AIA Investments POWERING OUR CUSTOMERS' FINANCIAL WELLBEING

MPF Smart Sheet 2024-3Q

Sep Market Outlook Video (CN)

【New Horizon】 AIA website

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Market Outlook

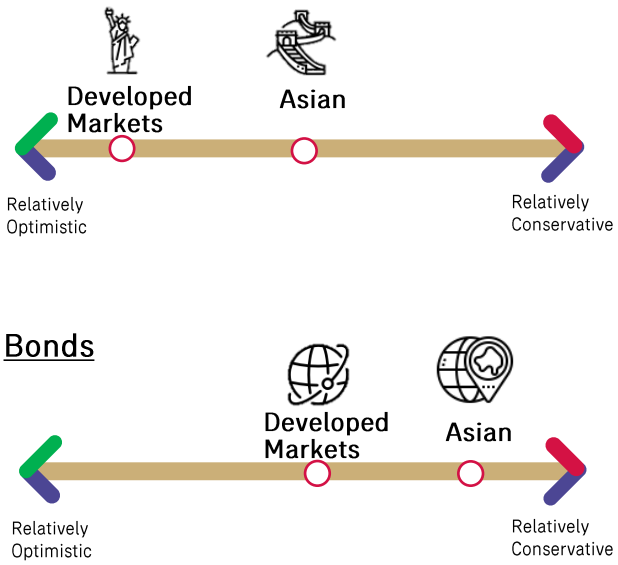
- Global economic momentum slows down, and developed countries are entering an interest rate cut cycle
- Remain positive rating on equity asset class of developed markets

The impact of interest rate cuts on equity index and sector

Investors expect the U.S. Federal Reserve to loosen monetary policy amid slowing U.S. economic growth. Interest-rate-sensitive industries such as real estate and utilities have started to outperform other industries with funding coming from the technology sector. As of the end of August, technology-heavy Nasdaq Composite Index, Korean KOSPI Index and Taiwan Stock Exchange Weighted Index lagged other indices in performance.

Mixed economic data for August

The JP Morgan Global Composite Purchasing Managers' Index rose to 52.8 in August from 52.5 in July. U.S. employment data was mixed. In August, the U.S. ISM manufacturing PMI sequentially rebounded but came in lower than expected, while the ISM services PMI was higher than expected and returned to expansion territory. The unemployment rate fell slightly to 4.2% in August, but the number of new non-farm jobs was lower than expected and last month's data was revised downward.



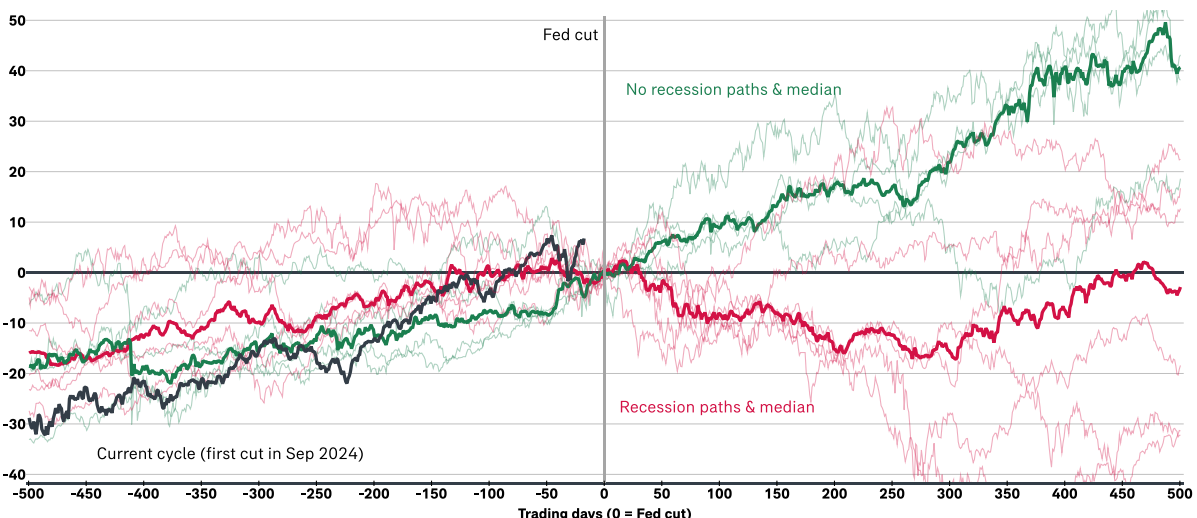
MPF Focus Fund

Amid rising market uncertainties, dynamic investment allocation strategies' advantages become more prominent

Although we remain optimistic about the stock market, entering the second half of the year, many external and unpredictable factors could lead to increased market volatility. Investors must pay more attention to a potential risk of an economic hard landing particularly in the U.S., therefore asset allocation decision and risk control become paramount. Two funds in the AIA MPF Select Scheme offer dynamic asset allocation strategies, namely the Manager's Choice Fund and the China HK Dynamic Asset Allocation Fund. Fund managers of these two funds can dynamically adjust the mix of bonds and stocks based on market conditions to effectively manage the portfolios' overall risk.

Chart 1：

S&P 500 - index performance around first Fed rate cut since 1970 (rebase to 0 at cut)



Analysis on 10 rate cut cycles since 1970 (ex covid), 4 with recession followed. Sources: Macrobond, AIA Investments, 8/23/2024

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MPF Funds under Spotlight : Dynamic Asset Allocation Funds

1) Manager's Choice Fund

- **A unique mixed asset strategy in the MPF market**

Launched in August 2008, the Manager's Choice Fund allows investors to capture investment opportunities in global equity and bond markets. Our fund manager can dynamically adjust the asset allocation according to market conditions. For instance, during market upcycles, the equity mix in the portfolio can reach as high as 90%, and during periods of heightened market risk, the equity mix can be reduced to as low as 10%. (Chart 2)

- **Compared with general equity funds**

Manager's Choice Fund gives our fund manager more flexibility in allocating between stock and bond positions. The aim is to capture more upside opportunities when market risk rewards are favorable and to manage downside risk when market risks increase.

As shown in Chart 3, the Fund performed in similar fashion as the traditional stock index over many years. The equity market has been on an upward trend and the Fund's equity allocation has mostly exceeded 50% since its inception. Dynamic asset allocation strategies' value proposition to investors become more prominent amid heightened market volatility periods. During market declines in 2008 (financial turmoil), 2020 (COVID-19 pandemic), and 2022 (beginning of US Federal Reserve's interest rate hike cycle), our fund manager's decisions to dynamically "increase debt and reduce equity" have helped the Fund to better manage portfolio drawdowns.

2) China HK Dynamic Asset Allocation Fund

- **A unique China-Hong Kong market fund in the MPF market**

The Fund provides investors with investment opportunities in local markets. Our fund manager can actively rebalance portfolio's asset (equity/bond) mix dynamically. When uncertainty in the China/Hong Kong markets increased, portfolio's exposure in bonds increased to reduce portfolio's overall risk. As such, since the Fund's inception in 2017, the performance of the China-Hong Kong Dynamic Asset Allocation Fund delivered better returns than the Hang Seng Index as shown in Chart 4.

Chart 2：Manager's Choice Fund – Equity vs Bond asset allocation mix (%)

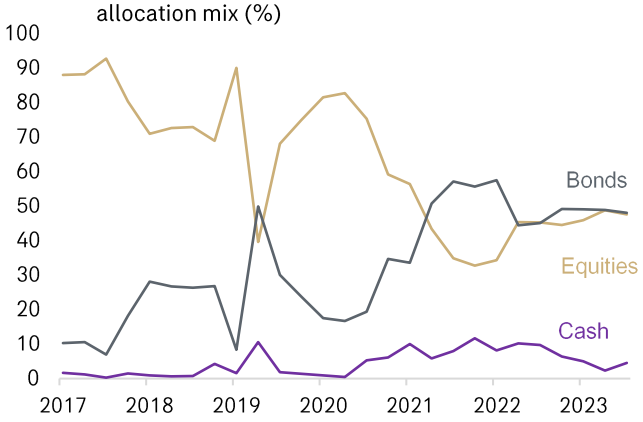


Chart 3：Manager's Choice – Performance Comparison (2016 = 100)

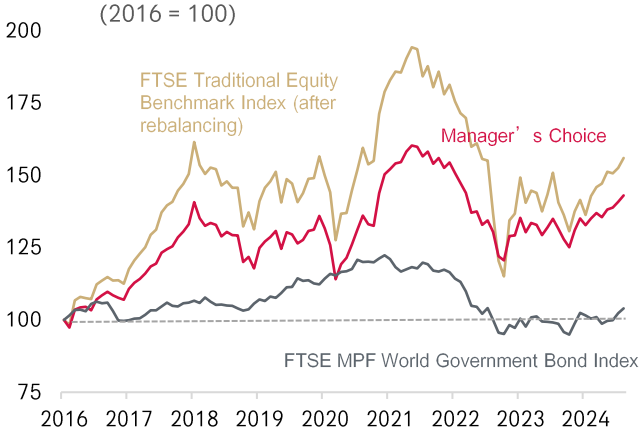
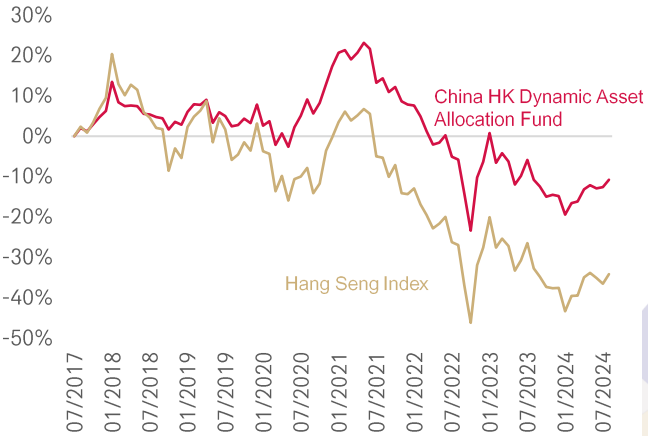


Chart 4: China Hong Kong Dynamic Asset Allocation Fund vs Hang Seng Index Performance Comparison



Data Source: Bloomberg，AIMHK

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