Allianz Global Investors

# 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 July

The Fund outperformed the benchmark in in July. Stock selection in the information technology sector was the key contributor.

At a stock level, a key contributor last month was a company makes 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 company announced a further set of strong quarterly results, well ahead of market expectations, buoyed by healthy artificial intelligence (AI)-related demand both in China and overseas.

Conversely a detractor was a major pet food business company . The company guided for slightly weaker than expected quarterly results, which triggered some profit taking after a sustained rally over the last year. The weaker results are mainly attributable to overseas sales which have been impacted by tariff issues. Longer term we see the domestic business as the key growth driver. Pet food penetration in China is still at relatively low levels compared to more developed markets, and Gambol's premium brands are expected to gain further share.

## Outlook and Strategy

July was another good month for both onshore and offshore China equities. 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 25% 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, with the China Real Estate High Yield Index up by almost 80% since its low point in Q4 2023.

On the other hand, there have also been several new factors in place supporting China equities over the last year. One key change has been a shift in government policy. Overall, the 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 of 2025 to achieve the 5% gross domestic product (GDP) target.

The technology sector has also been at the forefront of the market recovery. An initial catalyst was the DeepSeek moment, which illustrated how China's technological progress is far more advanced than previously understood. More recently, the news that the US revoked export curbs that required American companies to obtain licenses to provide chip design software to customers in China – as part of an agreement intended to ease trade tensions - also provided a further boost to China's artificial intelligence (AI) ambitions.

Linked to this has been a renewed overall focus on the private sector. A high-profile symposium chaired by President Xi Jinping earlier this year and attended by China's highest-profile business leaders, including Alibaba founder Jack Ma, sent a clear policy signal in our view. We anticipate the technology and innovation theme will continue to be a feature of China equities.

Overall our view is that the factors which have contributed to a more positive market environment are still in place. Combined with reasonable 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.

In this environment, portfolio activity has been focused on adding to several names that had pulled back during the period of tariff-induced weakness earlier in the year, but where we see growth opportunities related to AI demand as well as China's ongoing push for self-sufficiency. This has included areas such as rising demand for high voltage power usage and testing and inspection machines which provide quality control for advanced electronic components.

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 consumer discretionary, while the largest underweight is materials .

All data sourced from Bloomberg, Allianz Global Investors, as of 31 July 2025 unless otherwise stated.

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Allianz Global Investors Fund - Allianz China A-Shares (the "Sub-Fund") was launched on 23 October 2019 upon the merger of Allianz Global Investors Opportunities - Allianz China A-Shares into the Sub-Fund. The detail mentioned above is related to the China A-Shares strategy as a whole, is for informational purpose only.

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