Allianz Global Investors

Allianz China Future Technologies

Monthly commentary

- The Fund aims at long-term capital growth by investing in equities of companies of the People's Republic of China ("PRC"), Hong Kong and Macau with a focus on companies with an engagement in the development of future technologies.
- The Fund is exposed to significant risks relating to investment/general market, country and region, emerging market, concentration, company-specific, future technology development sector, ChiNext Market and/or the STAR Board, small-capitalisation / mid-capitalisation companies, 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 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.

Portfolio Review

The Fund outperformed the benchmark in February. Key contribution came from positive stock selection in information technology and industrials and materials sectors. Our overweight position in the industrials and information technology sector also helped.

At a single stock level, the top contributors were:

- Sieyuan Electric* – an electrical power equipment maker of products such as high voltage switchgear, transformers and automation systems. Beneficiary of a robust power grid capital expenditure (capex) cycle both domestically and overseas, driven by data centre demand and integration of renewable energy supply.

- A domestic high-end cast component producer for gas turbines, which are critical components in power generation. Strong data centre power demand should support further market share gain, higher pricing and accelerating capacity expansion of the company.
- An electronics manufacturer specialising in power and thermal management solutions. The company is well positioned to benefit from the rising demand for energy-efficient solutions to support artificial intelligence (AI) servers and data centres.

The top detractors, on the other hand, included:

- A maker of high-speed optical transceivers which are essential components for areas such as high-speed internet, cloud computing, and data center communication. While we have locked in profits and reduced the position size following the strong rally, we continue to see the company as the beneficiary of healthy global AI demand.
- A semiconductor company specialising in embedded non-volatile memory (eNVM), sensors, and power discrete. We continue to view the company as a key beneficiary of the acceleration of a localisation trend in China.
- Montage Technology* – a leading fabless semiconductor company that provides high-performance integrated circuit (IC) based solutions for cloud computing and AI markets. The stock remains a core holding given its technological advantage compared to peers coupled with China's increasing import substitution trend.

Outlook and Strategy

The first two months saw a steady start to the year for China equities overall. The bright spot has been China A-shares where Technology and AI-related stocks have performed well. Offshore markets have slipped a little, with internet and ecommerce stocks notably weaker.

The pullback in the internet names has been for a combination of reasons. Partly it relates to market rotation towards new Technology listings in Hong Kong which are seen as purer-play AI firms. There have also been concerns about a less favourable regulatory environment – for example rumours of potential tax hikes – as well as macro softness pressuring consumer spending, and intense competition over the Lunar New Year period to attract users to consumer AI apps.

Markets were subsequently jolted in early March following hostilities in the Middle East. Again, there was more volatility in offshore markets which has been a recurring theme during periods of global instability.

The majority of Chinese companies have limited activity in the Middle East and therefore should not, in our view,experience a significant direct impact on their operations. The bigger question relates to the impact of higher oil prices and supply disruption. While oil from Iran is a relatively small part of China's overall consumption, supply from the Middle East overall via the Strait of Hormuz accounts for around half of China's oil imports. China has built up significant crude oil reserves in recent years, and therefore we do not see a near-term risk of oil shortages. However, at this stage the situation remains uncertain.

More broadly, energy supply is a topic we are likely to hear a lot more about in the upcoming Five-Year Plan, which will be discussed in detail during the National People's Congress this month. China became a net importer of oil in the mid-1990s. Since then, energy self-reliance has been a persistent national priority. This has driven a diverse set of policies from strategic stockpiles to domestic exploration, new pipelines, and a massive push into renewables and electrification as Beijing seeks to reduce vulnerability to external pressures.

A key priority is to make electricity the country's top energy source. As part of this, the goal is for renewables to overtake fossil fuels as the dominant driver of electricity generation, aligned with the twin targets of peak carbon emissions by 2030 and making the economy carbon neutral by 2060. To achieve this, investment in the electricity transmission grid will need to be significantly ramped up to make better use of huge amounts of underutilised wind and solar generation.

China already has by far the world's largest electricity grid, with significantly more installed power capacity than the US and European Union (EU) combined. Growing dominance in electricity production is seen as a key strategic foundation for future growth in a range of industries such as AI, semiconductors, autonomous systems, robotics, battery technology, and electric vehicles (EVs). These areas have already become a much larger part of China's stock markets, boosting the potential for long-term earnings growth and valuations.

Recent portfolio activity has been to diversify our Technology exposure. For example, we added to selective semiconductor equipment manufacturers which continue to benefit from China's accelerating domestic substitution trend. We also added to gas turbine manufacturers and cooling equipment suppliers that are gaining on the back of rising power demand driven by data centres. On the other hand, we reduced exposure to several AI-hardware holdings to lock in profits following their strong rally.

At the end of the month, the top portfolio allocations were to internet & ecommerce platforms, AI and advanced manufacturing/robotics. The largest holdings were Tencent*, an internet giant on internet gaming and social media company in China, Alibaba*, another internet giant on e-commerce and leader in China's AI development, and Ping An Insurance*, one of the largest insurance groups in China which is transforming its traditional model through investments in AI, big data and cloud services. At month end, the allocation to China A-shares was around 40%.

Source: Bloomberg, Allianz Global Investors, as at 28 February 2026 unless otherwise stated.

*The information above is provided for the purpose to demonstrate the Fund's investment strategy only, it should not be considered a recommendation nor investment advice to buy or sell any shares of securities. There is no assurance that any securities discussed herein will remain in the Fund at the time you receive this document.

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