



INVESTING IN THE TECH LEADERS OF TOMORROW

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.

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

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 China's commitment to technological innovation and includes areas such as semiconductors, software, robotics & automation, smart transportation, biotech, green technology, ecommerce and fintech.

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. China is already innovating fast, and 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 represent a dynamic and diverse investment universe with strong growth potential.

We also explore opportunities to generate potential return. Our China equity strategies have benefited from positive long-term stock selection across a wide range of sectors including information technology, industrials, healthcare, consumer and financials, which also form the core of Allianz China Future Technologies.¹

Q: How big is the investment universe?²

The full China equity universe comprises more than 6,000 companies. We then filter this based on research & development (R&D) spending and stock liquidity.



Marco Yau
Co-Lead Portfolio
Manager



Stephen Chow
Co-Lead Portfolio
Manager

Overall, the investable universe is currently around 1,300 stocks. Over 1,000 are China A shares, listed in Shanghai and Shenzhen, and the remainder are listed in Hong Kong and the US. The China equity universe has expanded significantly in recent years due to new company listings, and we expect this trend to continue.

We will also consider select Taiwan stocks if we find companies that provide superior ways to access a growth opportunity. We expect the exposure to Taiwan to remain less than 10% of the overall portfolio allocation.

Q: How do you define a 'future technologies' stock?

We use R&D as a proxy for innovation, as a high level of R&D is often associated with the development of intellectual property. In 2021, China overall invested around 2.4% of its gross domestic product (GDP) in R&D.³ Our approach is to invest primarily in companies that invest at least double this amount, 5% of revenues in R&D, or where we expect a consistent upward trend in R&D spending. Generally the companies fall into three broad categories – innovation infrastructure, innovation applications and innovation-enabled industries.

Liquidity is also a consideration. We prefer to invest in stocks with at least USD 25 million daily turnover.

Q: How much of the portfolio do you expect to allocate to China A-shares?

We typically expect around 50%-80% to be invested in China A-shares.⁴ Although the majority of the investment universe comprises China A-shares, many of these are relatively small cap stocks with higher levels of volatility. As such they will likely have smaller position sizes in the portfolio.

Q: How does geo-politics shape the investment opportunity?

A key overriding goal for China is sustainable, long-term economic growth. This can only be achieved with ongoing high levels of capital investment in critical technologies. This is demonstrated in the latest five-year plan⁵, the planning document that sets out China's development agenda to 2025, where the word "innovation" was mentioned 165 times, compared with 54 times for the "communist party".

Combined with the geo-political situation, and US attempts to constrain China's technological development, this signals that China's policy focus is likely to be on developing its own domestic capabilities in key industries needed to achieve the economic goals. As such, the critical technologies of the future will likely be those that primarily support the development of the industrial and manufacturing sectors. Semiconductors is a good example, but we believe there are also many others which should see sustained policy support in coming years.

Q: What exposure do you expect to have to China's mega cap tech stocks?

The mega cap tech stocks are, by definition, innovative companies as they allocate significant capital to R&D. They also have a wide range of business activities in many areas which are considered 'future technologies'. As such we will consider them in the same way we consider other companies in the investment universe.

Having said that, we currently expect to have relatively limited exposure to these stocks.⁴ One reason is because if there are specific aspects of the mega cap business models that we find attractive (for example cloud, gaming etc.), then we would also look to identify other stocks which provide purer exposure to the specific growth opportunity.



Q: How would you describe your investment style?

Our investment style can be described as fundamental, bottom-up and active. Our process is based around investing in stocks where we identify growth at a reasonable price.

We have three stock selection criteria : growth, innovation impact and valuation. In particular, we look for businesses where we expect a high level of innovation. This is often reflected in sustained investment in the use of technologies to develop new products or services, which both support growth and also builds high entry barriers. We also place a lot of importance on our qualitative assessment of a management team, focusing on its reputation within the industry, track record of execution and level of transparency.

We are benchmark agnostic. This means we own stocks that we want to own and are not forced to invest in stocks because of their size in the index.

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 stock-specific risks both through rigorous fundamental research and also through our approach to portfolio construction. We determine the size of each position based on the

upside to our target price, the level of our conviction and the contribution a stock makes to portfolio risk. Using this approach, we look to avoid any single stock contributing excessively to the risk profile of the Fund.

Given the portfolio's thematic nature, both the sector allocations and stock selection within sectors tend to be significantly different to that of the benchmark. As such there are also likely to be periods when returns differ meaningfully from the broader index performance.

As we typically invest in growth-oriented stocks, a strong value-led market would likely be a challenging environment.

Q: What makes Allianz China Future Technologies distinctive?

We believe the strategy provides a way for investors to access a differentiated set of companies that reflect China's future growth drivers. Until recently, a China technology or innovation fund would have featured familiar, large-cap internet companies as the core of the portfolio.

It is clear from policy changes since early 2021 that China considers the development of other technologies as critical to achieving its long-term economic goals. Because of our benchmark agnostic approach, this portfolio is likely to have meaningful exposure to mid and smaller cap stocks, which we think may have greater potential return. In addition, as the investment universe is tilted to the very diverse and dynamic China A-shares markets, we also expect this to be where the majority of the portfolio is invested.⁴

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| hk.allianzgi.com

| +852 2238 8000

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¹ Allianz Global Investors. Past performance does not predict future returns.

² Data is based on 2021 individual annual reports. This is for guidance only and not indicative of future allocation.

³ The state council. Spending on R&D in China hits new high (www.gov.cn).

⁴ This is for guidance only and not indicative of future allocation.

⁵ Xinhua net, 3 November 2020.

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AdMaster: 3241767