

Allianz

China Equity

Monthly commentary

- The Fund aims at long-term capital growth by investing in equity markets in the People's Republic of China ("PRC"), Hong Kong and Macau, while achieving 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, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes 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.
- This investment may involve 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 outperformed the benchmark MSCI China 10/40 Index in May. Positive stock selection in the consumer discretionary and industrials sectors were the main contributors.

At a single stock level, a key contributor was a company which provides building construction and civil engineering services. The company's latest quarterly results showed a strong beat on new orders, as well as a continued de-risking of the balance sheet. The share price also benefitted from the more supportive policy environment for real estate in China. In addition, with a rumoured reduction in the dividend tax paid by mainland China investors on Hong Kong-listed stocks, the company's high dividend yield also saw strong interest.

Conversely, a detractor was a provider of advanced packaging for semiconductors. After a strong rally in the first quarter, the share price has subsequently seen some profit taking. Recent results were strong as the company continues to benefit from increased demand from AI servers as well as high performance computing and high-bandwidth memory.

Outlook and Strategy

May was generally a month of consolidation for Hong Kong and China equities after the previous good run post Chinese New Year. Onshore equities traded in a narrow range while offshore markets continued their period of outperformance.

To some extent, the outperformance of offshore equities reflects a degree of catch-up after lagging previously. However, several other fundamental and technical factors are also at play. Recent quarterly results for internet companies - big constituents in offshore indices – were above expectations and included significant share buyback announcements.

Another catalyst was a report that mainland China retail investors would be exempted from paying the 20% dividend tax on Hong Kong stocks bought through Stock Connect. No details have been confirmed but the report prompted a significant rally in higher-yielding offshore stocks.

While we don't have a strong view on the relative allocation of onshore vs offshore at this stage, nonetheless for China equities overall we continue to be encouraged by recent news flow and policy initiatives.

The most important development, in our view, has been the way Chinese policymakers have significantly stepped up their efforts to help stabilise the property sector, with measures to address both the lack of demand and excess supply.

Down-payment ratios have been reduced to 15% for first-time buyers and 25% for second home buyers. The nationwide floor to mortgage rates will be removed. And for cities with higher levels of housing inventory, local governments can now purchase part of the unsold homes and convert them into public housing. In combination, we view these measures as representing the biggest nationwide property easing since the property turmoil started close to three years ago.

And while the RMB 300 billion (approx. USD 42 billion) quota provided by the China central bank for local governments to purchase existing housing inventory makes a somewhat modest dent in the overall oversupply situation, nonetheless the government has sent a strong message about its intentions to put a floor under the property market.

Portfolio activity was quite limited during the month. With the more encouraging news on the housing market we added selectively to stocks which should benefit from a recovery in the real estate sector. At month end, the largest sector overweight was industrials, while our largest sector underweight was in consumer discretionary.

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Source: Bloomberg, Allianz Global Investors, as of 31 May 2024 unless otherwise stated.

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