

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 April. The main detractor came from overweight exposures to information technology and stock selection in communication services.

At a single stock level, the top contributors were:

- A leading financial technology company that specializes in digitized brokerage and wealth management services.
- A leader in the internet of things (IOT) home appliances in China, using a smart home cloud platform to connect users and their personalized eco-systems.
- An integrated online and offline platform for housing transactions and services.

The top detractors, on the other hand, included:

- China's biggest social media and gaming conglomerate. Non-exposure contributed to relative underperformance.
- A leading manufacturer of automation technology including industrial robots.
- A provider of industrial automation and robotic solutions.

Outlook and Strategy

China equities have continued their good run since Chinese New Year. Both onshore and offshore markets have notched up gains of more than 15% (USD) since early February.

The improved market performance is due to a number of factors. First, the decision in January to mobilise the "national team" through significant buying of onshore exchange-traded funds (ETFs) provided a significant confidence boost. The Q1 results season has also been reassuring with a number of high profile "beats". While top-line growth has generally been muted as expected, tighter control of costs has fed through into improved bottom-line profitability.

Alongside the improved earnings picture has been a notable increase in dividend payouts. These have been spurred by a recent regulatory push, but from a fundamental perspective there certainly appears to be room to increase dividends. The overall dividend payout ratio of around 30% is relatively low in a global context, despite the high levels of cash on many corporate balance sheets.

Enhancing shareholder returns was a key feature of the once-a-decade guidelines – known as the "Nine Measures" – issued by China's State Council in April. The 2024 Nine Measures concentrate mainly on improving the quality of capital markets in areas such as stricter regulation of initial public offerings (IPOs) through higher thresholds, more forceful delisting mechanisms, better shareholder returns, enhancing investor protection through improved disclosure and encouraging long-term institutional equity ownership.

One particular area the measures address is the high level of equity issuance, which has long been a headwind for China markets. Mainland China and Hong Kong's combined stock market capitalisation has surged in the past two decades from less than USD 1 trillion in 2003 to currently around USD 14 trillion. Much of this has come about as a result of initial public offerings (IPOs) and secondary issuance. In contrast, the level of share buybacks, especially in onshore markets, has been quite limited.

The amount of equity issuance has declined significantly in 2024 while share buybacks have picked up. If this is the start of a more structural change which eases the earnings drag from equity dilution – combined with higher levels of share buybacks and dividend payouts – then the scene may be set for a more favourable balance of equity demand and supply going forward.

As at the end of April, the largest portfolio allocations were to semiconductor, artificial intelligence (AI), and advanced manufacturing.

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

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