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 underperformed the benchmark in October. Key detraction came from our overweight allocation in the information technology sector. Negative stock selection in the consumer discretionary and healthcare sectors also hurt relative performance.

At a single stock level, the top detractors were:

- A biotech company focused on autoimmune and oncology-related drug development.
- A clinical-stage biopharmaceutical company specialising in the development of small molecule therapies for cancer. Its portfolio includes a number of promising candidates in clinical trials.

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- A leading provider of power management and energy solutions, specialising in Uninterruptible Power Supply (UPS) and Power Conversion System (PCS), which are critical power systems for areas such as data centers and energy storage systems.

The top contributors, on the other hand, included:

- Sieyuan Electric* – The company provides electrical power equipment such as high-voltage switchgear, transformers, and relay protection and automation systems.
- 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 Taiwanese manufacturer specializing in metal stamping components, particularly hinges used in consumer electronic devices such as foldable devices, laptops, and AR/VR glasses.

Outlook and Strategy

October was a period of consolidation for China equities, not a surprise after the rapid pace of the rally in recent months. It was also a rotational market with profit-taking in technology and AI-related areas, and previous laggard sectors such as energy and financials being more resilient. In this environment, China A shares outperformed offshore equities during the month. Year to date, both China A and China H shares have returned more than 25% in USD terms.

The main talking points during the month were geopolitics and China's latest five-year plan.

In terms of US-China relations, the cycle of tension, escalation and truce appears to be a new normal. Whether this latest truce lasts a full year, as announced, is questionable. Nonetheless, for the time being the most recent agreement should at least provide a degree of relief. Similar to "Liberation Day," cooler heads have prevailed, which was to be expected given that both the US and China had a lot to lose from some of the more extreme measures being threatened.

Overall, both sides look to be buying time while making efforts to reduce their dependence on one another. From a US perspective, the focus has been finding alternative sources of rare earth supply. In our view, this is likely to be challenging. China's grip is strongest on the most important and scarcest metals, 'heavy' rare earths, which are needed to produce permanent magnets essential for much high-tech equipment. China and Myanmar together account for 98% of global heavy rare earth supply, and essentially all processing of these ores currently occurs in China.

To give some sense of scale, China has an estimated 120,000 people working in the rare earths industry, the result of making it a high strategic priority over a sustained period. Any path to breaking Chinese dominance would appear to be many years away and, as such, China's geopolitical advantage in this area is likely to be long lasting.

From China's perspective, a key vulnerability is its reliance on Western high-spec technology, especially in the semiconductor supply chain. Although it has significantly ramped up self-sufficiency in recent years, important industries such as more advanced electric vehicles still rely primarily on imported semiconductors.

This explains the context of China's latest five-year plan, which underscored the determination to build a more self-reliant technology ecosystem. As well as a focus on achieving broader technological self-sufficiency, there were also references to emerging high-tech industries over the next decade that are potentially at risk from reliance on Western supply chains. These include areas such as quantum technology, biological manufacturing, hydrogen energy and nuclear fusion energy, and 6G mobile telecommunications.

Perhaps the biggest surprise out of the plenum which approved the five-year plan policy framework was a statement that this year's annual GDP growth target must be accomplished, and a call for more economic policy support. This was unexpected as the plenum is typically dedicated to more strategic issues. It likely reflects concern about slowing economic momentum and reinforces our expectations for incremental policy stimulus in Q4 2025.

This ongoing more supportive policy backdrop, combined with the technology narrative and strong domestic liquidity, leads us to remain optimistic on the China equity outlook.

At the end of the month, the top portfolio allocations were to internet & e-commerce platforms, electric vehicle & autonomous driving, and artificial intelligence. The largest holdings were Alibaba*, China's e-commerce giant and leader in China's AI development; Tencent*, another internet giant in gaming and social media; and CATL*, the world's largest battery manufacturer for electric vehicles (EVs).

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

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