

INNOVATORS FOR TOMORROW'S ENGINE OF GROWTH

# Allianz China Future Technologies

- The Fund aims at long-term capital growth by investing in equities of companies of the People's Republic of China ("PRC"), Hong Kong and Macau with a focus on companies with an engagement in the development of future technologies.
- The Fund is exposed to significant risks relating to investment/general market, country and region, emerging market, concentration, company-specific, future technology development sector, ChiNext Market and/or the STAR Board, small-capitalisation / mid-capitalisation companies, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund may invest in the China A-Shares market directly via the Stock Connect or other foreign access regimes and/or other permitted means and/or indirectly through all eligible instruments and thus is subject to the associated risks (including quota limitation, change in rule and regulations, repatriation of the Fund's monies, trade restrictions, China market volatility and uncertainty, potential clearing and/or settlement difficulties, change in economic, social and political policy in PRC and Mainland China tax risks).
- The Fund may invest in financial derivative instruments ("FDI") which may expose to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. The Fund's net derivative exposure may be up to 50% of the Fund's net asset value.
- This investment may involve risks that could result in loss of part or entire amount of investors' investment.
- In making investment decisions, investors should not rely solely on this material.

**Note:** Dividend payments may, at the sole discretion of the Investment Manager, be made out of the Fund's capital or effectively out of the Fund's capital which represents a return or withdrawal of part of the amount investors originally invested and/or capital gains attributable to the original investment. This may result in an immediate decrease in the NAV per share and the capital of the Fund available for investment in the future and capital growth may be reduced, in particular for hedged share classes for which the distribution amount and NAV of any hedged share classes (HSC) may be adversely affected by differences in the interests rates of the reference currency of the HSC and the base currency of the Fund.



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**Kevin You**  
Co-Lead Portfolio Manager



**Stephen Chow**  
Co-Lead Portfolio Manager

**Q:** Where does Allianz China Future Technologies (the Fund) seek opportunities?

China's high-level agenda is to become a "science and technology superpower" by 2035. As such, a major thrust of the strategy is to shift resources, capital and talent from out-of-favour sectors such as real estate, towards future growth areas, mostly related to technology and manufacturing. We seek long-term capital growth by investing in onshore and offshore China equities with a focus on companies engaged in the development of future technologies. This structural growth opportunity is underpinned by areas such as artificial intelligence (AI), semiconductors, electric vehicles (EVs) and autonomous driving, internet platforms, battery technology, advanced manufacturing, biotech and clean technology.<sup>1</sup>

**Q:** What do you expect to be the main performance drivers?

We believe that China's future economic model will be based around technological innovation. Indeed, China is already challenging for global leadership across a range of technological and AI-related applications. We view the development of new technologies as a key growth driver across a broad range of sectors. By tapping into this tailwind, this set of companies represents a dynamic and diverse investment universe with strong growth potential. We also see significant opportunities to deliver excess returns from alpha generation. Our China equity strategies have benefited from positive long-term stock selection across a wide range of sectors, which also form the core of Allianz China Future Technologies. As

such, the Fund is designed with an aim to capture both the beta potential from future growth drivers in China, and also the alpha potential from identifying stock level winners.

**Q: How big is the investment universe?**

The strategy's investment universe consists of China equities listed on the stock exchanges in Hong Kong, Shanghai, Shenzhen and the US,<sup>1</sup> with high and growing levels of research and development (R&D), reflecting a commitment to innovation and technology as a future growth driver. This amounts to more than 1,000 stocks which meet our size and liquidity criteria.

**Q: How do you define a "future technologies" stock?**

We use R&D as a proxy for overall commitment to innovation and the development of future technologies. Primarily we focus on companies where R&D spending is more than 5% of a company's revenue. This level is meaningfully higher than the average for Chinese corporates. Generally, the companies fall into three broad categories – innovation infrastructure, innovation applications and innovation-enabled industries. Overall, the portfolio uses an all-cap approach, with typically a meaningful allocation to mid and small caps.

**Q: How does geopolitics shape the investment opportunity?**

In recent years, China has invested heavily to achieve greater levels of self-sufficiency and to reduce the previous reliance on Western supply chains. This is seen as a way both of enhancing national security as well as delivering sustainable, long-term economic growth. As such, China has now built a much higher degree of economic resilience, and a more powerful negotiating position with the US and other countries. In our view, we expect geopolitics to be less of a weight on China equity market valuations in future compared to recent years. We also expect China's focus on self-sufficiency will continue, thereby creating significant growth opportunities for domestic companies.

**Q: How would you describe your investment style?**

We have three stock selection criteria: growth, innovation impact and valuation. In particular, we look to identify businesses where we see a high degree of innovation. This is often reflected in sustained investment in the use of technologies to develop new products or services,

which both supports growth and also builds high entry barriers. We also place importance on our qualitative assessment of a management team, focusing on its reputation within the industry, track record of execution and level of transparency. Overall, our investment style is based around investing in stocks where we identify growth at a reasonable price.

**Q: How do you manage risk? In what type of environment do you expect to outperform/underperform?**

As ever when investing in China, a highly selective approach is required. We look to mitigate risk both through rigorous fundamental research and also our approach to portfolio construction. We determine the size of each position based on expected share price upside, the level of our conviction and the contribution a stock makes to portfolio risk. The portfolio is also diversified with an expected range of 50-70 holdings. As we typically invest in growth-oriented stocks, a strong value-led market would be a challenging environment.

**Q: How does Allianz China Future Technologies fit into investor's portfolio allocations?**

We believe the strategy provides a way for investors to access a differentiated set of companies that reflect China's future growth drivers. For investors looking for higher exposure to China's innovation-led industries, our approach invests across structural growth areas related to China's technological innovation, agnostic of traditional sector boundaries. This strategy can therefore be a complement to broader emerging market or benchmark-aware China products. At a time when many investors are looking to reduce exposure to US dollar-based asset classes, the strategy may also be considered as diversification from US technology-focused products.

**Q: How does Allianz China Future Technologies compare to China technology ETFs?**

From our analysis, Allianz China Future Technologies typically provides more diversified exposure to China's different areas of technologies and innovation. China technology ETFs are often dominated by large cap internet platforms and technology hardware, and feature predominantly offshore-listed stocks. In contrast, Allianz China Future Technologies has broader exposure across different themes and sectors, as well as having the flexibility to invest into mid and smaller cap companies.

<sup>1</sup> The information above is provided for illustrative purposes only, it should not be considered a recommendation to purchase or sell any particular security or strategy or an investment advice.

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