Allianz Global Investors

# Allianz All China Equity

## Monthly commentary

- The Fund aims at long-term capital growth by investing in onshore and offshore People's Republic of China ("PRC"), Hong Kong and Macau equity markets in accordance with environmental and social characteristics. The Fund aims to achieve an outperformance (i.e. achieve a higher Environment, Social and Governance ("ESG") score) of the Fund's weighted average ESG score compared to weighted average ESG score of Fund's benchmark index by the adoption of the ESG Score Strategy. The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, country and region, emerging market, company-specific, 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 is exposed to risks relating to ESG Score Strategy investment (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or reducing risk diversifications compared to broadly based funds) which may result in the Fund being more volatile and have adverse impact on the performance of the Fund and consequently adversely affect an investor's investment in the Fund.
- 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.

### What Happened in February

The Fund outperformed the benchmark in February. Stock selection in the Materials and Energy sectors was the main contributor.

At a stock level, a key contributor was Yantai Jereh*, China's largest independent oilfield equipment and service provider. The company has recently announced major gas turbine contracts in the US, confirming the potential for supplying power generation solutions to artificial intelligence (AI) hyperscalers. In addition, significant investment in areas such as advanced oilfield equipment, intelligent fracking systems and electric-driven shale gas solutions is, in our view, opening up new markets and supporting multi-year growth visibility.

Conversely, a detractor last month was a company that makes high-speed optical transceivers which are an essential component for areas such as high-speed internet, cloud computing, and data centre communication. We see the share price pullback as profit taking after a strong rally. The company reported consistently strong results through the last year

buoyed by healthy AI-related demand both in China and overseas. We have locked in some profits recently but the stock remains a core holding.

## Outlook and Strategy

The first two months saw a steady start to the year for China equities overall. The bright spot has been China A-shares where Technology and AI-related stocks have performed well. Offshore markets have slipped a little, with internet and ecommerce stocks notably weaker.

The pullback in the internet names has been for a combination of reasons. Partly it relates to market rotation towards new Technology listings in Hong Kong which are seen as purer-play AI firms. There have also been concerns about a less favourable regulatory environment – for example rumours of potential tax hikes – as well as macro softness pressuring consumer spending, and intense competition over the Lunar New Year period to attract users to consumer AI apps.

Markets were subsequently jolted in early March following hostilities in the Middle East. Again, there was more volatility in offshore markets which has been a recurring theme during periods of global instability.

The majority of Chinese companies have limited activity in the Middle East and therefore should not, in our view,experience a significant direct impact on their operations. The bigger question relates to the impact of higher oil prices and supply disruption. While oil from Iran is a relatively small part of China's overall consumption, supply from the Middle East overall via the Strait of Hormuz accounts for around half of China's oil imports. China has built up significant crude oil reserves in recent years, and therefore we do not see a near-term risk of oil shortages. However, at this stage the situation remains uncertain.

More broadly, energy supply is a topic we are likely to hear a lot more about in the upcoming Five-Year Plan, which will be discussed in detail during the National People's Congress this month. China became a net importer of oil in the mid-1990s. Since then, energy self-reliance has been a persistent national priority. This has driven a diverse set of policies from strategic stockpiles to domestic exploration, new pipelines, and a massive push into renewables and electrification as Beijing seeks to reduce vulnerability to external pressures.

A key priority is to make electricity the country's top energy source. As part of this, the goal is for renewables to overtake fossil fuels as the dominant driver of electricity generation, aligned with the twin targets of peak carbon emissions by 2030 and making the economy carbon neutral by 2060. To achieve this, investment in the electricity transmission grid will need to be significantly ramped up to make better use of huge amounts of underutilised wind and solar generation.

China already has by far the world's largest electricity grid, with significantly more installed power capacity than the US and European Union (EU) combined. Growing dominance in electricity production is seen as a key strategic foundation for future growth in a range of industries such as AI, semiconductors, autonomous systems, robotics, battery technology, and electric vehicles (EVs). These areas have already become a much larger part of China's stock markets, boosting the potential for long-term earnings growth and valuations.

Recent portfolio activity has been to diversify our technology exposure. A number of technology names have performed strongly, taking valuations to somewhat stretched levels and increasing their contribution to portfolio risk above our usual levels. Overall, we maintain a preference for innovative companies with proven research and development (R&D) capabilities and an ability to capture and expand market share.

At month end, the Fund has around 43% in China A-shares. The portfolio continues to have relatively close-to-benchmark sector allocations, so that stock selection remains the key relative performance driver. At month end, the largest sector overweight is industrials, while the largest underweight is consumer discretionary.

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Source: Bloomberg, Allianz Global Investors, as of 28 February 2026 unless otherwise stated.

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