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 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 September

Euro-zone equities closed the month little changed. To an extent, the US stock market influenced movements in Europe. Shares sold off in the first half of the month as continued weak US job growth raised recessionary fears once more, before rallying in the second half as central banks loosened monetary policy and the Chinese authorities announced additional stimulus measures. Sectoral returns were mixed: materials, real estate and utilities were the strongest sectors, while the largest losses came from energy, health care and information technology. Euro-zone economic activity weakened in September following the short-term boost from the Paris Olympics during the previous month. The flash Hamburg Commercial Bank (HCOB) euro-zone composite purchasing managers' index (PMI) fell to 48.9, the lowest level since January and moving back below the 50 level that separates expansion from contraction for the first time in seven months. Euro-zone inflation slowed, easing to 2.2% in August, its slowest pace in three years.

With growth subdued and inflation nearing its official target, the European Central Bank (ECB) cut rates for the second time this cycle. ECB President Christine Lagarde signalled more rate cuts were expected but downplayed the likelihood of one at the next rate-setting meeting in October. German equities rallied moderately, outperforming the broader euro-zone, with the DAX Index touching a fresh peak towards month end as another cut in interest rates boosted hopes for an improved economic outlook.

UK equities slid modestly over the month, with the FTSE 100 Index dragged lower by its heavy weighting to energy and health care companies, two of the weakest sectors in September. Chancellor Rachel Reeves' stern warning over the state of public finances weighed on consumer sentiment ahead of her first budget at the end of October. With headline inflation holding steady at 2.2 % in August, the Bank of England (BoE) kept rates on hold at its September meeting, although it signalled that rates would likely be cut again before year end.

Portfolio Review

The Fund outperformed its benchmark MSCI Europe. The small moves in the overall market mask a month that saw significant news and sector rotation. Although most industry groups rose modestly, a few large sectors fell, namely Pharmaceuticals, Semiconductors and Energy (oil companies). These were driven by a mixture of specific news, oil price declines, and moves in investor sentiment. The Fund was well positioned for this, with positive effects from stock selection (especially in pharma) and sector allocation (semiconductors). Key positives came from not owning a pharmaceutical company focused on obesity, a chip equipment maker and a cancer drug specialist. Key holdings that helped the Fund's returns were a Spanish concessions company which recovered from previous months' over-reaction to regional government issues. A clothing retailer was also strong after a good first half, unlike competitors such as a fashion retailer, which we do not own. As stock selection was very successful during the month, there were only a few minor detractors this month such as a pharmaceutical and biotechnology company, an automotive manufacturing company, an integrated energy company, a pharmaceutical company and an energy company. Following the Fund's recent strong performance, there were more transactions this month. Rising share prices led us to reduce holdings such as a clothing retailer, a fast-moving consumer goods company, an industrial technology leader and a financial services provider, which now have higher valuations and lower yields. Conversely, we added to companies with lower valuations and higher yields, including an industrial manufacturing company, a logistics company and an insurance corporation.