

# 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 November

The Fund lagged the benchmark in November. Positive stock selection in the industrials sector was offset by some weakness in financials.

At a single stock level, a key detractor last month was a leading smartphone and consumer electronic component producer and a key supplier to a multinational technology company. The share price saw a pullback after the US election results amid concerns about the potential impact of higher tariffs. We believe the company will be able to mitigate this risk if required, for example by transferring production to other countries. Longer term, the company continues to gain market share in the multinational technology company supply chain by enhancing its ongoing vertical integration and supplying a broader range of capabilities.

Conversely a leading contributor was a company specializes in the development of high-tech auto parts such as chassis systems, intelligent driving and anti-vibration systems. The company is a key supplier to an automotive and clean energy

company, and the stock saw a big rally post the US election results. The share price was also supported by positive 3rd quarter results. Longer term we believe the company has good growth prospects underpinned by new product opportunities such as cybertruck and expansion into humanoid robots.

## Outlook and Strategy

Recent weeks have seen China equities consolidating somewhat after the very strong rally at the end of September / early October, which was spurred by a significant change in government policy focused on stabilizing the economy as well as financial markets.

This has resulted in China equities being one of the better performing global asset classes year to date, delivering double digit gains in US dollar terms in both onshore and offshore markets.

A key market concern since the US elections has been to what extent higher US tariffs, which weighed heavily on sentiment in China equities in 2018, will again become a major risk. Our view is that the 'shock factor' of a Trump presidency will be somewhat less the second time around, and that China authorities will react with further domestically-focused stimulus measures in the event of a major hike in tariffs.

Indeed, it was noticeable how China equities reacted positively in the final week of November in response to an announcement by President-elect Trump that he would impose an additional 10% tariffs on China goods on top of all existing levies. This would suggest that, to some extent, the expectation of higher tariffs is already discounted in share prices.

Looking ahead to next year, a further key issue will be concrete signs that China's policy package is working, which would then potentially outweigh tariff concerns. While high frequency economic data has certainly improved so far in the 4th quarter, there are still questions as to the sustainability of this improved economic momentum.

In particular, China's export momentum – a key driver of growth this year – will likely fade in 2025. As such, an improvement in domestic demand will be needed to achieve the expected gross domestic product (GDP) growth target of 4.5-5.0%. Unlike in other global economies, Chinese consumers have been in 'saving' rather than 'spending' mode since the end of Covid. Retail cash levels are close to record high levels – household deposits in banks, for example, have reached the equivalent of two times the entire market capitalisation of China A-shares.

Much of the reason for the higher savings rate, in our view, is related to fears of future income prospects and the erosion of wealth as house prices have fallen. As such, stabilizing the property market will be key to start rebuilding confidence and ultimately reversing this cycle.

Notwithstanding the uncertainty regarding what the Trump presidency will bring, overall our view is to be more optimistic on the outlook for China equities. The government has sent strong signals that it will step in to support the China A market in particular, which should help to limit downside risks. With the likelihood of more supportive government measures to come, and with market valuations still reasonable, our view is to buy the dips rather than to sell the rallies.

In terms of portfolio activity, given our more constructive outlook, we have added to stocks which are more sensitive to an improvement in the domestic economy and financial markets. These include financial services companies such as investment banking and mutual fund management businesses, as well as consumption-related stocks. Conversely, we have trimmed exposure to previous outperformers such as large banks and selective semiconductor companies.

At month end the portfolio has around 42% in China A shares. Sector weightings continue to be relatively close to the benchmark allocations. The largest sector overweight is industrials while the largest underweight is communication services.

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Source: Bloomberg, Allianz Global Investors, as of 30 November 2024 unless otherwise stated.

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