based on performance of AIA Elite Adventurous Fund (USD) since inception i.e., 19th July 2019.
Note: Year 2022 saw global financial instability where stock markets decline, setting off fears of economic recession.

Past performance is not indicative of future returns.

What happened recently?

In recent weeks, markets have been volatile in an abrupt departure from the steady advance that was experienced in 1H 2024. There was a sharp rise in volatility with the VIX closing above 35. This placed the volatility spike in the current episode alongside other notable historical events such as the Covid crash in 2020, Quantitative Tightening fears in 2018, and the Eurozone sovereign debt crisis in 2021 to name a few. See **Figure 2**.

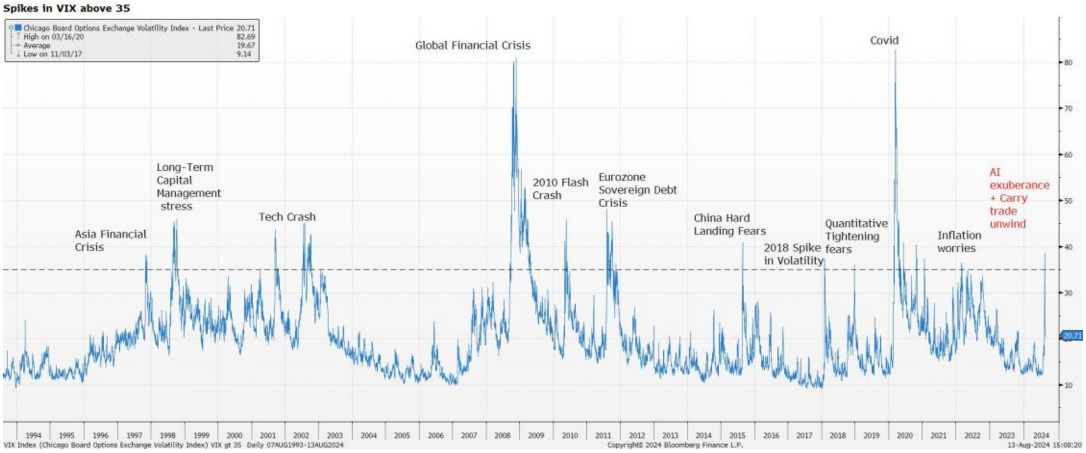

Figure 2: VIX spike above 35
Source: Bloomberg, data extracted on 13 August 2024

The 3 key drivers of the recent volatility are: first, concerns that the Federal Reserve is behind the curve in loosening monetary policy; second, the unwinding of the yen carry trade that was accelerated by the Bank of Japan hiking rates in July 2024; third, concerns that mega-cap tech stocks that have seen a sharp rise are over-extended.

Volatility is part of the course for investing & we remain constructive medium term

Volatility is part and parcel of investing and even in equity bull markets, drawdowns to the tune of 10% to 15% can happen. For example, while 2023 eventually turned out to be a good year for equities with double digit returns, investors had to be patient riding through a significant intra-year drawdown to harvest those returns. See **Figure 3.**

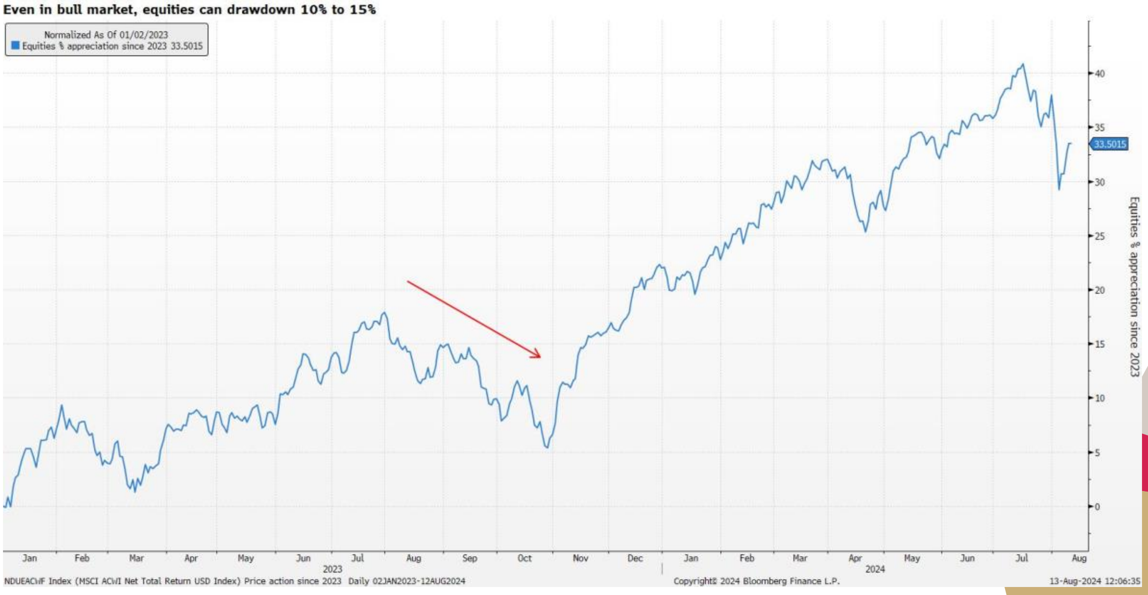

Figure 3: Equities can drawdown 10% to 15% even in bull market
Source: Bloomberg, data extracted on 13 August 2024
Equities refer to MSCI ACWI Index

While the economy is showing signs of slowing, our base case is that the economy will not fall into a recession imminently. Real GDP growth in the US remains positive and above levels in previous recessions. Earnings growth remains intact and is posed to continue its positive trajectory. See **Figure 4**.

Figure 4: Earnings growth is intact
Source: Bloomberg, data extracted on 13 August 2024
Global Equities refer to MSCI ACWI Index

For the second quarter of 2024, companies in the US are reporting positive double-digit earnings growth with percentage of companies beating earnings estimates above its 5-year average. On the inflation front, there are positive developments as inflation is falling and this gives the Federal Reserve room to cut rates to support growth. See **Figure 5**. We thus expect that the setback in equities to be contained, and equities to eventually recover the drawdowns suffered thus far.

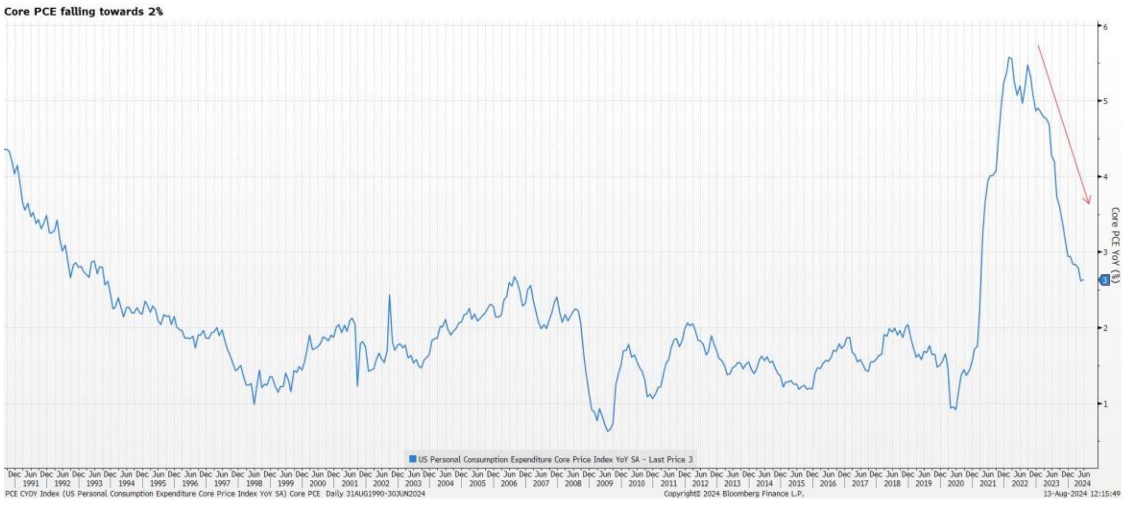

Figure 5: US inflation is progressing in the right direction
Source: Bloomberg, data extracted on 13 August 2024

Notwithstanding our **medium-term constructive outlook on equities**, over the short term, we remain vigilant. Past historical episodes clearly illustrate that post significant spikes in volatility, markets are expected to be choppy for some time as the bulls and the bears engage in a tag of war. See **Figure 6**. To navigate the volatile market environment, **risk management is key**. While our core thesis remains that we are in an equity bull market, as disciplined investors, we respect the price action and will adjust our investment stance should our balance-of-indicators approach signal for more caution in risk taking.

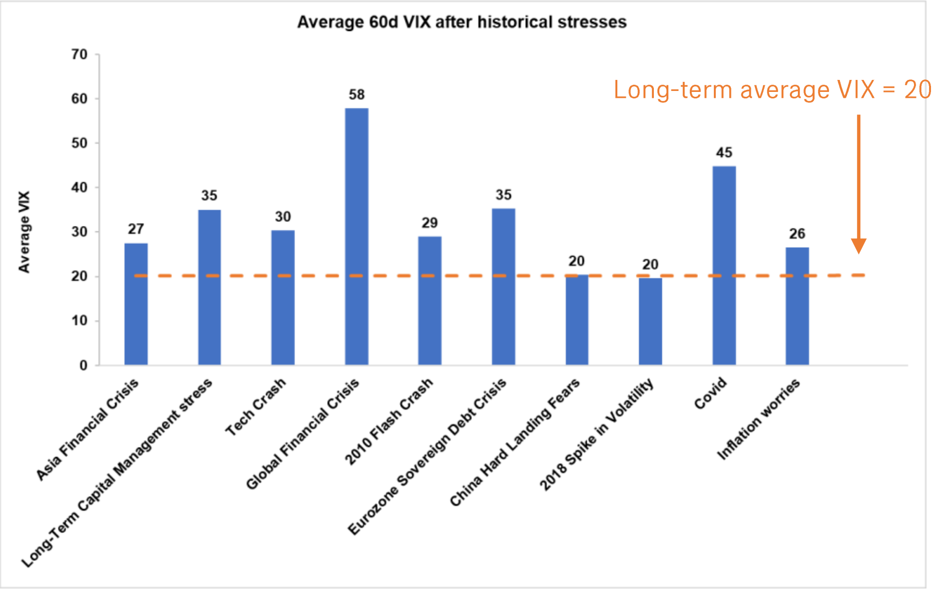

Figure 6: Volatility is expected to remain elevated in the short term
Source: AIAIM, Bloomberg, data extracted on 13 August 2024
Long-term average VIX refers to average VIX from 2 Jan 1997 to 12 Aug 2024

Elite Funds well-positioned going into the spike in volatility

Elite Funds are well-positioned going into this bout of volatility. Prior to the sharp spike in volatility in August 2024, the **overall risk taking for Elite Funds has already been moderate** as we balanced upside potential of equities in a bull market against signs of caution ranging from narrow market rally and muted risk appetite in sectors outside the mega-cap tech stocks. In addition, the Elite Funds were, and continue to be, less exposed to concentration in Magnificent 7 stocks (versus the broader global equity indices). Thus, while Elite Funds could not avoid giving back some of the returns made earlier in the recent equity stress, the **Elite Funds was impacted less by the sharp sell-off in the Magnificent 7 basket of stocks**.

Looking ahead, our moderate risk-taking posture prior to the drawdown has given us the capacity to add risk for the Elite Funds. To that end, we are carefully analysing the markets and will be guided by our robust balance-of-indicators approach prior to adding risk.

Value proposition of Elite Funds in volatile times

It is during volatile times like this that the value proposition of Elite Funds, where we combine AIA stewardship with best-in-class managers, comes to the fore. Diversification is key and the Elite Funds are **diversified across different asset classes and different investment styles**.

On asset class diversification, Elite Funds are invested in quality investment grade corporate bonds via AIA Diversified Fixed Income Fund that has held up well in the recent equity stress episode and thus offers **stability**. On the equity sub-portfolio, Elite Funds boosts a strategic mix of equity managers who offer **complementary growth tilt across different investment styles.**

Our managers are focused on **investing in long-term opportunities** that are deemed to have the **most attractive risk reward proposition** and have successfully navigated various market cycles. Our assessment is that over the long term, our investment approach for Elite Funds is poised to shine through.

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