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 September. Key contribution came from positive stock selection in information technology, industrials and consumer discretionary sectors.

At a single stock level, the top contributors were:

- A producer of thermal control components which are used in electric vehicles (EVs) and data centers. The company has also expanded into the robotics segment, supplying motion components such as actuators for Tesla's Optimus robot.
- A company designs high-precision testing equipment for display panels and semiconductor memory devices. Chinese memory players have previously relied on imported testing equipment. Now there is a push to nurture domestic

suppliers. The localization rate in China is low for memory testing, so there should be significant headroom to gain share.

- A company makes advanced machinery supporting the production of lithium-ion batteries, solar panels, and automotive applications. The company also has a significant competitive advantage in solid-state battery equipment, a technology which has been under development and testing for many years, but now appears to have renewed momentum.

The top detractors, on the other hand, included:

- A clinical-stage biotech company with a focus on oncology, with an increasingly diverse product pipeline with a number of promising new drugs at final stages of clinical trials. Domestic sales are ramping up quickly, and we believe it is likely that the company will form a partnership with a global pharmaceutical company to support sales and marketing activity outside China.
- A leading AI chipset supplier which should be a long-term beneficiary of growing demand for AI computing and also the self-sufficiency trend in China.
- A financial technology company that specializes in digitized brokerage and wealth management services.

## Outlook and Strategy

September was another good month for both onshore and offshore China equities, rounding off a strong Q3. There were broad-based gains across the market with technology-focused stocks generally leading the way.

Year to date, both China A- and China H-shares have returned more than 25% in USD terms, a marked turnaround from the doldrums of previous years. In our view, there are a number of factors supporting China equities, which have been in place for most of the last year and largely remain in place today.

Key to markets finding initial support levels was a pivot in government policy towards a more pro-growth stance. This has recently been reinforced with the focus on "anti-involution", an attempt to tackle over capacity and associated deflationary pressures. One feature of government policy has been an explicit objective of stabilising asset prices. So far, this has been more successful with equity markets than the Property sector.

Indeed, recent macro data suggests some weakening of domestic demand which, if the trend continues, could put at risk the 5% gross domestic product (GDP) growth target. We expect a mini stimulus package in coming months, similar to what was seen in both Q4 of 2023 and 2024.

Aligned with this growth focus has been renewed support for the private sector, after a turbulent few years. Perhaps the most visible signal was the reappearance of Jack Ma at a symposium chaired by President Xi Jinping in March, also attended by other high-profile business leaders. Linked to this, the announcement of an open-sourced artificial intelligence (AI) model developed by an emerging Chinese startup, and growing recognition of China's advanced technological capabilities, has sparked much of the strong market momentum.

There is now more optimism that China's AI industry has passed a turning point and entered a more self-sustaining cycle of rising investment and higher profitability. China's internet platforms and telecoms carriers are spending heavily on data centres and domestic chipmakers are ramping up production of advanced chips.

With the weighting of the Technology sector in MSCI China A-share indices having tripled in recent years, and significant representation of other Tech-oriented areas in the offshore space, the structure of China equity markets has already

evolved to being more representative of China's future growth engines. This is a key reason why China equities have been able to shrug off the muted macro environment.

While each of these factors, as well as the improved geopolitical environment, have played their part in providing the foundation for the market upturn, the most notable short-term change has been the return of China's retail investors, who until recently have largely stayed on the sidelines.

Cash levels have increased significantly over several years reflecting macro-induced caution. There are currently around USD 23 trillion of household bank deposits in mainland China, of which USD 7 trillion are estimated to be "excess savings", over and above a normalised savings level. It now looks like the rebuilding of household balance sheets is at a turning point. With deposit rates having fallen to significantly lower levels, this is leading to some reallocation into risk assets.

While the rapid pace of the recent upturn might prompt some near-term profit taking, with this combination of factors in place our view is to buy the dips, not sell the rally.

At the end of the month, the top portfolio allocations were to internet & e-commerce platforms, artificial intelligence, and electric vehicle & autonomous driving. The largest holdings were Tencent*, the leading internet gaming and social media company in China; Alibaba*, China's e-commerce giant and a leader in China's AI development; and CATL*, a Chinese battery manufacturer and technology company. At month end, the allocation to China A-Shares was around 37%.

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

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