

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 January

The Fund outperformed the benchmark in January. Stock selection in the industrials and healthcare sectors was the main contributor.

At a stock level, a key contributor was Montage Technology, a leading fabless semiconductor company that provides high-performance integrated circuit (IC) based solutions for cloud computing and artificial intelligence (AI) markets. The company announced a strong set of quarterly earnings in advance of a proposed secondary listing on the Hong Kong stock exchange. Montage remains one of our preferred ways to play the China AI opportunity given its very strong research and development (R&D) capabilities and ability to launch new products ahead of its peers.

Conversely, a detractor last month was a company has a strong position in electric vehicles (EV) gears and other transmission components and is a key supplier to clients such as Tesla. The share price was weaker last month due to

overall sentiment towards the EV sector. Over the longer term, we see the company's growth being underpinned by the structural trend towards EV drivetrain outsourcing and expansion into the humanoid robotics supply chain.

Outlook and Strategy

China equities started the new year much as they ended 2025, in buoyant mood. Market volumes have been high and technology-related stocks have paced the gains.

While semiconductor stocks have been notably strong, benefiting from China's ongoing push for greater self-sufficiency, the rally has also extended to a range of areas linked to AI. This includes rising power demand from AI activity, increased requirements for electronic components like printed circuit boards (PCBs), expanding data centre infrastructure, and advancements in autonomous driving technologies. Space technology has also been in focus, with certain Chinese companies likely to be in an aerospace company supply chain.

The thematic nature of the market and the high volumes point to growing participation from China's sizeable retail investor base. The background is that, having been in pragmatic savings mode for several years as a result of the turbulence of Covid and the weaker macro situation, there are signs of a more risk-on approach.

Indeed, the recovery of retail investor enthusiasm has prompted the first sentiment-cooling signals from the government. The margin deposit ratio for newly opened stock accounts in mainland China was recently raised from 80% to 100%, in an attempt to prevent excessive speculative activity. There have also been outflows from certain domestic exchange traded funds (ETFs), likely withdrawals by state-backed funds.

These actions have been very targeted and measured, in our view, reinforcing the well-flagged intentions to avoid a speculative boom-bust cycle as was experienced in 2015 and instead to engineer a healthier and more sustainable "slow bull" for the China A market. Since this action was taken, daily trade volumes have come down a little and the overall China A market has generally moved sideways.

As well as the significantly improved domestic liquidity environment compared to several years ago, we also see other fundamental factors supporting China equities.

One of these is the reduced impact of the weaker housing market. After four years of contraction, the share of the property sector has fallen from about 18% gross domestic product (GDP) to 9% in 2025. There appears to be no quick fix for the property sector which, in our view, is likely to continue declining in 2026, but its drag on GDP should lessen.

And while China's rising tech sector does not fully compensate in terms of macro growth, it has a proportionately greater impact on equity markets. The weighting of the technology sector in the MSCI China A index has risen from around 10% a decade ago to close to 25% now, for example.

Recent portfolio activity has been to trim some technology and EV-related exposure. A number of technology names have performed strongly, taking valuations to somewhat stretched levels. In the case of EVs, we expect slower demand in coming months in China with some orders having been front-loaded last year before the phasing out of subsidies.

We maintain a preference for innovative companies with proven R&D capabilities and a proven ability to capture and expand market share. This extends to companies outside the technology sector. For example, a stock we have added to in recent months is China's largest independent oilfield equipment & service provider. Significant investment in advanced oilfield equipment such as intelligent fracking systems and electric-driven shale gas solutions is, in our view, opening up new markets and supporting multi-year growth visibility.

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 industrials, while the largest underweight is materials.

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All data sourced from Bloomberg, Allianz Global Investors, as of 31 January 2026 unless otherwise stated.

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