

# AIA PESO CONSERVATIVE FUND

DECEMBER 29, 2023

## Fund Description

The AIA Peso COnservative Fund (the "Fund") is a Philippine peso-denominated fund created for peso variable life insurance contracts issued by AIA Philippines Life and General Insurance Company Inc., (formerly The Philippine American Life and General Insurance Company). The Fund seeks to achieve long-term total return, which is a combination of income and capital growth with conservative risk and at the same time minimize capital risk by investing in a portfolio comprising primarily of bonds and money market instruments. The Fund will invest in shares of Collective Investment Schemes established by AIA including Unit Investment Trust Funds (UITFs) that are managed by either AIA Investment Management and Trust Corporation Philippines (AIAIM PH) or reputable third-party investment managers.

## Historical Performance<sup>1</sup>

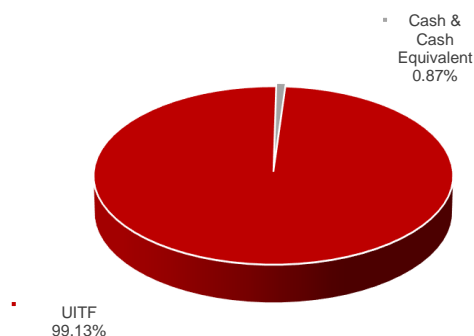


<sup>1</sup> Returns are net of fees. Past performance is not indicative of future returns

## Net Asset Value Per Unit (NAVPU) Graph



## Fund Allocation



## Key Figures and Statistics

|                                  |                   |
|----------------------------------|-------------------|
| NET ASSET VALUE PER UNIT (NAVPU) | 1.0256            |
| INCEPTION DATE                   | 20 February, 2023 |
| FUND CLASSIFICATION              | Equity Fund       |
| RISK PROFILE                     | Conservative      |
| FUND CURRENCY                    | Philippine Peso   |
| DOMICILE                         | Philippines       |

## Top Five Common Stock

| Name                         | % of Fund |
|------------------------------|-----------|
| AIA PESO LONG-TERM BOND FUND | 66.68%    |
| AIA PESO MONEY MARKET FUND   | 18.97%    |
| AIA PESO EQUITY FUND         | 13.48%    |
| Philippine Peso              | 0.87%     |

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The value of portfolios we manage may fall as well as rise, and the investor may not get back the full amount originally invested. The investment risk vary between different types of instruments. For example, for portfolios denominated in foreign currencies, changes in the rate of exchange may cause the value of investments, and consequently the value of the portfolio, to increase or decrease. In the case of a higher portfolio volatility, the realized loss upon redemption may be high, as the investment's value may decline substantially.

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## AIA PESO ADVENTUROUS FUND DECEMBER 29, 2023

### Commentary:

#### Market Review

#### Macro Update

The outlook on inflation and economic growth supported positive sentiment in local bonds at the close of the year. Philippine inflation continued to ease with the December data falling to 3.90% YoY, returning to the BSP target range of 2.0-4.0%. This brought the 2023 inflation average to 6.0%, beating BSP estimate of 6.10%. The latest print was driven by slower inflation for housing, water, electricity and gas, and food with vegetables showing a big drop in prices, as well as slower increase in the price of meat and coffee. The BSP left its policy rate unchanged but maintained its view that it is unlikely to cut rates in the short term and that policy rates will have to remain high to bring inflation back to target. Its baseline inflation forecast for 2024 was maintained at 3.7% while the risk-adjusted inflation forecast is at 4.2%. The BSP highlighted potential transport and wage hikes and the looming threat of El Nino as risks to the inflation outlook in the first half of 2024. Meanwhile, the government has tempered its GDP growth target for 2024 to 6.5%-7.5% from previous forecast range of 6.5%-8.9%.

#### Bond Market Update

A decline in local yields was seen in December as indications of earlier interest rate cuts by the US Federal Reserve dominated global bond markets. Local bond prices also rose because of canceled auctions in December amid strong investor demand. Meanwhile, the Bureau of Treasury released its first quarter 2024 auction schedule indicating to issue Php585 billion worth of Treasury bills and bonds.

#### Equity Market Update

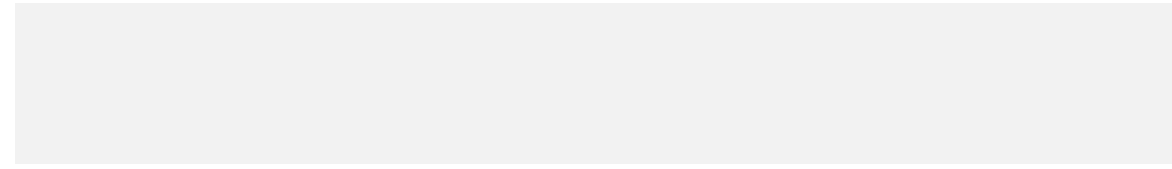
The PSEi climbed 3.6% in December, trimming full year 2023 price decline to 1.8%. It rose along with the global market, which was buoyed by expectations of Fed rate cuts starting March 2024 and softer November Philippines inflation print.

- Both the Federal Reserve and BSP maintained policy rates were unchanged at 5.50% and 6.50%, respectively.
- US policy rate projection shows 75bps of cumulative cuts by end-2024 with market pricing-in a potential first cut in March.
- Philippine November inflation came in at 4.1%, better than consensus of 4.3%, and at the low end of BSP's forecast range of 4.0%-4.8%.

#### Positioning, Outlook, and Strategy

Performance: The AIA Peso Conservative Fund returned 1.48% gross of fees in December. It underperformed its benchmark by 28 bps as the fund's lower exposure to equities, which gained 4% in the month, detracted fund returns.

Positioning, Outlook, and Strategy: The path to lower yields will not be a smooth one in 2024 as we continue to see volatility driven by high inflation and slower growth. Central bank policy rates are seen to have peaked but local price pressures remain in the first half. The BSP cited potential increase in transport fares, electricity tariffs, and El Nino impact on food prices to possibly upset the moderating inflation path. Meanwhile, the prolonged period of high borrowing costs is expected to take a toll on economic activity. Because of this, the expectation is for the BSP to cut policy rates in the second half to support growth as inflation returns to target. We view these volatilities as buying opportunities. Our outlook is for better market conditions in 2024 amid declining global interest rates.



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