

# 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 underperformed the benchmark in September. The main detraction came from stock selection in information technology.

At a single stock level, the top contributors were:

- A producer of optical transceivers that allow high levels of data to be transmitted quickly across a network, and are widely used in data centers.
- A developer of specialist adsorption resins, a key part of the production process in industries such as pharmaceuticals, food and beverage and water treatment where high purity levels are essential.
- A leading biotech company, offering strong product pipeline with an oncology focus.

At a single stock level, the top contributors were:

- A Taiwan company providing power and thermal management solutions, benefiting from increasing revenue contributions from AI server power supply and liquid cooling components.
- A smartphone supply chain company mainly engaged in developing camera modules and optical components.
- A global leader in the production of ABF substrate, which is a specialized material used in semiconductor packaging and interconnection processes.

### Outlook and Strategy

Towards the end of the month, China launched a series of wide-ranging policy initiatives designed to provide support both to the real economy and, perhaps more eye-catchingly, to domestic equity markets.

The initiatives, amounting to a significant and coordinated package of easing measures, were a significant “policy beat” in our view. They included lower interest rates, reduced rates on existing mortgages (note: mortgage refinancing is only permitted in China in special circumstances approved by the central bank), and the provision of significant liquidity for share buybacks and stock purchases. There was also an unscheduled top cabinet meeting which, for the first time during the current downturn, called for property market stabilization.

The timing and extent of these measures were triggered by two recent developments. First, the strong rally in US bond markets and the 0.5% Fed rate cut. With lower rate differentials between China and the US, the risk of capital outflows from China and a weaker currency were also reduced. In other words, the People’s Bank of China (PBoC) had significant additional flexibility.

The second development has been the weakness of China economic data in recent months. This is to a large extent because of the sustained downturn in the property market, and the associated erosion of the biggest component of household wealth. The monthly macro data was consistent with GDP growth well below the official 2024 target of “around 5%”. With just over three months to go, there was increasing urgency to take action to boost economic growth.

Equity markets reacted positively and vigorously following the announcements. China A markets rallied by around 15% in the final week of the month alone and are now in positive territory year-to-date. It was a broad-based advance with all sectors in positive territory and on high volumes.

Looking ahead, the key question for equity investors is whether this rally marks a change or will turn out to be another false dawn. Our view is this announcement should at worst provide a floor to China A markets and, in a more optimistic scenario, potentially sets the scene for a more sustained market rally.

Certainly, Beijing seems determined to reignite animal spirits in China’s onshore equity markets. The policy tools announced, including a RMB 500 billion swap facility (that could be increased to RMB 1 trillion) and a RMB 300 billion relending programme (that could be doubled if warranted) to support share buybacks and equity purchases from eligible institutions, are unprecedented measures. An equity market stabilization fund is also under consideration.

Whether the measures also have a meaningful impact on the macro situation is more questionable, with the key issues of weak consumption and the property market remaining unresolved. A key issue is whether the door is now open to further policy initiatives, and especially if they end up being the prelude to more stimulative fiscal policy which is needed to spur a more robust economic environment.

In summary, the policy initiatives undoubtedly provide important support for market valuations. The next step is to build greater confidence in the outlook for corporate earnings which has been the major drag on equities over the last year.

As at the end of September, the largest portfolio allocations were to inter-net/ecommerce, semiconductor, and AI.

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Source: Bloomberg, Allianz Global Investors, as at 30 September 2024 unless otherwise stated.

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