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 June. Key contribution came from positive stock selection in information technology and health care sectors. Our overweight position in the information technology sector also helped.

At a single stock level, the top contributors were:

- A leading printed circuit board (PCB) maker in China.
- A Chinese fintech company.
- A Chinese designer and producer of optical transceiver modules.

The top detractors, on the other hand, included:

- The largest online travel booking platform in China.

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- A major telecommunications infrastructure company in China.
- Alibaba* – China's e-commerce giant and leader in China's AI development.

Outlook and Strategy

June was a good month for both onshore and offshore China equities, which defied the ongoing uncertainty related to trade negotiations with the US to finish close to the high points year to date. The recent gains build on the previous market recovery. Since the middle of last year, a time when China's equity markets were being described as 'uninvestable', China A shares have rallied by nearly 20% in USD terms. China H share returns have been even stronger.

There have been a number of reasons for this turnaround. On the one hand, some factors that previously weighed heavily on markets have eased. Local government financing has been significantly restructured, for example, and the property market is more stable, albeit still weak. This is reflected in bond markets, where the Markit iBoxx China Real Estate High Yield Index is up by almost 80% since its low point in Q4 2023.

On the other hand, there have also been several new and more supportive factors in place for China equities over the last year. A key change has been a shift in government policy. Overall, the key long term policy objective of developing a future growth model based on technology-intensive manufacturing has not changed.

However, economic momentum last year weakened significantly, putting the longer term goals at risk. And this prompted an important course correction towards a more pro-growth policy setting. We expect policy support will need to be further strengthened during the second half to achieve the 5% gross domestic product (GDP) target.

Linked to this has been a renewed focus on the private sector. The high profile symposium chaired by President Xi Jinping earlier this year and attended by China's highest-profile business leaders, including Alibaba founder Jack Ma, sends a clear policy signal in our view.

Indeed, it has been notable how there has been a marked recovery in the share price performance of private / non-state-owned companies year to date. An initial catalyst was the DeepSeek moment, which illustrated how China's technological progress is far more advanced than previously understood. While some people remain locked into the idea that China is at best an imitator of technology rather than an original creator, in our view the reality is different. We anticipate the technology and innovation theme will continue to be a feature of China equities.

Further support for markets has come from a structural improvement in the liquidity environment, especially in China A shares. Previously, a heavy supply of equity in the form of initial public offerings (IPOs) and secondary issuance, had been a big weight on the market. This has been significantly reduced due to regulatory changes. Conversely, there has been a meaningful pick up in both dividend payments and share buybacks.

Overall our view is that these factors which have contributed to a more positive market environment are still in place. Combined with attractive valuations, we believe there should be ongoing support for China equities. In addition, the government's commitment to providing direct support for domestic equities during periods of higher volatility, also provides downside support.

At the end of the month, the top portfolio allocations were to internet/ecommerce, financials/fintech, and AI. The largest holdings were Tencent*, the leading internet gaming and social media company in China, Alibaba*, China's e-commerce giant and leader in China's AI development, and China Merchants Bank*, a leader in retail bank in China which is expanding its customer base through its innovative mobile application that combines lifestyle services, shopping rebates with accessible wealth management solutions. At month end, the allocation to China A-Shares was around 26%.

Source: Bloomberg, Allianz Global Investors, as at 30 June 2025 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.