Allianz

European Equity Dividend

Monthly commentary

- The Fund aims at long-term capital growth by investing in companies of European equity markets that are expected to achieve permanent dividend returns in accordance with environmental and social characteristics. The Fund aims to achieve the Sustainability KPI with the adoption of the Sustainability Key Performance Indicator Strategy (Absolute) ("KPI Strategy (Absolute)"). The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, country and region, European country and company-specific, and the adverse impact on RMB share classes due to currency depreciation. The economic and financial difficulties in Europe may get worse and thus may adversely affect the Fund (such as increased volatility, liquidity and currency risks associated with investments in Europe).
- The Fund is exposed to sustainable investment risks relating to KPI Strategy (Absolute) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or reducing risk diversifications compared to broadly based funds) which may result in the Fund being more volatile and have adverse impact on the performance of the Fund and consequently adversely affect an investor's investment in the Fund.
- 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, particularly if such HSC are applying the IRD Neutral Policy.

What Happened in July

European equities closed July little changed. Some European markets reacted negatively to the announcement of a US-EU trade deal with 15% tariffs on EU imports into the US, with Germany and France among the EU countries concluding that the terms disproportionately favour the US. The negative impact of euro strength is also starting to surface in second-quarter corporate earnings releases, with analysts slashing full-year forecasts. At a sector level, information technology stocks fared worst, dragged lower by Dutch semiconductor manufacturer ASML as its shares plunged after global macroeconomic uncertainty clouded the outlook for 2026. Communication services and real estate stocks also posted negative returns, while energy and financials stocks were among the positive performers.

While trade-related uncertainty prevailed for much of July, economic activity increased over the month, albeit at a sluggish pace, with the flash estimate of the Hamburg Commercial Bank (HCOB) euro-zone composite purchasing managers' index creeping up to an 11-month high. However, inflation in the euro zone ticked back up to the European Central Bank's (ECB's) 2% target in June after falling to 1.9% in May.

On the monetary policy front, after eight consecutive 25-basis-point rate cuts since the ECB kicked off its easing cycle in June 2024, the central bank held rates steady at 2.0% at its July meeting. ECB President Christine Lagarde commented that the euro zone was in a "good place" in relation to inflation, but emphasised the downside risks of slowing growth, a stronger euro and increased competition from China.

UK equities moved higher in July and outpaced the regional index. The FTSE 100 hit a fresh record high, helped by solid gains from energy and financials stocks. Economic fundamentals painted a mixed picture over the month. UK gross domestic product (GDP) unexpectedly fell by a further 0.1% in June on the back of May's 0.3% decline, although retail sales rebounded from May's 2.7% slump, rising by 0.9% as warmer weather boosted sales. Headline inflation remained sticky, rising to 3.6% in the year to June from 3.4% in May.

Portfolio Review

European equity markets, as measured by the MSCI Europe Index, recorded modest gains in July. While the overall environment was constructive, the strategy only slightly underperformed the benchmark. Investor sentiment was supported by encouraging second-quarter earnings and renewed momentum in trade negotiations, including the finalization of a US-EU agreement that brought greater clarity to the global outlook.

The Fund benefited from its underweight in Information Technology and from avoiding companies that reported disappointing results. Positive contributions also came from holdings in the Industrials sector, supported by strong earnings and improved trade sentiment. Within Financials, performance was mixed. The fund did not hold certain lower-rated banks that saw sharp recoveries, which negatively impacted relative performance. However, our positions in high-quality institutions such as a top banking group in Europe and KBC* delivered solid returns and helped partially offset the sector's dispersion. Communication Services detracted from performance, as our overweight positions a French advertising and public relations company and a British creative transformation company corrected amid concerns over global growth, tariff-related uncertainty, and structural challenges in the advertising industry.

Moreover, overweight positions in a British residential property development company and a Swedish company specializing in hygiene and health products as well as not holding a British-Swedish biopharmaceutical company were disadvantageous, whereas not holding certain growth-oriented stocks with weak dividend profiles, such as a global healthcare company headquartered in Denmark, a Dutch semiconductor equipment manufacturer and a Swedish audio streaming and media service provider, supported relative performance.

Source: Allianz Global Investors, Eurostat, IHS Markit and Office for National Statistics, as at 31 July 2025 unless otherwise stated.

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ADM-W4754363