Hong Kong Baptist University

1998 Superannuation Fund – Investment review

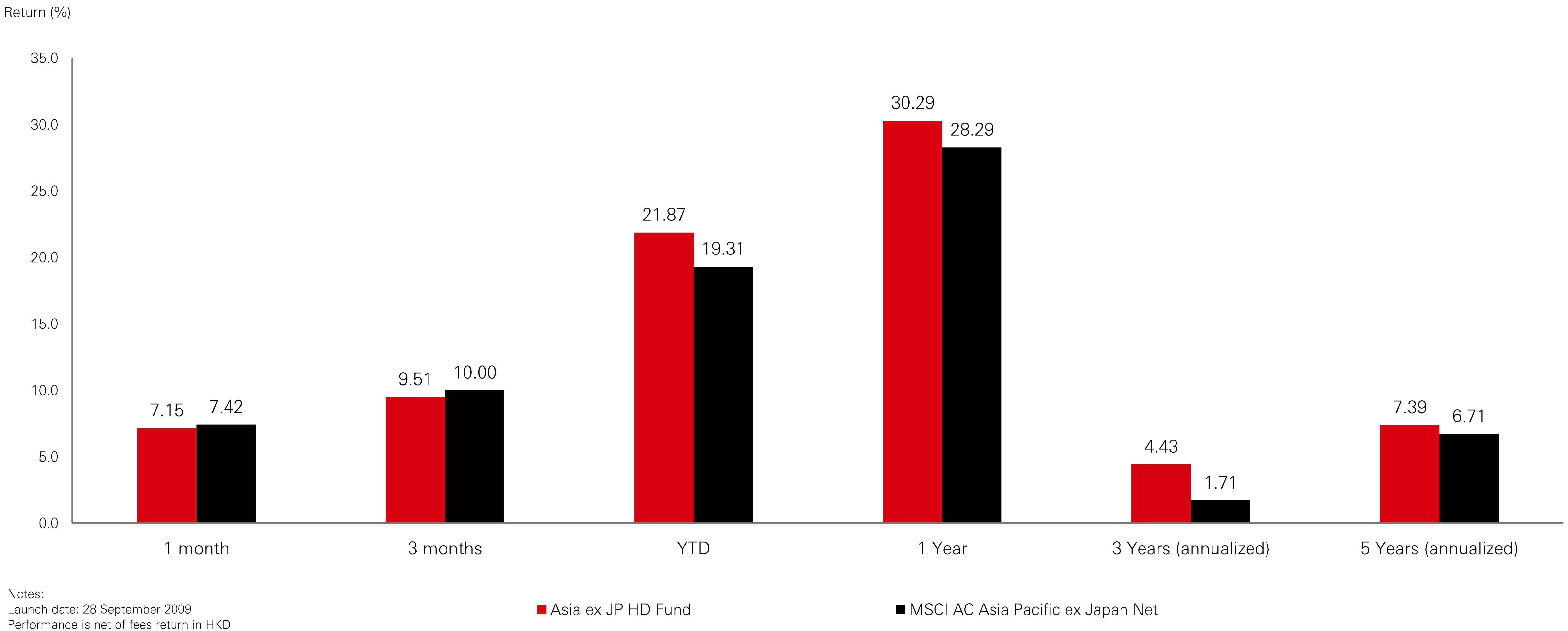
October 2024

HSBC | Opening up a world of opportunity

Fund performance update

Investment performance: HKBU 1998 – Asia Pacific ex Japan Equity High Dividend Fund

(in HKD)

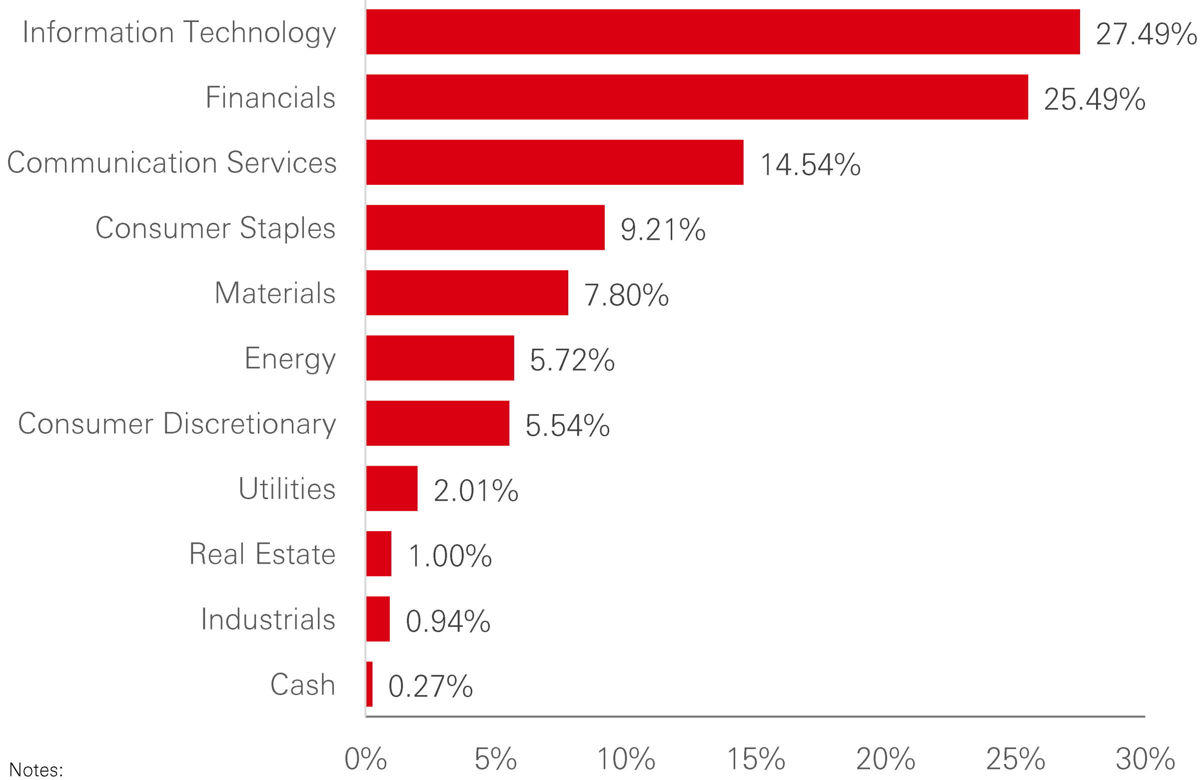


Notes:
Launch date: 28 September 2009
Performance is net of fees return in HKD
Calendar year performance: 2023: 10.22%; 2022: -16.94%; 2021: 4.94%; 2020: 12.59%; 2019: 20.97%
Past performance is not necessarily a guide to future performance
Data as of 30 September 2024
Source: HSBC Asset Management

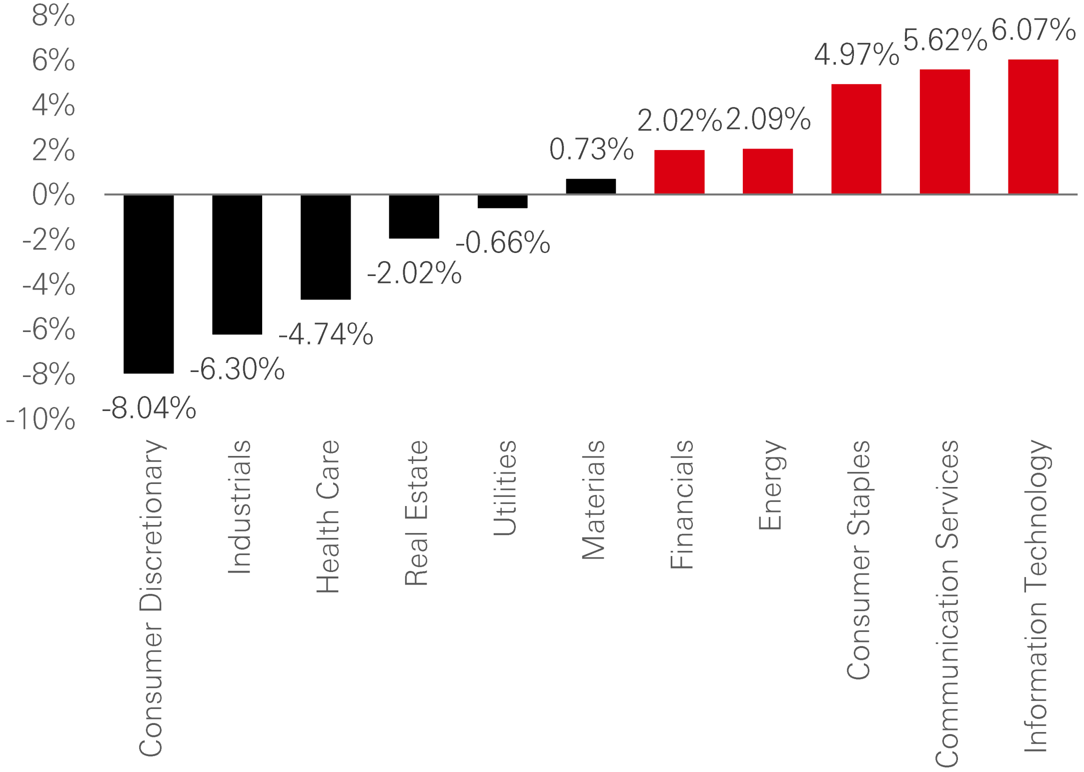
HGIF Asia Pacific ex Japan Equity High Dividend – Sector positioning

Representative account of GIPS composite
Supplemental information as of 30 September 2024

Sector weightings (%)



Active sector weightings (%)



Notes:
1. HSBC Asset Management accepts no liability for any failure to meet this benchmark. Any portfolio characteristics shown herein, including average position sizes and sector allocations among others, are for illustrative purposes and reflects the representative account of the composite
2. The information should not be construed as a recommendation or solicitation to buy or sell any securities or sectors referenced. Holdings are subject to change daily. Each portfolio may differ due to individual client restrictions and guidelines. Accordingly individual results will vary

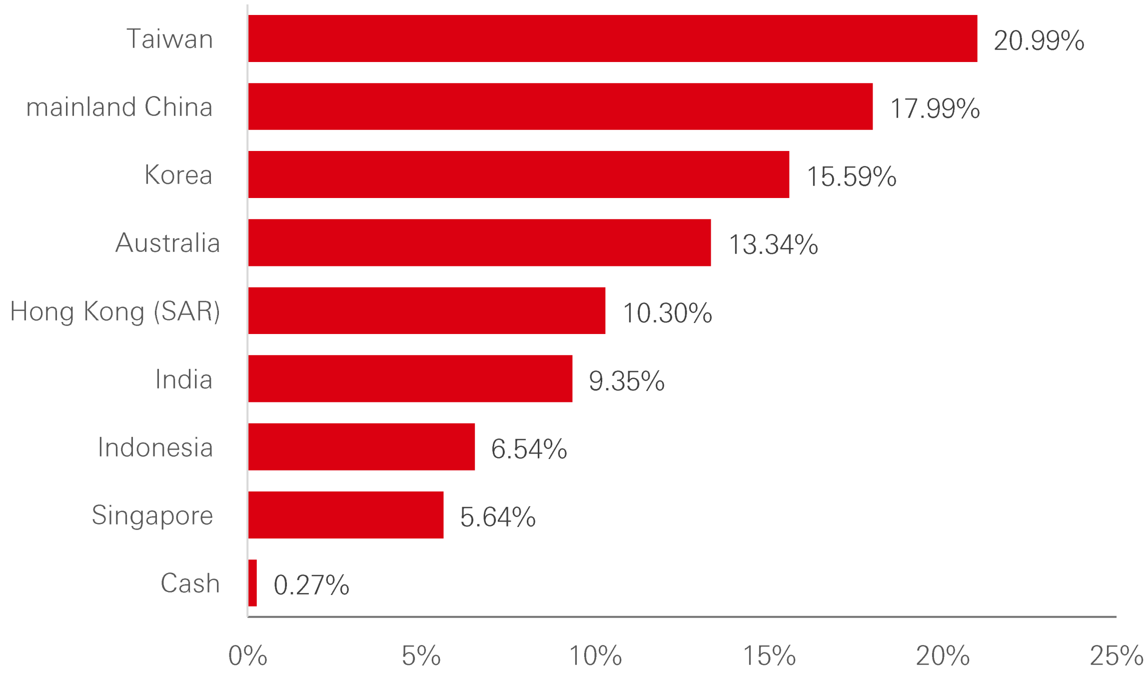
Information is given for illustrative purposes. Benchmark is the MSCI AC Asia Pacific ex Japan Net. This benchmark is indicative only and is not guaranteed in any way
This material is supplemental to GIPS compliance requirements and is provided for your information. This supplemental material complements the GIPS compliant composite presentation which is available in the appendix. Please refer to the GIPS disclosure statement in the appendix for the impact of investment advisory fees and expenses on performance and for benchmark definitions.
Fund changes that may have material impact on performance: 20 June 2016 – Investment objective changed
Investing in the fund means that investment in shares in a fund and not in a given underlying asset. The decision to invest in the fund should take account of all the characteristics or objectives as described in the prospectus. Any portfolio characteristics shown herein, including strategy and allocations among others, are for illustrative purposes only. The characteristics may differ by product, client mandate or market conditions.

Source: HSBC Asset Management, data as of September 2024

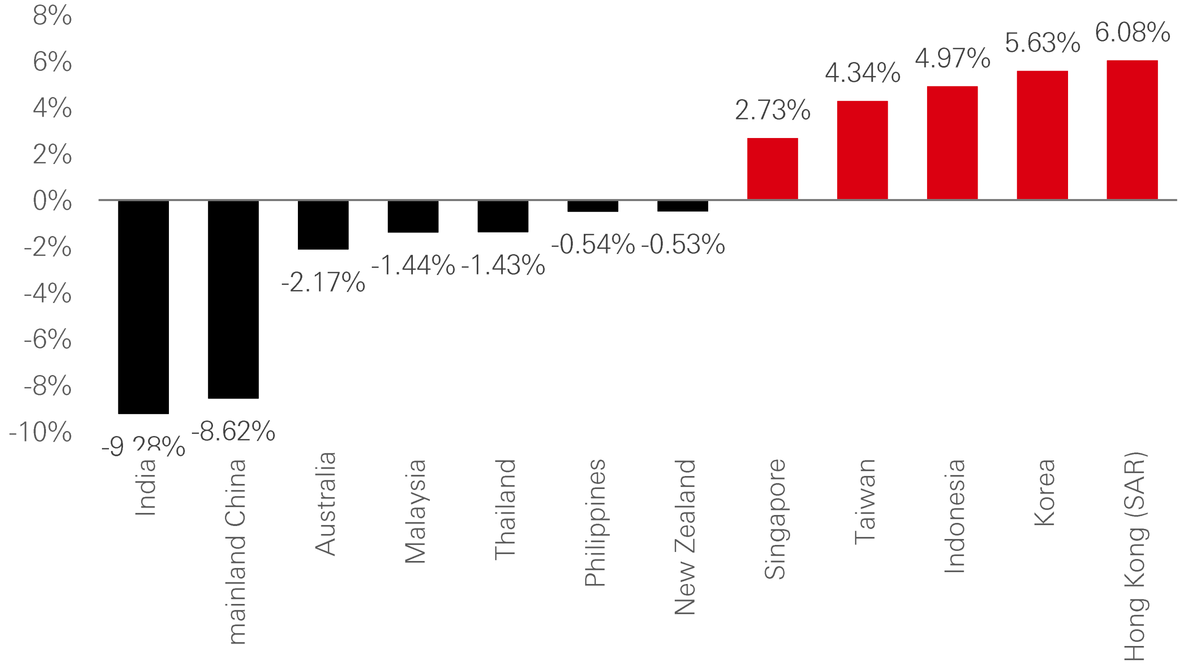
HGIF Asia Pacific ex Japan Equity High Dividend – Geographic positioning

Representative account of GIPS composite
Supplemental information as of 30 September 2024

Geographic weightings (%)



Active geographic weightings (%)



Source: HSBC Asset Management, data as of September 2024
Notes:

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Information is given for illustrative purposes. Benchmark is the MSCI AC Asia ex Japan Small Cap Net. This benchmark is indicative only and is not guaranteed in any way
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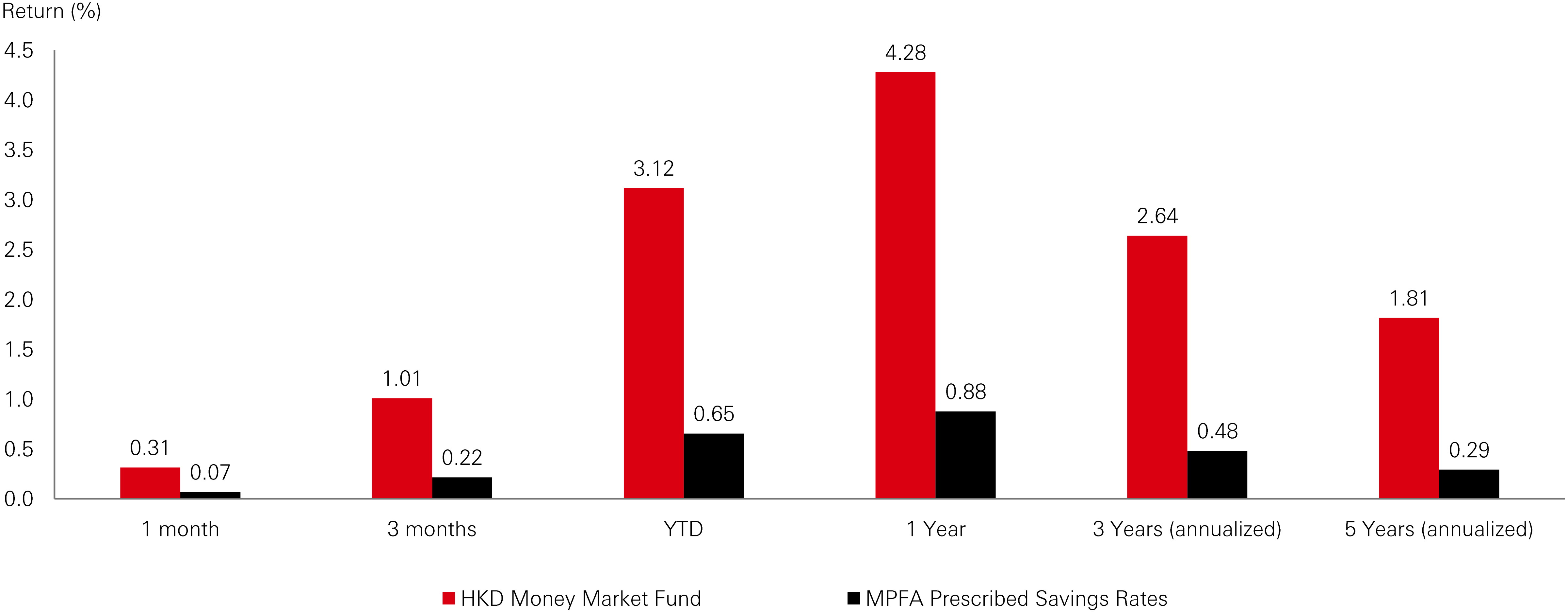
Fund changes that may have material impact on performance: 20 June 2016 – Investment objective changed
Allocation is as at the date indicated, may not represent current or future allocation and is subject to change without prior notice.
Investing in the fund means that investment in shares in a fund and not in a given underlying asset. The decision to invest in the fund should take account of all the characteristics or objectives as described in the prospectus. Any portfolio characteristics shown herein, including strategy and allocations among others, are for illustrative purposes only. The characteristics may differ by product, client mandate or market conditions.

Investment performance: HKBU 1998 – HKD Money Market Fund

(in HKD)



Notes:
Launch date: 3 March 1998
Performance is net of fees return in HKD
Calendar year performance: 2023: 3.81%; 2022: 1.00%; 2021: 0.04%; 2020: 0.70%; 2019: 1.55%
Past performance is not necessarily a guide to future performance
Data as of 30 September 2024
Source: HSBC Asset Management

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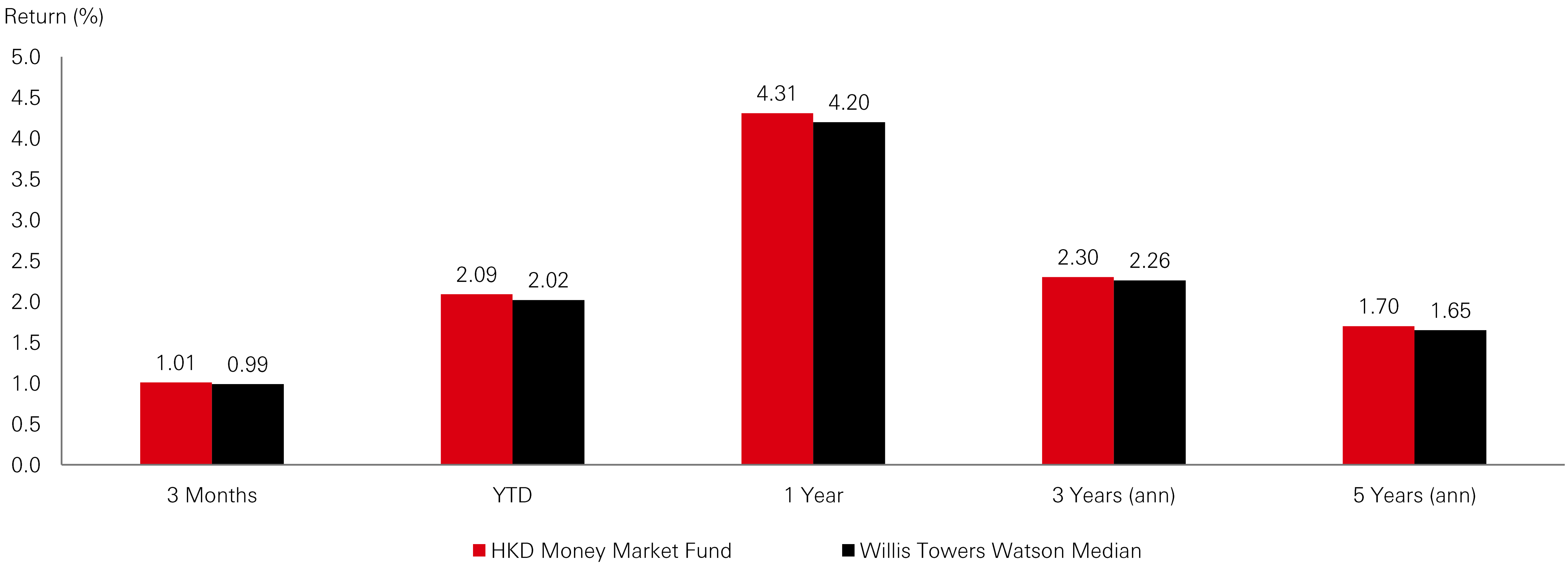
Peers Review - Investment performance till 30th June 2024

(in HKD)



Notes:
HKD Money Market Fund are ranked under the same category of "Money Market Fund" in the Willis Towers Watson - Managed Fund Report - Investment performance of pooled fund products
Performance is net of fees return in HKD
Past performance is not necessarily a guide to future performance
Data as of 30 June 2024
Source: HSBC Asset Management, Willis Towers Watson - Managed Fund Report - Investment performance of pooled fund products

Market outlook

Summary

Macro Outlook

- A combination of falling inflation and cooling growth continue to align with our **base case scenario of a soft landing** for the economy
- With the **Fed kicking off its policy easing cycle**, the way has cleared for other global central banks to pursue rate cuts
- **Global growth remains 'multi-speed'**. New policy support in China gives confidence that policymakers are committed to achieving a target of ~5% real GDP growth this year
- **Stock market performance and profit growth expectations** continue to broaden out, with a 'great rotation' of leadership across sectors and regions

Policy Outlook

- A comprehensive set of **Politburo-endorsed policy measures in China** signalled strong intent to shore up confidence, the economy, and markets
- A **50bp rate cut from the US Fed** reflected its judgment that upside risks to inflation have moderated while downside risks to employment have risen
- **US fiscal policy will be a mild drag on growth in H2** and into 2025, but much will depend on the election result in November
- The Bank of Japan is expected to take a **cautious approach to further rate hikes** as it progresses towards policy normalisation without unsettling markets

House View

- If delivered, **the soft landing should catalyse the market rotation** – boosting emerging markets, laggard sectors, small-caps, and the value factor
- Investors should remain cautious of a **more volatile market environment** amid global economic cooling, election uncertainty and geopolitical risks
- In fixed income, we see a **strong case for a 'structural steepening' of the yield curve**. Private credits, real assets, and hedge funds remain attractive
- **EMs should continue to benefit from a weaker US dollar**. We prefer Asia stocks and credits, and local-currency EM debt

Scenarios

SOFTISH LANDING	Inflation stabilises around target. GDP growth is below trend. Profit growth broadens-out
HARD LANDING	Restrictive policy induces recession. Inflation is below 2%. Most assets sell off. Bonds perform
GOLDEN PATH	Productivity boosts GDP without inflation. Bull market continues. US leadership is extended

Source: HSBC Asset Management as at October 2024.

House view

A soft economic landing should encourage the 'great rotation' in markets, boosting returns across sectors and regions. But slowing global growth, election uncertainty and geopolitical risks are headwinds. We prefer high quality fixed income in both developed and emerging markets, alternative assets including private credit, and Asian stocks and credits

- **Equities** – We expect a continuing rotation in market leadership to deliver an improving performance from laggard sectors and regions. We prefer emerging market and frontier equities, especially in Asia, together with a focus on quality, and selective exposure to defensive sectors, small-caps, and value
- **Government bonds** – With cooling US growth, inflation falling back to the 2% target, and further easing expected, 10yr US Treasury yields are expected to fall, although the yield curve is likely to 'bull steepen' as the Fed cuts rates
- **Corporate bonds** – Investment grade and high yield credit spreads still trade at close to historically expensive levels despite cooling in the US economy, but high 'all in' yields means corporate credit remains potentially attractive

Equities

Asset Class	House view	View move
Global	▼	–
US	▼	–
UK	↔	↑
Eurozone	↔	↑
Japan	↔	↓
Emerging Markets (EM)	▲	–
CEE & Latam	▼	↓
Frontier	▲	–

Government bonds

Asset Class	House view	View move
Developed Market (DM)	↔	–
US	▲	–
UK	▲	–
Eurozone	▲	↑
Japan	▼	–
Inflation-linked bonds	↔	–
EM (local currency)	▲	–

Corporate bonds

Asset Class	House view	View move
Global investment grade (IG)	↔	–
USD IG	↔	–
EUR & GBP IG	↔	↓
Asia IG	↔	–
Global high-yield	↔	–
US high-yield	▼	–
Europe high-yield	▼	–
Asia high-yield	↔	–
Securitised credit	▲	–
EM aggregate bond (USD)	▲	–

FX & Alternatives

Asset Class	House view	View move
Gold	▲	–
Other commodities	↔	–
Real estate	▲	–
Infrastructure	▲	–
Hedge funds	▲	–
Private credit	▲	–
Private equity	↔	–
US dollar	▼	–
Crypto	▼	–

Asian assets

Asset Class	House view	View move
Asia local bonds	▲	–
RMB bonds	↔	–
Asia ex-Japan equities	▲	–
China	▲	–
India	▲	–
ASEAN	▲	↑
Hong Kong	▲	–
Asia FX	▲	–

▲ Positive
↔ Neutral
▼ Negative

View move:
– No change
↑ Upgraded versus last month
↓ Downgraded versus last month

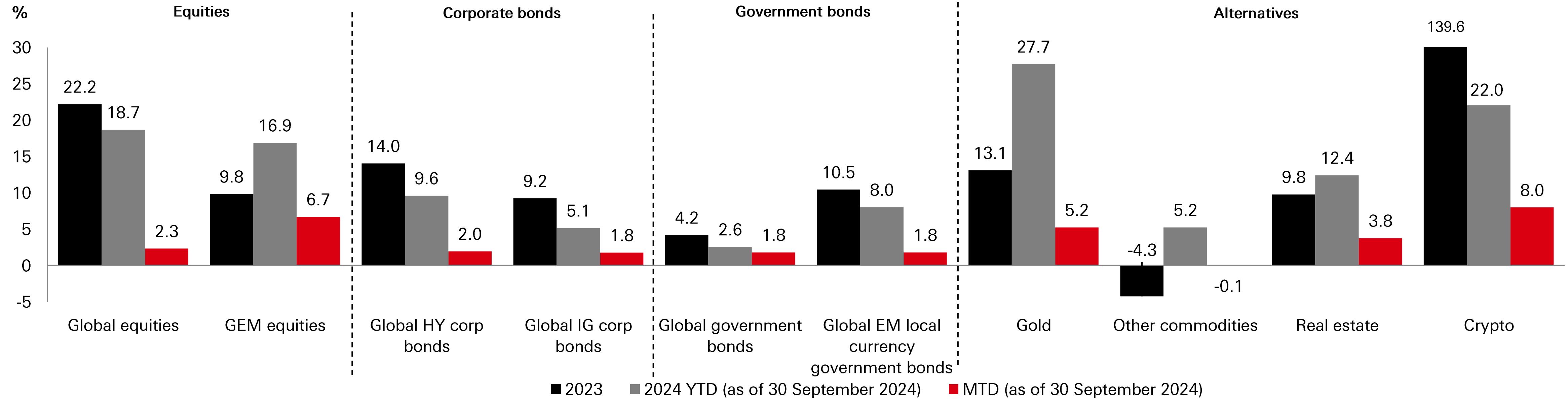
House view represents a >12-month investment view across major asset classes in our portfolios

Source: HSBC Asset Management as at October 2024. The level of yield is not guaranteed and may rise or fall in the future. The views expressed above were held at the time of preparation and are subject to change without notice. This information shouldn't be considered as a recommendation to invest in the country or sector shown.

Asset class performance at a glance

Global stocks performed well in September, with China registering its best month since 2015. A rotation in performance saw defensive and rate-sensitive sectors lead returns. Continuing signs of slowing global growth saw government bond yields fall, while in credits Asia high-yield outperformed

- **Government bonds** – Government bonds yields continued to rise (yields fell) in September as markets priced-in the prospect of cooling economic growth. The spread between 2yr and 10yr US Treasury yields turned positive
- **Equities** – Emerging market stocks outperformed in September, with China leading returns, and ASEAN and India also delivering strong gains. After selling off during the summer, US large-cap tech stocks performed well. US small-caps, UK stocks, Latam and frontier markets were laggards during the month
- **Alternatives** – Rate-sensitive asset classes, including real estate, continued to perform well. Industrial metals, including copper, also saw gains, while gold once again rose to new highs. Oil prices finished the month lower



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Source: Bloomberg, all data above as at close of business 30 September 2024 in USD, total return, month-to-date terms. Note: Asset class performance is represented by different indices. **Global Equities:** MSCI ACWI Net Total Return USD Index. **Global Emerging Market Equities**: MSCI Emerging Market Net Total Return USD Index. **Corporate Bonds:** Bloomberg Barclays Global HY Total Return Index value unhedged. Bloomberg Barclays Global IG Total Return Index unhedged. **Government bonds**: Bloomberg Barclays Global Aggregate Treasuries Total Return Index. JP Morgan EMBI Global Total Return local currency. **Commodities and real estate:** Gold Spot $/OZ, Other commodities: S&P GSCI Total Return CME. **Real Estate**: FTSE EPRA/NAREIT Global Index TR USD. **Crypto**: Bloomberg Galaxy Crypto Index.

Base case views and implications

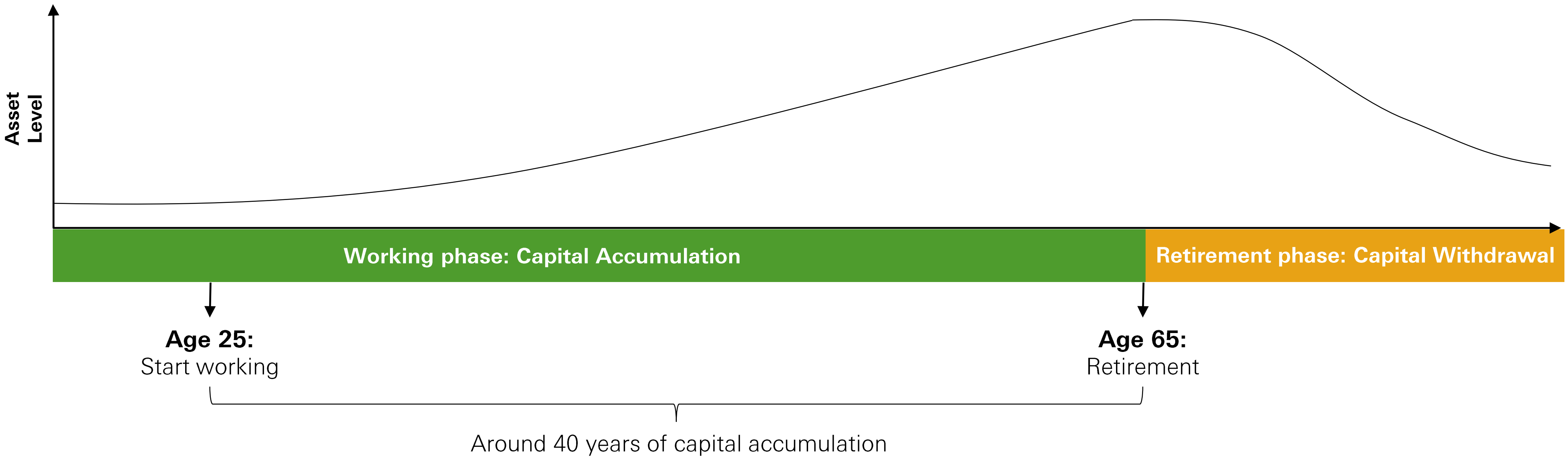
Region	Macro views	Implications
US	◆ In the **US**, the Fed delivered a bold 50bp rate cut in September, kicking off the easing cycle. Fed Chair Powell characterised the move as a "recalibration" that "shifted policy from bringing down inflation to safeguarding the soft landing". The Fed's own median expectation of the funds rate for end-2024 is 4.4% ◆ Goods inflation has normalised, but core inflation has showed some stickiness in housing and service prices. A fall in the New Tenant Rent Index points to softer shelter inflation	◆ Momentum in **US equities** continued in September, but a cooling growth outlook could present a risk to earnings, and may leave prices vulnerable to correction, especially in areas where valuations are stretched. If a soft landing is achieved, it could spur a rotation benefiting defensive sectors, small-caps, and 'value' ◆ We continue to prefer **US Treasuries over equities**, which have continued to rally in response to slowing growth and rate cuts
Europe	◆ In the **eurozone**, the ECB lowered rates 25bp in September, with ECB president Lagarde reiterating further easing was "data dependent". The composite PMI contracted in September, with widespread weakness. Goods disinflation continues. Service sector inflation remains sticky but should soften as wage growth moderates in coming months ◆ In the **UK**, the composite PMI ended Q3 on a soft note. Headline inflation remained close to the BoE's 2% target in August. Service sector inflation remains relatively high, but private sector wage growth is slowing. Output price expectations are falling	◆ **European equities** offer both value and cyclical exposure. Relatively strong earnings growth and moderate valuations versus global peers supports the case for selective stock picking ◆ In **European government bonds**, yields have fallen sharply. Markets expect significant ECB easing between now and mid-2025, pointing to 10yr Bund yields remaining range-bound near-term
Asia	◆ In **China**, the PBoC announced extensive monetary support for the economy including: (1) 20bp cut in the 7-day reverse repo rate; (2) 50bp reduction in required reserve ratio (RRR); (3) loan prime and deposit rates guided 20-30bp lower, and (4) a 50bp cut in existing mortgage rates. There was also support for the property and equity markets ◆ In **India**, the composite PMI index fell in September to a 2024 low, signaling a loss of momentum, but it remains above its long-term average. Hiring intentions remain solid ◆ In **Japan**, BoJ governor Ueda signalled no urgency to hike rates at September's meeting. Nationwide CPI excluding fresh food and energy edged higher in September. Goods price inflation firmed, aided by recent yen weakness. Service sector inflation remains stable	◆ **Chinese equities** still show material valuation discounts amid ongoing macro uncertainty. Recent stimulus measures may lead to further re-ratings as analysts continue to adjust earnings estimates ◆ **Indian equities** are underpinned by solid earnings, economic growth, and structural tailwinds. Rich valuations (in small-/mid-cap stocks) are a concern, but a potential RBI rate cut is supportive ◆ Upside potential for the yen following Fed easing could drive up volatility in **Japanese equities**, with exporters vulnerable to external risks. Corporate reform tailwinds remain intact
Other EM	◆ In **Latin America**, Banxico (Mexico's central bank) lowered rates 25bp in September on an improving inflation outlook. In contrast, Brazil's central bank, Banco do Brasil, hiked rates 25bp, citing a strong labour market and higher than expected Q2 GDP ◆ Easing cycles are broadening in **Eastern Europe**, with Hungary resuming rate cuts. Turkey's central bank dropped its tightening bias, pointing to lower rates before end-2024 as inflation slows. South Africa's central bank, SARB, lowered rates 25bp ◆ In **MENA**, central banks in Saudi Arabia, Oman, UAE and Bahrain cut rates 50bp, mirroring the Fed's latest move. Kuwait's central bank lowered rates 25bp	◆ **EM equities** have performed well but there is divergence across regions – with Latam a notable laggard. Reasonable valuations and a pick-up in the macro cycle/growth outlook are encouraging. EM equities offer potential diversification benefits due to idiosyncratic trends, including structural growth and cyclical upside ◆ **Local-currency EM government bonds** have performed well and are well-positioned to benefit from further policy easing

Source: HSBC Asset Management as at October 2024. The level of yield is not guaranteed and may rise or fall in the future. Diversification does not ensure a profit or protect against loss. The views expressed above were held at the time of preparation and are subject to change without notice. This information shouldn't be considered as a recommendation to invest in the country or sector shown.

Retirement planning sharing section

Why is it important to invest for retirement?

Retirement planning is not only for people who are close to retirement age



Benefits of start investing early

- **Compounding (snowball effect)**
- **Managing investment risk by reducing market fluctuations**
- **Flexibility in retirement**
- **Formation of an investment habit**

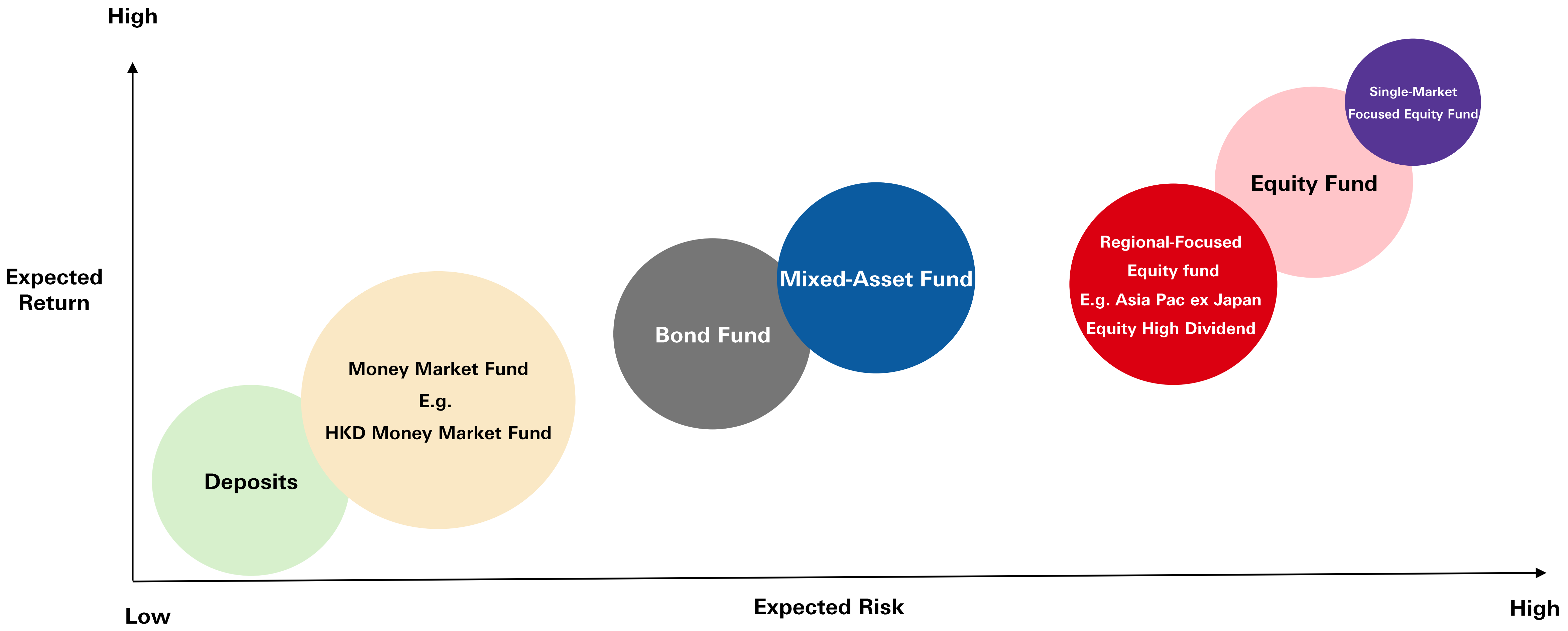
Potential Risks

- **Longevity risk**
- **Inflation risk**
- **Health care costs risk**

Source: HSBC Asset Management. Graphic presentation is for illustrative purpose only.

Risk and Return profile for Asset classes

There is a tradeoff between risk and return



Source: HSBC Asset Management. Graphic presentation is for illustrative purpose only.

What is compounding effect?

<u>"Snowball effect"</u> refers to the power of compounding. In investment, this refers to the value of an investment increases as a result of the earnings on an investment**, both <u>capital gains and interest</u>**.

Example

A person starts making a **monthly investment of HKD 1,000** towards his or her retirement savings from the age of 20. Assuming that the **annual net return rate is 3%.**

- At the age of 40, after 20 years of investment plus investment returns, he or she will have accumulated around HKD 330,000 due to the compounding effect.
- If the investment horizon is as long as 40 years, by the time he or she reaches 60, around HKD 930,000 will have been accumulated. **Although this investment horizon is only double the former, the additional amount accrued is almost three times as much (x2.82)** !

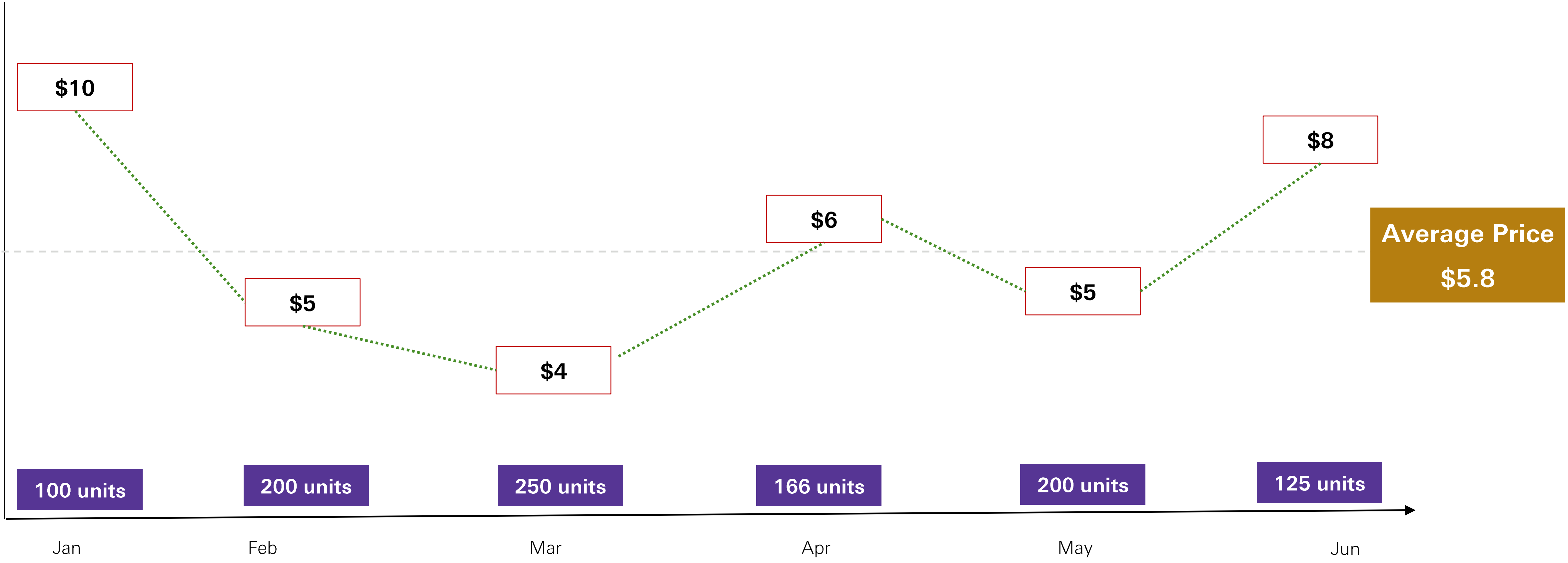
Investment horizon / Monthly investment	10 years	15 years	20 years	25 years	30 years	35 years	40 years
$1,000	$140,000	$230,000	$330,000	$450,000	$590,000	$740,000	$930,000

Note:
Monthly investment figures are rounded to the nearest ten thousand.
Calculation is according to the formula A = P(1+r/n)^n where A=the future value of the investment; P=principal balance; r=annual interest rate; n=number of times interest is compounded per year; t=time in years; r=…to the power of…
Source: HSBC Asset Management. For illustrative purpose only.

What is dollar cost averaging

Dollar cost averaging helps to reduce the effects of short-term market fluctuations on investment

Assuming you contribute a monthly HKD 1000 to your pension account



Source: MPFA, HSBC Asset Management. Graphic presentation is for illustrative purpose only.

How to start your retirement planning?

Before you start investing, there are some factors you may consider, such as…

Remaining years to retirement age

- Your **investment style** may change depending on the **number of years until retirement**. For example, a longer time horizon may allow for a more aggressive investment strategy

Expected investment return

- **Different individuals have varying expectations for investment returns**. For example, some investors have relatively more ambitious investment goals vs others may only opt for matching annual inflation rate

Risk tolerance level

- **Risk tolerance** affects the investment choices one makes. Balancing **expected return** and **risk exposure** is a crucial process in investment decision

Desired lifestyle after retirement

- Your **envisioned lifestyle after retirement** directly informs your **investment strategy** and **overall financial planning**

Diversification - Why is a diversified portfolio important?

The performance of a single asset class can vary significantly from year to year

Investing in different asset classes simultaneously makes your investments less susceptible to large fluctuations

Emerging Equity: The best-performing asset class of one year ...

Best returns

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Developed Equity	26.7	15.9	1.4	15.6	37.3	2.8	27.7	18.3	27.2	13.8	23.8
Emerging Equity	6.5	8.1	1.2	11.4	22.4	1.9	23.1	15.9	27.1	1.7	13.7
Government Bonds	4.4	7.6	0.1	11.2	15.2	-1.0	18.4	8.3	21.8	-10.8	12.7
Corporate Bonds	0.1	5.5	0.1	10.2	11.4	-2.7	14.4	5.9	2.5	-11.0	10.9
High Yield Bonds	0.1	4.9	-0.2	9.9	9.3	-4.6	13.5	5.7	0.1	-11.7	10.5
Emerging Market Debt	0.1	2.6	-0.7	7.5	8.4	-4.7	13.3	5.1	-0.8	-14.1	9.8
EM Local Bonds	-2.6	0.1	-0.9	6.2	5.7	-6.2	12.5	2.7	-1.5	-16.5	9.1
Global Property	-6.6	-2.2	-14.9	5.0	2.1	-8.7	7.3	0.4	-1.9	-18.1	6.7
Commodities	-9.0	-5.7	-14.9	3.9	1.0	-13.0	5.4	-3.5	-2.5	-20.1	5.2
Cash	-9.6	-17.0	-24.7	0.4	0.7	-14.6	2.2	-8.2	-8.7	-24.4	-12.6

Worst returns

...... might be the worst performing in the next

Past performance does not predict future returns.
Source: HSBC Asset Management, Bloomberg, December 31, 2023, Developed Equities (MSCI World in USD), Emerging Equities (MSCI Emerging Markets in USD), Global Government Bonds (Bloomberg Global Aggregate Treasuries USD hedged), Global Corporate Bonds (Bloomberg Global Aggregate Corporates USD hedged), Global High Yield Bonds (Bloomberg Global High Yield USD Hedged), EMD Hard (JP Morgan EMBI Composite USD Hedged), EMD Local (JP Morgan GBI-EM Global Diversified in USD), Global Property (FTSE NAREIT Developed World in USD), Commodities (Bloomberg Commodities Index in USD), Cash (Bloomberg USD overnight cash index

Portfolio diversification

Key factors for a diversified portfolio

Asset class	**Equity**	**Fixed income**
Geographic	**Developed markets**	**Emerging markets**
Sector / Industry	**Cyclical eg. Consumer discretionary**	**Conservative eg. Infrastructure**

Benefits of diversification

Reduce risk exposure
Diversifying across different asset classes, sectors and regions can help reduce the impact of correlated market events

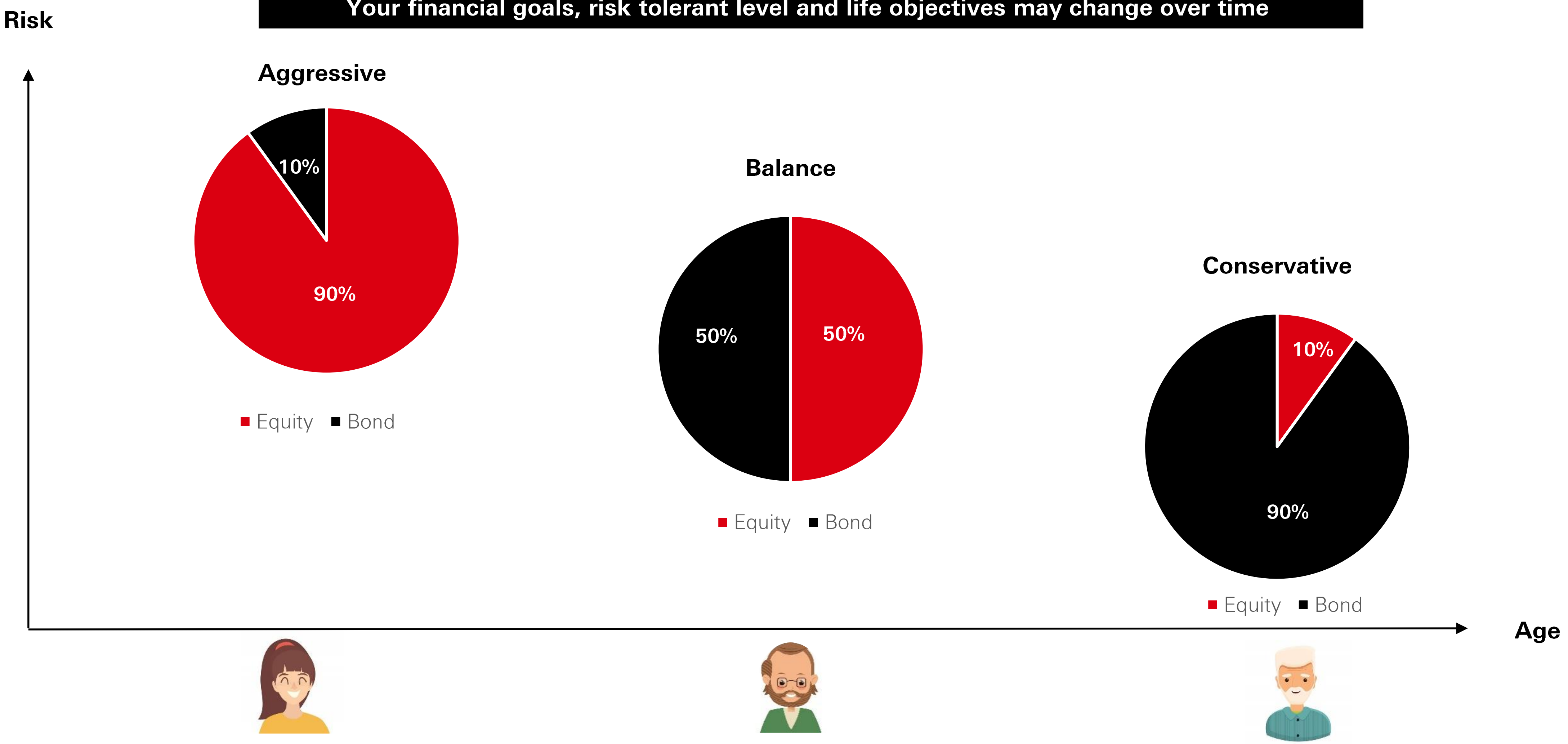
Provide flexibility
Investing in different portfolios provides flexibility to interchange liquid products and longer-term assets under market circumstances

Exposure to new markets / sectors
Diversification offers an opportunity to allocate a portion of your portfolio in a new market/ non-traditional sector

Review your pension portfolio regularly

Reviewing your portfolio is similar to getting a health check for your finance

Your financial goals, risk tolerant level and life objectives may change over time



Source: HSBC Asset Management. Graphic presentation is for illustrative purpose only.

Summary

1. **Start early:** Plan your pension investment and focus on long term investment goals

2. **Diversify:** Spread your investments across asset classes, regions and sectors

3. **Review:** Evaluate your portfolio regularly to ensure it aligns with your financial goals

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