

# AIA PESO CONSERVATIVE FUND

May 31, 2024

## Fund Description

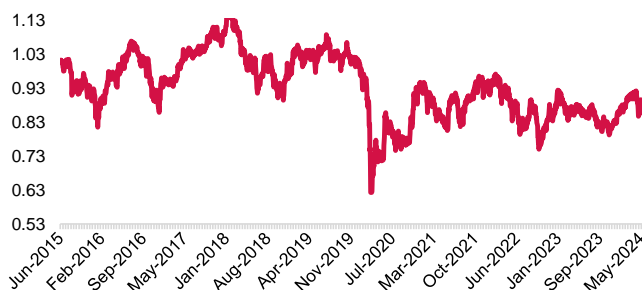
The AIA Peso COnservative Fund (the "Fund") is a Philippine peso-denominated fund created for peso variable life insurance contracts issued by AIA Philippines Life and General Insurance Company Inc., (formerly The Philippine American Life and General Insurance Company). The Fund seeks to achieve long-term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



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

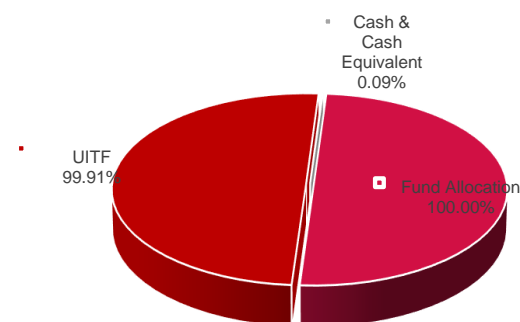
## Net Asset Value Per Unit (NAVPU) Graph



## Key Figures and Statistics

NET ASSET VALUE PER UNIT (NAVPU)	1.0152
INCEPTION DATE	20 February, 2023
FUND CLASSIFICATION	Equity Fund
RISK PROFILE	Conservative
FUND CURRENCY	Philippine Peso
DOMICILE	Philippines

## Fund Allocation



## Top Five Common Stock

Name	% of Fund
AIA PESO LONG-TERM BOND FUND	67.14%
AIA PESO MONEY MARKET FUND	16.91%
AIA PESO EQUITY FUND	15.86%
Philippine Peso	0.09%

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## AIA PESO ADVENTUROUS FUND

May 31, 2024

### Commentary:

#### Market Review

##### Macro Update

The weaker-than-expected economic data releases including slowing inflation in the US have prompted global investors to reconsider interest rate forecasts and move up expectations for policy rate cuts. Locally, the Bangko Sentral ng Pilipinas (BSP) held steady its policy rate at 6.5% don its 16 May Monetary Board meeting but suddenly shifted to a dovish tone, signaling a potential rate cut in August as Philippine inflation printed lower than expected. Local inflation rose for fourth month in a row to 3.9% y/y in May, nearing the higher end of the BSP's forecast but remaining below expectations. The uptick was mainly driven by rising costs in housing, utilities, and transportation. The BSP revised down this year's inflation forecast to 3.8% from 4.0%, while nudging the 2025 forecast up to 3.7% from 3.5%. Meanwhile, Q1 2024 GDP growth remained resilient at 5.7% y/y or 1.3% q/q despite missing the consensus. Prolonged period of high interest rates and inflation dampened household consumption and investment spending, which slowed to 4.6% (from 5.3%) and 1.3% y/y (from 11.6%), respectively. These were offset by an outperformance in exports and rebound in government spending, which grew 7.5% and 1.7% y/y, after contracting previously.

##### Bond Market Update

BSP's sudden change in narrative, from a possible zero rate cut scenario in 2024 to a possible rate cut in August, drove bond yields lower for May. Benchmark yields in the 2-year closed at 6.31% (down by 0.23%), 5-year at 6.51% (down by 0.27%), 10-year at 6.75% (down by 0.28%), and 20-year at 6.83% (down by 0.23%). Easing bond supply pressures also kept yields from rising as the Bureau of Treasury only partially awarded bond auctions for the month.

##### Equity Market Update

The PSEi continued its decline in May, losing 3.99% and brought YTD price movement to down 1.38%. Signs of weakening consumption, the narrative of "high-for-longer rates" and the Peso's depreciation drove foreign investors to sell Philippine equities.

- Philippine 1Q24 GDP printed 5.7%, lower than the 5.9% market estimates. The miss was largely due to the slowdown of household consumption.
- Expectations on the US Fed's first rate cut have been pushed back to either September or December.
- Global risk aversion led to the US dollar strengthening, consequently leading to the PHP weakening to P57.77 from 56.22.
- Foreign investors sold USD412m worth of stocks in May, bringing YTD net foreign outflows to USD250m.

##### Positioning, Outlook, and Strategy

Performance: The AIA Peso Conservative Fund gained 0.42% gross of fees in May. It underperformed its benchmark by 0.45%. The fund's higher exposure to equities, which gave a negative return of 4% in the month, detracted returns.

Positioning, Outlook, and Strategy:

Local bonds are expected to recover in 2024, but the path to lower yields faces headwinds in the near term. While BSP policy rate cuts remain in the horizon, recent uptick in inflation indicates a possible delay. The shift to an accommodative monetary policy is expected to happen after the US Federal Reserve eases rates and local inflation returns to BSP targets. Interest rates are projected to remain elevated in the near term, presenting opportunities for portfolio repositioning at more favorable levels. Meanwhile, we remain constructive on equities given healthy corporate earnings and expectations of eventually lower borrowing costs. In the short term, select industries such as the banking sector shall benefit from the current high interest rate environment.

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