Allianz
Global Investors

# 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 sustainable dividend returns in accordance with 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 region, European country and company-specific. 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 May

European equities rallied over May, buoyed by growing hopes that the European Central Bank (ECB) would cut rates in June, although some late-month weakness capped the monthly gains. At a sector level, Financials and Real Estate stocks were the strongest in the MSCI Europe Index, while Energy was the only sector to end the month in negative territory. Economic data continued to show signs of improvement, although inflation accelerated. The flash estimate of the Hamburg Commercial Bank (HCOB) eurozone composite purchasing managers' index (PMI) jumped to 52.3 in May, the highest level in a year. Services activity held steady at 53.3, while manufacturing activity contracted by the least in 15 months. Headline inflation quickened to 2.6% in May, up from 2.4% in the previous two months, while core inflation accelerated to a stronger-than-expected 2.9%, marking the first increase in nine months. ECB President Christine Lagarde indicated that it was highly likely that the central bank would cut rates in June but refused to comment on the subsequent path of interest rates.

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UK equities moved higher but lagged other European markets. The UK economy exited recession in Q1, however hopes that the Bank of England (BoE) would cut rates as soon as June were dampened when inflation slowed less than expected in April and the UK government called a surprise general election, to be held on 4 July. The ruling Conservative Party is currently trailing the Labour Party by a considerable margin in opinion polls.

## Portfolio Review

During the period, some typical growth sectors experienced stronger upward revisions, resulting in an overall underperformance of the value style relative to growth. The primary drivers of positive performance were our stock selection in the Consumer Discretionary (not holding a luxury goods company, overweight another luxury goods group), Energy (not holding two energy companies; overweight a Norwegian energy company), and Health Care (overweight a focused biopharma company) sectors and our substantial overweight in Financials.

At the individual stock level, the best and third best active contributions came from the Financials sector (overweights in a reinsurance company and an Irish bank). Minor negative impact from this sector positioning resulted from not holding a Swiss investment bank, and the overweight in an integrated bank insurance group.

Additionally, overweight positioning in an integrated energy company, a global healthcare company, a multinational technology conglomerate, a mining company, an advertising and public relations company, and two automotive companies contributed negatively. Our engagement in a provider of environmental management services and a Spanish airport management company paid off. The latter is benefitting from the travel boom. The global travel industry is currently expecting a record year. The company is benefitting not only from its local position in Spanish tourism, but also from its geographical location, which gives it a high share of global tourism in passenger traffic. In addition, operating an airport is generally very lucrative, as it is a kind of natural monopoly that ensures a steady stream of revenue. This allows it to pay stable dividends to shareholders.

## Outlook and Strategy

The momentum of the global economy was quite encouraging at the beginning of Q2, as most regions saw broad-based improvements. At a regional level, data from Europe and Japan improved, whereas the US figures came in somewhat weaker. The uptrend in the emerging markets continued, with the upswing in China going into its eighth month and Brazil, India, Turkey and Mexico all making progress. That means riskier assets, in particular equities, should have room for positive developments in the coming months, above all against the background of the expected, robust trend in corporate earnings. If, however, the US Federal Reserve (Fed) and other major central banks do not succeed in engineering a soft landing, including low inflation in the long term and loose monetary policies, there may be some setbacks. The corrections might be exacerbated by high valuations in some asset classes. The main risk in this context is that inflation might stubbornly remain above the central banks' targets. We would recommend an active investment approach in this environment.

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Source: Allianz Global Investors, Eurostat, IHS Markit and Office for National Statistics, as at 31 May 2024 unless otherwise stated.

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AdMaster: 3645519