

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 May. Key detractor came from our overweight allocation in the information technology sector. Negative stock selection in the industrials sector also hurt relative performance.

At a single stock level, the top detractors were:

- A provider of datacenter servers and infrastructure needed to support cloud-based services.
- A Chinese company that engages in online games, office software and cloud services.
- A leading artificial intelligence (AI) chipset supplier.

The top contributors, on the other hand, included:

- China Merchants Bank (CMB)* – a leader in China’s retail banking sector, and one of the largest banks in China.
- A designer and producer of optical transceiver modules.
- NetEase* – an online computer and mobile gaming company.

Outlook and Strategy

Since recovering from the tariff-induced volatility post “Liberation Day” in early April, China’s equity markets have gone into something of a lull. To an extent this has been caused by uncertainty over the direction of ongoing China-US negotiations, and the prospects of a more substantive trade deal or otherwise.

The other key unknown is to what extent China’s government policy will be ramped up to offset the weakness in exports, a key driver for the economy in recent years and an important contributor to China achieving its closely watched gross domestic product (GDP) growth target. There are a number of factors at play in our view, not least that the extent of the downturn in exports – and therefore the degree of further government stimulus required to offset this with stronger domestic demand – is challenging to gauge.

Nonetheless, given that policymakers have reiterated this year’s GDP target of “around 5%” several times since “Liberation Day”, it is in our view a question of when, not if, we see further policy measures. This is especially the case given that the latest housing market data was modestly weaker, and showed an ongoing, albeit mild, decline in property prices.

A key issue is rebuilding consumer confidence, which took a major hit in 2022 as a result of Covid policies, the subsequent weaker employment outlook and the downturn in the property market. China’s consumer confidence index is based on a scale of 0 to 200, where 200 indicates extreme optimism, 0 extreme pessimism, and 100 neutrality. In the years before Covid, China’s consumer confidence index typically tracked a level close to 120. The latest reading is 88.4, which at least marks a pick-up from the low point last year.

This weaker confidence is reflected in how spending patterns have changed in recent years, resulting in a surge of household bank deposits to more than USD 20 trillion. Mobilising these resources will be an important part of China’s domestic demand recovery. As such, the focus on the private sector, which accounts for around 90% of employment in China and within this, technology and AI, is likely to be an ongoing feature of policy.

While the timing of a recovery in the feelgood factor within China is hard to predict, our view is the direction of government policy will continue to be supportive for equities. Combined with the strong state support for domestic equities in the form of direct buying of exchange traded funds (ETFs), we believe the downside in China A-shares in particular remains quite limited.

At the end of the month, the top portfolio allocations were to internet/ ecommerce, financials/fintech, and smart applications. 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. At month end, the allocation to China A-Shares was around 24%.

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

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