

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 December. Stock selection in industrials, consumer discretionary, information technology, and financials were key contributors to performance.

At a single stock level, the top contributors were:

- Zhongji Innolight* – The company specializes in high-speed optical transceivers, which are an essential component for areas such as data centers, cloud computing, telecom networks, and high-speed internet.
- A producer of thermal control components used in electric vehicles (EVs) and data centers. The company has also expanded into the robotics segment, supplying motion components such as actuators for robot.
- The company designs high-precision testing equipment for display panels and semiconductor memory devices. A beneficiary of import substitution as Chinese memory players switch to domestic suppliers.

The top detractors, on the other hand, included three biotech positions, reflecting some broader profit-taking across this space:

- A biotech company focused on autoimmune and oncology-related drug development.
- A Chinese biopharmaceutical company mainly providing medicines to treat red blood cell diseases.
- A clinical-stage biopharmaceutical company specializing in the development of small molecule therapies for cancer. Its portfolio includes a number of promising candidates in clinical trials.

Outlook and Strategy

After a punishing period for China's equity markets, 2025 was a comeback year. Not only did both China A and H markets each return close to 30% (USD), but more broadly China started to regain a sense of global leadership after a prolonged stretch when its long-term economic direction was being questioned.

Initially, it was the release of DeepSeek's model, timed to coincide with President Trump's inauguration, that showed how China's artificial intelligence (AI) capabilities had advanced more quickly than was widely appreciated. However, throughout the course of the year, it became clear that China is also developing fast in a range of other technologies. While some of these were already well-known – electric vehicles, high-speed rail, and renewable energy – others, such as battery technology, humanoid robots, and the burgeoning biotech space, have increasingly come onto investor radars this year.

China clearly still has significant economic challenges. Domestic demand remains weak. Property prices continue to edge lower. We do not think this is likely to change much, at least for the time being. With the government prioritizing domestic technological development and reducing reliance on Western supply chains, there is little incentive to reallocate resources to the housing market so long as the slowdown does not pose a more systemic risk.

Nonetheless, just as China equities often did not deliver great returns when there was eye-catching gross domestic product (GDP) growth, we also do not see the current environment of slower headline growth being a barrier to future equity upside. One of the lessons we can take from the last year is that the "macro" is not the "market."

This is especially the case given how the structure of China's equity markets has evolved. The MSCI China A Onshore Index has around a 25% weighting in the tech sector, for example. This weighting has more than doubled in the last decade. In contrast, real estate accounts for less than 1% of the index.

Indeed, as we look ahead to the new year, we are optimistic on the outlook for China equities. As well as a supportive policy backdrop – the weaker economic data should lead to continued accommodative monetary and fiscal policy – other key factors include strong domestic liquidity and valuations.

In terms of liquidity, cash levels in China are high. There is an estimated USD 7 trillion of excess household deposit savings accumulated since the end of China's Covid-related policies. We expect these to be incrementally deployed into equities, particularly given the low interest rate environment and muted outlook for other investment options. There is also a push to encourage longer-term "patient" capital into China A markets. Insurance companies, for example, are being encouraged to invest 30% of new premiums into equities, significantly higher than current levels.

While valuations are no longer as depressed as they once were, still the equity risk premium remains above long-term average levels. To give some sense from a bottom-up perspective, the market cap of the largest listed Chinese company (Tencent) is USD 700 billion. This is less than half of any of the "Mag7" stocks.

Overall, therefore, our base case for 2026 is for another year of decent returns for China equities. And in terms of bull/bear scenarios, the potential for large gains looks to us to be higher than the risk of substantial losses. This is especially the case for China A-shares, where the government has consistently backstopped the market to cushion volatility over the last couple of years.

In terms of portfolio activity during recent months, we trimmed positions in some previous outperformers to take profit, such as selective biotech names, electric vehicle (EV) makers, and printed circuit board (PCB) chip manufacturers. We used the funds to add to PCB equipment makers, AI chip designers, and energy enablers to AI data centres.

At the end of the month, the top portfolio allocations were to internet and e-commerce platforms, electric vehicle and autonomous driving, and artificial intelligence. The largest holdings were Tencent, the leading internet gaming and social media company in China; Alibaba, another internet giant in e-commerce and a 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 39 percent.

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Source: Bloomberg, Allianz Global Investors, as at 31 December 2025 unless otherwise stated.

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