

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 November. Key detractor came from our overweight allocation in the information technology sector. Negative stock selection in the industrials and consumer discretionary sectors also hurt relative performance.

At a single stock level, the top detractors were:

- A company specializes in LiDAR (Light Detection and Ranging) sensors used to create detailed 3D maps, critical for autonomous driving and robotics.
- A leading producer of high-performance permanent magnets, used in new energy vehicles, robotics, wind turbines, and home appliances.
- A financial technology company specializing in digitized brokerage and wealth management services.

The top contributors, on the other hand, included:

- Zhongji Innolight* – Specializes in high-speed optical transceivers, essential for data centers, cloud computing, telecom networks, and high-speed internet.
- Sieyuan Electric* – Provides electrical power equipment such as high-voltage switchgear, transformers, and relay protection and automation systems.
- China Merchants Bank* – A leader in retail banking in China, expanding its customer base via innovative apps blending lifestyle perks with wealth solutions.

Outlook and Strategy

China equity markets have taken a breather in recent weeks, consolidating year-to-date gains. As part of the pullback, there has also been some notable rotation. Previous market leaders such as tech and healthcare stocks have seen profit-taking, with more defensive and higher-yielding sectors such as energy, utilities and banks being more resilient.

While the AI jitters in the US played some part, we also see a more domestic catalyst. Earlier in November, the securities regulator in China issued guidelines requiring domestic fund managers to “adhere more closely to their mandates.” As well as aiming to improve transparency in the mutual fund industry, this was also interpreted as a warning against excessive speculation and crowding in the technology, media, telecom (TMT) space.

Recent economic data has also been somewhat underwhelming, leading to a more muted near-term environment. This begs the question of whether China equities can make further gains in the coming year if the macro environment as a whole remains subdued.

From our perspective, we see little correlation historically between the macro and the market. China’s years of strongest economic growth often saw quite poor equity returns. And the strong returns in both China A- and H-shares this year have been achieved against a weak property market and ongoing deflationary pressures.

One reason for this is that the structure of China’s equity markets is quite different to the structure of the underlying economy. The widely followed MSCI China A Onshore Index, for example, has close to 25% exposure to the tech sector. This weighting has more than doubled in the last decade. In contrast, the real estate sector is less than 1% of the index.

So, in our view, while an unexpected macro shock would no doubt impact equities, the current set-up, where monetary and fiscal policy settings are occasionally nudged to achieve the gross domestic product (GDP) growth target – likely to be in the range of 4.5%–5% again next year – should not be a barrier to future equity gains.

Indeed, as we look ahead to the new year, we are optimistic on the outlook for China equities. As well as a supportive economic policy backdrop, other key factors include strong domestic liquidity – both for corporates and households – combined with China’s technology narrative.

We expect the interlinked subjects of geopolitics and technology will remain in focus. A key question is whether the strategic competition between the US and China – which for many years has contributed to the higher risk premium on China equities and will likely continue to be a source of volatility – may also come to be seen as an opportunity.

While the recent trade truce buys some welcome breathing space, in effect both the US and China look to be buying time, digging in, and making further efforts to reduce mutual dependence. The US government has been signing a raft of deals

on rare earth materials, while Beijing is doubling down on investments in chipmaking. China's long-term policy support and infrastructure build-out are key reasons we view the tech and AI space in China positively.

Against this backdrop, recent portfolio activity has focused on taking some profits in previous strong performers, for example related to biotech, smart transportation and data centres, and adding to stocks which, in our view, have been overlooked in the market rally this year. For example, we initiated a position in a company which makes high efficiency gas turbines which are used to power data centres. We also used the pullback in technology and AI-related names to add to selective positions such as printed circuit board (PCB) equipment makers.

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 Tencent, the leading internet gaming and social media company in China, Alibaba, another internet giant in e-commerce and leader in China's AI development, and CATL, the world's largest battery manufacturer for electric vehicles (EVs). At month end, the allocation to China A-Shares was around 37%.

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Source: Bloomberg, Allianz Global Investors, as at 30 November 2025 unless otherwise stated.

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