

Allianz

China A-Shares

Monthly commentary

- The Fund aims at long-term capital growth by investing in the China A-Shares markets of the People's Republic of China ("PRC") 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 and currency (in particular RMB), and the adverse impact on RMB share class 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.
- Investment involves 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 June

The Fund outperformed the benchmark in June. Stock selection in the information technology sector was the key contributor. Performance in the first half was also ahead of the index supported by a broad base of stocks across multiple sectors.

At a stock level, a key contributor last month was manufacturer of high speed optical transceivers used in areas such as data centers, telecom networks, and broadband systems to move large amounts of data quickly and reliably. The share price has recovered from a period of weakness earlier in the year, buoyed both by a good set of quarterly results as well as reassurance that US-based demand remains strong.

Conversely, a detractor was Midea*, one of the world's largest manufacturers of home appliances and smart technologies. They produce a range of air conditioners, washing machines, refrigerators and other devices both for home and industrial use. Domestic demand has been resilient as a result of supportive government policy, and sentiment was impacted recently

by concerns over a potential phasing out of trade-in subsidies. While this may have some shorter-term impact, we continue to rate the quality of the business highly, and also see the share price being supported by its high dividend yield.

Outlook and Strategy

June was a good month for both onshore and offshore China equities, which defied the ongoing uncertainty related to trade negotiations with the US to finish close to the high points year to date. The recent gains build on the previous market recovery. Since the middle of last year, a time when China's equity markets were being described as 'uninvestable', China A shares have rallied by nearly 20% in USD terms. China H share returns have been even stronger.

There have been a number of reasons for this turnaround. On the one hand, some factors that previously weighed heavily on markets have eased. Local government financing has been significantly restructured, for example, and the property market is more stable, albeit still weak. This is reflected in bond markets, where the Markit iBoxx China Real Estate High Yield Index is up by almost 80% since its low point in Q4 2023.

On the other hand, there have also been several new and more supportive factors in place for China equities over the last year. A key change has been a shift in government policy. Overall, the key long term policy objective of developing a future growth model based on technology-intensive manufacturing has not changed.

However, economic momentum last year weakened significantly, putting the longer term goals at risk. And this prompted an important course correction towards a more pro-growth policy setting. We expect policy support will need to be further strengthened during the second half to achieve the 5% gross domestic product (GDP) target.

Linked to this has been a renewed focus on the private sector. The high-profile symposium chaired by President Xi Jinping earlier this year and attended by China's highest-profile business leaders, including the founder of a Chinese e-commerce conglomerate, sends a clear policy signal in our view.

Indeed, it has been notable how there has been a marked recovery in the share price performance of private / non-state-owned companies year to date. An initial catalyst was the DeepSeek moment, which illustrated how China's technological progress is far more advanced than previously understood. While some people remain locked into the idea that China is at best an imitator of technology rather than an original creator, in our view the reality is different. We anticipate the technology and innovation theme will continue to be a feature of China equities.

Further support for markets has come from a structural improvement in the liquidity environment, especially in China A shares. Previously, a heavy supply of equity in the form of initial public offerings (IPOs) and secondary issuance, had been a big weight on the market. This has been significantly reduced due to regulatory changes. Conversely, there has been a meaningful pick up in both dividend payments and share buybacks.

Overall our view is that these factors which have contributed to a more positive market environment are still in place. Combined with attractive valuations, we believe there should be ongoing support for China equities. In addition, the government's commitment to providing direct support for domestic equities during periods of higher volatility, also provides downside support.

Portfolio activity in June was focused on adding selectively to technology related stocks. In particular we identified several names that had pulled back during the period of tariff-induced weakness, but where we see growth opportunities related to artificial intelligence demand as well as China's ongoing push for self-sufficiency. This included areas such as optical transceivers, printed circuit boards and power supply to data centres.

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All data sourced from Bloomberg, Allianz Global Investors, as of 30 June 2025 unless otherwise stated.

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