AIA PESO CONSERVATIVE FUND

FEBRUARY 29, 2024

Fund Description

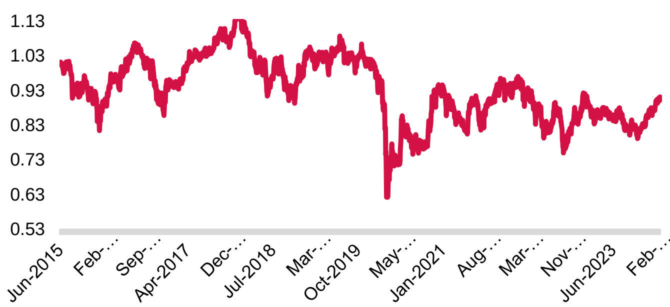
The AIA Peso COnservative Fund (the "Fund") is a Philippine peso-denominated fund created for peso variable life insurance contracts issued by AIA Philippines Life and General Insurance Company Inc., (formerly The Philippine American Life and General Insurance Company). The Fund seeks to achieve long-term 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[1]

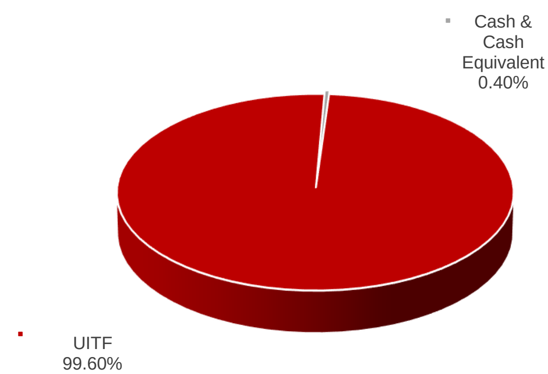
6MOS	1YR	3YRS	5YRS	YTD	Since Inception
3.60%	3.63%	-	-	0.74%	3.32%

[1] 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)	1.0332
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	66.89%
AIA PESO MONEY MARKET FUND	18.11%
AIA PESO EQUITY FUND	14.60%
Philippine Peso	0.40%

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Commentary:

Market Review

Macro Update

Economic data for the month indicated ongoing inflation concerns alongside sustained domestic economic growth. February inflation accelerated to 3.4% y/y from 2.8% y/y in January, faster than consensus estimate of 3.0%. The uptick in inflation was primarily driven by a faster increase in food prices, particularly rice, which increased to a 15-year high of 23.7% in February. The inflation report reinforced the decision of the Bangko Sentral ng Pilipinas (BSP) to maintain the policy rate at 6.50% on its Monetary Board meeting on 15 February 2024. Meanwhile, the country's factory activity continued to expand, with S&P Global Philippines Purchasing Managers' Index (PMI) reading at 51.0 in February compared to 50.9 in January. The budget deficit narrowed by 6.32% to Php1.51 in 2023 from Php1.61 trillion in 2022 as government spending grew by 3.42% y/y at Php5.34 trillion while revenues jumped 7.86% y/y at Php3.82 trillion.

Bond Market Update

In February, local bond yields pushed higher due to increased pressure from rising US Treasury yields and a surge in local bond supply. The Federal Reserve's (Fed) dismissal of early rate cut expectations, fueled by strong economic data and higher-than-expected inflation, pushed treasury yields to year-to-date high of 4.32%. Additionally, a sizable bond issuance by the Bureau of Treasury (BTr) increased supply in the market, which further pressured local bond yields to go higher. Echoing the Fed's hawkish stance, the BSP is expected to maintain higher rates in the near term. Local benchmark yields rose in the 2-, 5-, 10-, and 20-years to close the month at 6.12% (+0.14%), 6.20% (+0.13%), 6.24% (+0.065%), and 6.31% (+0.18%), respectively.

Equity Market Update

The PSEi climbed by another 4.5% in the second month of the year, bringing year-to-date rally to 7.7%. Foreign investors continued to drive the rally with net inflow of USD129m. Appetite to risk assets continued to improve on the back of expectations of rate cuts within 2024 coupled with declining inflation, decade-low unemployment, and optimism of local listed companies.

- January inflation decelerated further to 2.8%, softer than market estimates of 3.1% and previous month's 3.9%.
- The BSP kept its policy rate unchanged at 6.5% in its February meeting. The central bank also revised down its risk-adjusted inflation forecast for 2024 to 3.9% from 4.4%, signalling a possible rate cut later in the year.
- Unemployment rate sharply dropped to 3.1%, lowest in 18 years.
- Management of listed companies provided rosy earnings outlook for 2024, Property and Financial sectors are the expected top performers on the back of high-end residential launches (Property), decent loan growth and elevated net interest margins (Banks).

Positioning, Outlook, and Strategy

Performance: The AIA Peso Conservative Fund returned 0.67% gross of fees in February. It outperformed its benchmark by 0.01% following the fund's increased exposure to equities, which gained 4.9% in the month.

Positioning, Outlook, and Strategy:
Local bonds are still expected to outperform in 2024, but the path to lower yields faces headwinds in the near term. The recent inflation uptick indicates the BSP will extend its pause, but it also has been telegraphing an eventual rate cut towards the latter half of the year. This shift towards a more accommodative monetary policy should coincide with the Fed own easing cycle and a return to target inflation levels domestically. In the near term, rates are projected to remain elevated, presenting opportunities for portfolio repositioning at more favorable levels. Looking ahead, anticipated rate cuts in the second half of the year from both the BSP and Fed remain intact and should drive bond yields lower and ensure positive fixed income returns in the coming year.