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 May

The Fund slightly lagged the benchmark in May as initial market gains following indications of a tariff truce between the US and China gave way to profit taking in the second half of the month. Stock selection in the industrials sector was the main detractor partially offset by a positive contribution from healthcare.

At a stock level, a detractor last month was a leading AI chipset supplier. After touching all-time highs towards the end of Q1, the stock has seen some profit taking in recent weeks. This was triggered partly by a capital raising to support ongoing R&D, as well as by concerns that US plans to broaden restrictions on China's technology sector may limit the company's ability to develop more advanced high end chips. Longer term, we view the company as a beneficiary of growing demand for AI computing and also the self-sufficiency trend in China.

Conversely a key contributor was a biotech company focused on autoimmune and oncology related drug development. Share price momentum continued from April when the company announced positive results from their phase 3 clinical trial for a new product. The biotech sector overall has performed well year to date, buoyed by news of global pharmaceutical companies replenishing their product pipelines by licensing new drugs under development in China for sales around the world.

Outlook and Strategy

Since recovering from the tariff-induced volatility post "Liberation Day" in early April, China's equity markets have gone into something of a lull. To an extent this has been caused by uncertainty over the direction of ongoing China-US negotiations, and the prospects of a more substantive trade deal or otherwise.

The other key unknown is to what extent China's government policy will be ramped up to offset the weakness in exports, a key driver for the economy in recent years and an important contributor to China achieving its closely watched gross domestic product (GDP) growth target. There are a number of factors at play in our view, not least that the extent of the downturn in exports – and therefore the degree of further government stimulus required to offset this with stronger domestic demand – is challenging to gauge.

Nonetheless, given that policymakers have reiterated this year's GDP target of "around 5%" several times since "Liberation Day", it is in our view a question of when, not if, we see further policy measures. This is especially the case given that the latest housing market data was modestly weaker, and showed an ongoing, albeit mild, decline in property prices.

A key issue is rebuilding consumer confidence, which took a major hit in 2022 as a result of Covid policies, the subsequent weaker employment outlook and the downturn in the property market. China's consumer confidence index is based on a scale of 0 to 200, where 200 indicates extreme optimism, 0 extreme pessimism, and 100 neutrality. In the years before Covid, China's consumer confidence index typically tracked a level close to 120. The latest reading is 88.4, which at least marks a pick-up from the low point last year.

This weaker confidence is reflected in how spending patterns have changed in recent years, resulting in a surge of household bank deposits to more than USD 20 trillion. Mobilising these resources will be an important part of China's domestic demand recovery. As such, the focus on the private sector, which accounts for around 90% of employment in China and within this, technology and AI, is likely to be an ongoing feature of policy.

While the timing of a recovery in the feelgood factor within China is hard to predict, our view is the direction of government policy will continue to be supportive for equities. Combined with the strong state support for domestic equities in the form of direct buying of exchange traded funds (ETFs), we believe the downside in China A-shares in particular remains quite limited.

Portfolio activity in May was relatively limited. Overall, the fund is positioned with a bias to companies that should benefit from improving domestic demand, either as a result of broader macro stabilization, or because of other factors such as China's push for an increased level of self-sufficiency, particularly in technology-related industries. So far this year, for example, we have added to the domestic semiconductor supply chain, other AI-related applications and healthcare.

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 industrials.

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

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Any securities mentioned (above) is for illustrative purposes only. It should not be considered as an investment advice, or a recommendation to buy or sell any particular security or strategy.

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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