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 March

The Fund delivered returns close to the benchmark in March. Positive stock selection in the Health Care sector was offset by weaker performance in the Industrials space.

At a single stock level, a key contributor last month was a large mining group engaged primarily in the exploration and development of gold, copper and zinc. As well as benefitting from higher material prices, the company also announced good results during the month. The company achieved record high output, ranking 4th and 6th globally for mined copper and gold globally.

Conversely a detractor was a leading thermal management solution provider for data centers, energy storage and artificial intelligence (AI) chips. The share price weakened following concerns about slowing demand. While we continue to see longer term growth opportunities, especially in Southeast Asia where data centre cooling demand remains strong, we have reduced the position size given some near term uncertainty.

Outlook and Strategy

China equities started the month strongly before giving up part of their gains, mainly due to tariff-related uncertainties. Overall, after a weak start to the year, China equities recovered well during the quarter. China A shares were close to flat in USD terms. Offshore stocks delivered stronger returns. The trigger was the release of a new AI model by DeepSeek, China's equivalent of ChatGPT, that demonstrated how China is more advanced in the global technology and AI race than was previously understood.

Shortly after the end of the quarter, however, the market situation was turned on its head. The catalyst was President Trump announcing significantly higher than expected additional tariff rates for China. After signalling restraint earlier in the year, China retaliated with a strong tit-for-tat response. Although China basically matched US actions rather than escalating further, showing it is still open to negotiation, in practice the outlook is highly uncertain.

There is little historical precedent for this scale of tariff increase. However, early sell-side estimates suggest this could, in isolation, have a close to 2% gross domestic product (GDP) impact on China. It seems likely that Beijing will use stronger domestic stimulus to help offset the macro impact of the tariffs.

Just a few weeks ago, China set an official GDP target for 2025 that is the same as 2024 and 2023 – "around 5%". Even before recent tariff developments, we viewed the GDP target as a lot more ambitious this time around. Last year, net exports accounted for around 30% of GDP expansion, but export momentum is set to fade sharply.

Given the importance attached to achieving the annual growth target – it has been met or exceeded in each of the last 15 years with the exception of Covid in 2022 – both monetary and fiscal policy should remain solidly in expansion mode. There is a clear need to boost domestic demand to maintain the recent economic momentum.

Looking beyond these near term events, the emergence of AI as a key topic has sparked a new narrative for China's economy, with policymakers and regulators emphasising the importance of innovation and technology, and considering new approaches to support private companies.

One notable announcement in the last month was the government preparing a "national venture capital guidance fund", which aims to raise around RMB 1 trillion (USD 140 billion) for funding high-tech companies. Although few details are available yet, it is likely to focus on areas described as "industries of the future" such as "biomanufacturing, quantum technology, embodied AI, and 6G technology". As such, this new fund can be seen in the context of China's increasing emphasis on establishing leadership in new areas of technology, rather than fighting established incumbents.

In this environment, portfolio activity in March included adding selectively to companies which are expected to benefit from the more rapid adoption of AI. In particular we switched out of some 'AI infrastructure' exposure related to areas such as data centres and added to positions related to the rise of edge AI applications as well as other software developments.

At month-end, the portfolio has around 35% 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 Health Care, while the largest underweight is Communication Services.

Source: Bloomberg, Allianz Global Investors, as of 31 March 2025 unless otherwise stated.

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