



# Allianz Thematica

Active is: Harnessing the power of thematic investing

January 2022

## Allianz Thematica

- The Fund aims at Long-term capital growth by investing in global equity markets with a focus on theme and stock selection.
- The Fund is exposed to significant risks of investment/general market, currency (such as exchange controls, in particular RMB), concentration, thematic-based investment strategy, company-specific and emerging market risks. Investing in RMB share classes is also exposed to RMB currency risks and adverse impact on the share classes due to currency depreciation.
- 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.

## Thematica – 5 years of successful active multi-theme management

### Actively positioned for a strong 2022

After a good performance in 2020, the portfolio has seen headwinds in Q1 2021 as rising interest rates put triggered a rotation towards the more cyclical areas of the market. Performance however stabilized subsequently. Apart from a cyclical uptick in the global economy and a more short-lived valuation catch-up, we continue to struggle to see longer term structural drivers supporting a sustained outperformance of those market sectors such as for example Energy or Financials. We therefore continue to be focused on areas of long-term structural change.

Investment themes are often perceived as high-growth, tech-dominated and fueled by disruptive innovations. Actually, they are much more versatile than that and can be found in wherever business models are gaining in relevance for reasons that are secular in nature. Investing in themes means investing in business models which are becoming more relevant in the future due to ongoing irreversible, structural changes. Themes with these characteristics are currently found where technological innovations take higher market shares in more and more aspects of daily life but are also found in future growth

areas linked to an acceleration of de-carbonization investments, changes in consumer preferences more conscious of sustainability, the need to address aging infrastructure or lack thereof, and deploying medical advancements.

The strategy keeps a broad diversification of themes with different backgrounds and drivers. Thematica's philosophy is to pick 5-7 themes which have diverse drivers, represented by a wide range of companies benefitting from these to follow the core principles of investments: diversification and making decisions with a long-term view. The attractiveness of themes is not necessarily their higher growth potential, but also the higher certainty that business models tied to future themes will prevail regardless of market movements. Still, not every theme will experience the same degree of increased growth prospects in every year or attract equal attention across all of its potential manifestations in real life – or in short: themes often move in cycles. This means investors can expect better returns if they occasionally switch between themes or shift preferences between product manifestations to adapt to outside forces.

The pandemic has not called in question any of the already existing developments we have observed but has accelerated a few: The digital life taking market share from traditional life, evidenced by more acceptance for cashless payment, popularity of video streaming, more virtual meetings and proliferation of remote diagnostics, all of which will result in more data generation. We have also seen people reconsider travel, family and work-life balances in general, giving further rise to the pet economy fueled by millennials and an aging society alike. Millennials are taking more share of the electorate or advance into decision-making positions themselves, resulting in increased pressure towards a faster de-carbonization agenda and a higher market acceptance for products like e-mobility and sustainable consumer products and lifestyle.

Noteworthy global trends this year are the rise of various commodities, such as Lithium which is on track to reach decade-highs as demand for electric vehicles is surging. We are positioned towards this in the Infrastructure and Next Generation Energy theme. Also, we observe high price levels for agriculture commodities not reached for many years which should bode well for farm income increasing the ability to invest in modern farm equipment such as water-efficient irrigation technology. Further, the global recovery coincides with a shortage for semiconductors resulting in strong performance for the chip makers which we hold in the Artificial Intelligence theme.

More recently, energy transition which is the focus of the Next Generation Energy theme in the portfolio came back into the spotlight as the 26th United Nations Climate Change Conference of Parties summit has highlighted the urgency around Climate Change and other environmental challenges, the need for investors to be a part of the solution, and the opportunities that will be presented by the wave of impending regulatory tailwinds. The Next Generation Energy theme and in particular the Infrastructure theme are also supported by the long-awaited US infrastructure bill. The proposal includes measures for green energy as for example the build out of a nationwide network of electric vehicle charging points. It is set to become the largest investment in infrastructure in the US for decades. With interest rates already low and inflation concerns lingering, options to support the economy remain limited to fiscal policies like issuing infrastructure packages, which could usher in a period of infrastructure spending and heightened demand for raw materials. Since the beginning of the year, the exposure of the portfolio towards the Technology and Consumer Cyclical sectors has accordingly decreased, whilst exposure to the Materials sector in particular has increased, which we see as beneficiary given the backdrop of rising inflation. It might be less certain if value or growth, small or large caps, US or China will have the upper hand on performance next year, but we see our current themes with their long-term, structural drivers well positioned to perform well in the current environment.

Looking ahead, new themes emerging include the great resignation where many have reconsidered their choice of profession. If we add to this trend the end of cheap labor previously made available through globalization and ease of travel it is not surprising that we see higher wage inflation and supply chain disruptions emerge. This will likely trigger investments in automation and robotics to counter this development.

## Invested themes

### Artificial Intelligence

Artificial Intelligence is a theme related to using learning networks to identify patterns or harvest information from large data sets, which allow companies to save costs or provide customers with a more attractive offering. Beneficiaries of A.I. are companies with large sets of data or companies that invent or enable the usage of A.I. technologies.



### Clean Water and Land

The focus within the theme is currently on Water. Water infrastructure supply, efficiency and quality are three dimensions along which investments are necessary to address the growing supply/demand gap. The growing demand stems from the increase of water intensive users due to industrialisation, power generation, agriculture irrigation or consumables production, as well as addressing the aging water networks of which the first parts will reach age 100 in this decade. Beneficiaries are private water utilities able to grow their earnings via fixing and expanding water supply, of the equipment providers (pumps, valves, filtration, quality sensors).



### Digital Life

Digitalisation is increasingly transforming banking services and especially the millennials are rapid adopters of smartphone-based transfers. Digital personal finance along with the regulatory push to move societies towards cashless payments in general is resulting in an attractive investment trend into software and IT-equipment providers which provide the infrastructure necessary. We are also including financial companies most advanced within digital finance. Given the increase of data-supported business models and reliance on digital infrastructure not only within finance but also



areas such as digital health care data, the theme also puts an emphasis on companies offering cyber protection.

### Health Tech

The theme is based on business models that currently enable the electronic transformation within the health care industry. Businesses include connecting medical results with cloud-based analytics and making use of remote diagnosis and monitoring equipment devices or telemedicine or medical robot technology. These investments are driven by customer preferences for more convenience but also cost considerations as these technologies allow more efficient handling of patient admin. Another area of interest is biotechnology, where recent successes in covid vaccines are examples of how effective biotechnology has meanwhile become. The toolbox for biotech companies is expanding as they can now utilize cost-efficient Big Data assisted efficacy trials, make use of technology such as Artificial Intelligence for research and drug discovery or use bioprinting to shorten development of new treatments.



### Infrastructure

The Infrastructure theme invests in companies positioned to benefit from a renewed push for the overdue update and build out of infrastructure on a global basis. The theme includes a wide range of companies including raw materials producers, suppliers of building products, construction companies, providers of equipment as well as related areas. We are pursuing two topics of interest within Infrastructure: Infrastructure Super-Cycle - Investments in public infrastructure such as 5G, Engineering and Construction, Materials; Infrastructure Resources - Beneficiaries benefitting from increased demand for commodities exhibiting supply-demand



constraints. Providers will likely see a multi-year tailwind from spending driven by replacement and update needs.

### Next Generation Energy

The theme invests in enablers of cleaner energy generation and efficient energy storage and sustainable energy consumption. Given the increasing discussions around climate change, it is a highly topical theme. Consumer and corporate awareness are growing rapidly. The clean energy revolution becomes increasingly feasible thanks to battery technology. Energy can now be stored whenever production outweighs consumption and distributed later, whenever demand surges. A cost decrease of decentralized technology will accelerate the shift towards electrification. However, large investments are required for example in grid infrastructure, electric vehicle charging infrastructure, peak management etc. We like the theme because a new generation of leaders appears willing to fund "The Green Deal" as the aim to reduce CO2 emissions and acting on clean air standards is becoming consensus.



### Pet Economy

The theme invests in companies that provide products or services for pets and other animals. It's a high growth area, where with a growing middle class, particularly in emerging markets, pet ownership is increasing along with the level of care pets receive. In developed markets, shifts such as aging population and healthy living are fueling a new wave of pet enthusiasts. Changing millennial attitudes mean that pets are increasingly treated as part of the family and guaranteed a high level of care – regardless of the state of the economy.



The 8th of December 2021 has marked the 5th birthday of Allianz Thematica (the Fund). Looking back at the five years, here are some notable statistics:

- **Performance** – As of end of December 2021, the annualized return of Allianz Thematica Class A (Eur) Dis. since its inception date (8 December 2016) has been up 17.12%, versus the performance of the benchmark - MSCI AC World (ACWI) Total Return Net Index which is 12.60%.
- **Theme picking** – A total of thirteen themes have been in the portfolio since inception. Only one of these themes – China Impact has been a meaningful detractor from performance. The theme which fell victim to trade wars was the main reason the fund was trailing the index in 2019 and was removed from the portfolio in December 2019. Healthy Lifestyle, which left the portfolio already in mid-2017, was a small detractor. The theme Infrastructure, which was only added to the portfolio in 2021, has not yet contributed actively. Best contributor on a theme level was Digital Life closely followed by Health Tech and Next Generation Energy. The group of non-holdings, i.e., index constituents that were not part of the portfolio over the period, also strongly contributed to relative performance – illustrating that thematic investing is as much about picking the winners as avoiding the losers.
- **Stock selection** – Stock selection was particularly strong within Health Care, Industrials and Information Technology. Allocation-wise, the positioning towards eight of eleven sectors resulted in a positive contribution, most notably obviously the overweight to Information Technology and the underweight in Financials. In sum, allocation and selection contributed positively across all sectors.
- **Investor interest** – Investors have been turning towards Allianz Thematica for thematic investing. Relying on AllianzGI's expertise in thematic investing the portfolio captures the most attractive themes – actively adapting to changes in the environment.

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Source: All fund data quoted are Allianz Global Investors/Morningstar/Bloomberg, as at 31 December 2021, unless stated otherwise.

<sup>1</sup> Fund performance is based on Allianz Thematica Class A (EUR) Distribution fund performance is calculated in EUR on NAV to NAV basis with gross dividends re-invested. HKD/USD based investors are exposed to foreign exchange fluctuations. Fund performance: 19.49% (2021), 28.91% (2020), 25.91% (2019), 0.89% (2018), 14.43% (2017), and -0.59% (from inception of the share class until the end of 2016, inception date of the share class: 8 December 2016).

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