

# Allianz

# Cyber Security

## Monthly commentary

- The Fund aims at long-term capital growth by investing in equities in the global equity markets with a focus on companies whose business will benefit from or is currently related to cyber security. With the adoption of the Sustainability Key Performance Indicator Strategy (Relative) ("KPI Strategy (Relative)"), the Fund also seeks to achieve the reduction in greenhouse gas emissions ("GHG") of the Fund's portfolio which shall be at least 20% lower than that of its benchmark index within the same period ("Sustainability KPI").
- The Fund is exposed to significant risks relating to investment/general market, concentration, risk relating to cyber security, emerging market, company specific, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund is exposed to sustainable investment risks relating to KPI Strategy (Relative) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, and/or selling securities when it might be disadvantageous to do so or relying on information and data from third party ESG research data providers and internal analyses which may be subjective, incomplete, inaccurate or unavailable). The Fund focuses on the Sustainability KPI which may reduce risk diversifications and may be more volatile compared to broadly based funds. Also, the Fund may be particularly focusing on the GHG emission efficiency of the investee companies rather than their financial performance which may have an adverse impact on the Fund's performance.
- 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.

### What Happened in April

Global equities generally sold off over April, undermined by fears that the conflict in the Middle East may be spreading and concerns that the US Federal Reserve (Fed) may keep interest rates higher for longer to bring inflation back to target. The retreat was led by US shares, with eurozone and Japanese stocks also falling over the month. In contrast, UK and emerging market equities advanced. At a sector level, Real Estate and Information Technology suffered the largest falls, while Utilities and Energy were the only sectors to advance.

Hopes of a summer rate cut from the Fed were dashed given stronger-than-expected jobs growth and stickier-than-forecast inflation. Financial markets are now starting to consider that the Fed may not cut rates before the end of the year. While the European Central Bank (ECB) is widely expected to reduce borrowing costs in June, investors are expecting this to be followed by a pause as policymakers wait to see how inflation evolves. In contrast, the weakness of the Japanese yen led to speculation that the Bank of Japan (BoJ) may increase rates once again.

Within Technology, the MSCI ACWI Information Technology Index declined 5.5% for the month as performance was broadly lower. Each of the industries within the benchmark declined in April, with technology hardware posting a modest decline, while IT services and software providers were down close to double-digits.

## Outlook and Strategy

Technology-related stocks slumped in April as investor expectations about near-term rate cuts were met with stickier-than-expected inflation results, translating to a greater likelihood that dovish central bank expectations may not materialize as early as originally anticipated. Our confidence in cyber-related companies remains robust and our viewpoint is that the recent patch of underperformance is likely to subside as market expectations about interest rates have been somewhat reset, with valuations trending lower and long-term demand for cyber solutions remaining high. Despite tighter-than-anticipated monetary conditions, the economy remains resilient, as labor markets remained healthy, corporate earnings trended higher, and consumer spending has been robust. As the Fed gets comfortable that inflation is moving towards its 2% target, we should see rate cuts, which are looking likely to happen closer to the latter end of 2024.

We remain optimistic that continued enterprise investment into cyber security may yield double digit growth and AI adoption is likely to fuel further investment as companies look to defend against improving capabilities from adversaries. In addition, companies are looking to create efficiencies from use of artificial intelligence (AI) with cyber products, including threat detection and to automate mundane tasks, which also helps address the understaffing globally. Our expectation is that the M&A environment, as evident by the takeout of a top AI cyber security company, is likely to accelerate for both public and private companies. Valuations remains reasonable and we believe there is ample room for estimates to increase which should be the primary driver of performance over the course of the year.

We are seeing a broader recovery of earning growth, including for mid-and small market capitalization stocks. Even if there is more volatility ahead, we believe companies further down the cap spectrum have discounted more uncertainties, offering attractive risk rewards for companies that are well positioned for a recovery. The upcoming quarterly earnings results are likely to dictate the performance trend over the next few months, particularly as we enter a seasonally slower summer trading period.

Despite short-term periods of higher volatility among technology stocks, earnings growth ultimately drives stock prices over the long term, and in our view, we are still early in the spending trend supporting this dynamic segment. We are excited about the investment opportunities presented, and believe our research-driven, bottom-up process is the most effective means to capture the value generated by this theme.

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All data are sourced from Bloomberg and Allianz Global Investors as at 30 April 2024 unless otherwise stated.

**Allianz Global Investors and Voya Investment Management (Voya IM) have entered into a long-term strategic partnership, and as such, as of 25 July 2022, the investment team transferred to Voya IM and Voya IM became the delegated manager for this fund. AllianzGI continues to provide information and services to Voya IM for this investment through a transitional service agreement.**

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