

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. Positive stock selection in the industrials and consumer discretionary sectors were the main contributors.

At a single stock level, a key contributor last month was a company specializes in the development of high-tech auto parts such as chassis, intelligent driving and anti-vibration systems. The company is a key supplier to a multinational automotive and clean energy company, and the stock has seen a significant rally post the US election results. Last month the company also announced a strong set of earnings with positive guidance for the year ahead. Longer term we believe the company has good growth prospects supported by expansion into humanoid robots.

Conversely a detractor was a large full-service financial services business operating across diverse segments including investment banking, brokerage and asset management. After a strong Q4, the stock saw some profit taking last month.

Looking ahead, a sustained recovery in capital market sentiment should be positive for the company, given its broad investment banking capabilities.

Outlook and Strategy

China equities started the year on a slightly weaker note. While this was partly due to the strength of the US dollar and rising bond yields globally, which have impacted most of the emerging market universe, the first two months of the calendar year are also frequently quite turbulent in Chinese markets.

A key factor is the pause in policy announcements and a vacuum in macro data availability. Because of the Chinese New Year holiday, which falls either in late January or early February depending on the lunar cycle, economic statistics for the first two months are combined and only announced in mid-March. The economic policy news cycle goes into a similar lull. Important details such as the country's annual gross domestic product (GDP) target and government budget are not announced until the annual meeting of the National People's Congress in early March.

In addition, a further market headwind has been concerns regarding US tariffs, which weighed heavily on equity market sentiment during the first Trump administration. Towards the end of January the opening salvo was fired with the US raising tariffs on China goods by a further 10%. Although only time will tell to what extent this will escalate, overall our view is that the 'shock factor' of a Trump presidency will be somewhat less the second time around.

Looking further ahead in this lunar year of the Snake, a fundamental issue will be the sustainability of the improved economic momentum seen in recent months. In particular, China's export momentum – a key driver of growth last year – will likely fade in 2025. As such, an improvement in domestic demand will be needed to achieve the expected GDP growth target of around 4.5-5.0%. And for this to happen, more policy support will be needed to underpin the property market in particular. The National People's Congress, held each March, is typically when more policy details are announced.

Notwithstanding the uncertainty on tariffs, overall our view is to be more optimistic on the outlook for China equities. Part of this view is based on the "Beijing put" helping to put a floor under the market. The People's Bank of China (PBOC) sent a strong signal last year that it is willing to act as the lender of last resort to backstop the market by extending significant amounts of credit for stock repurchases, which already reached a record high level in the China A market last year.

As such, our base case is to see relatively limited downside risk, especially given the light investor positioning and supportive valuations. And with the likely continuation of looser monetary and more expansionary fiscal policy, there is a higher probability that a more expansionary approach benefits the real economy, in turn helping to support corporate earnings.

Portfolio activity was relatively limited in January. In previous months 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. We also believe higher yielding stocks should be well supported given the lower interest rate environment in China. Conversely, we have trimmed exposure to previous outperformers such as selective technology and semiconductor stocks.

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 information technology.

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

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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