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 May

European equities moved higher in May, with defence names leading the way amid faltering hopes of a ceasefire in Ukraine. Having sold off sharply mid-month after President Donald Trump threatened to slap 50% tariffs on all of the bloc's export to the US from 1 June, European markets rebounded on news that Trump had delayed implementation until 9 July to allow more time for negotiations. At a sector level, information technology and industrials stocks were the strongest performers amid a slew of positive earnings releases. Health care stocks brought up the rear, but still managed a modest positive return during the month.

In its Spring Forecast , the European Commission slashed its gross domestic product (GDP) growth outlook for the euro zone on the back of heightened macro uncertainty and trade tensions. The bloc's economy is now expected to grow by 0.9% this year and 1.4% in 2026, down from previous forecasts of 1.3% and 1.6% respectively. Data for May demonstrated that the euro zone is falling back into stagnation, with the flash estimate of the Hamburg Commercial Bank (HCOB) euro-zone composite purchasing managers' index (PMI) unexpectedly dipping into contractionary territory, falling to 49.5 from 50.4 in April (above 50 signifies growth). This was largely due to a slowdown in services activity, which has long been the bloc's main growth driver. Inflation in the euro zone held steady at 2.2% in April, defying consensus expectations of a slowdown. German equities advanced strongly in May, with the DAX Index touching a record high on US-European trade deal optimism. Friedrich Merz won the second Bundestag vote to become Germany's new chancellor after a humiliating defeat in the first vote signalled discontent in the country's newly formed coalition government. Germany's GDP growth for the first quarter of 2025 was upwardly revised to 0.4% from a previous estimate of 0.2%, due to stronger output in manufacturing and exports than initially assumed.

The UK economy recorded its strongest pace of growth in a year, expanding 0.7% in the first quarter, up from a lacklustre 0.1% in the final three months of 2024. The Bank of England (BoE) cut rates by 25 basis points to 4.25%, as expected, but the hawkish 5–4 vote split prompted markets to price in reduced odds of a third rate cut later this year.

Portfolio Review

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Performance analysis

In May 2025, the fund gained 3.6%, underperforming the MSCI Europe index, which rose by 4.7%. Despite continued volatility, European equity markets advanced on growing investor confidence in increased government spending on defence and infrastructure. This environment favoured cyclical sectors, which led the rally - particularly capital goods, banks, and semiconductors.

Our holding in a producer of semiconductor assembly equipment benefited from this trend, while the absence of a semiconductor equipment manufacturer detracted from relative performance. The strategy also profited from strong positioning in the banking sector, with overweight positions in an Irish bank and KBC* contributing positively. Additional support came from our overweights in a courier company and a hospitality business, reflecting strength in selected consumer and logistics names.

On the other hand, negative contributions came from our overweight positions in Münchener Rück* and a water, energy and waste management company, representing the insurance and utilities sectors respectively. Münchener Rück* posted a modest positive first-quarter return but underperformed relative to the broader financials sector, which was led by strong gains in banks. The water, energy and waste management company, despite delivering resilient operational results, saw its share price lag behind the broader market rally.

Sectors less tied to economic growth underperformed. Within healthcare, our overweight positions in a pharmaceutical company and Roche* detracted from performance, while the absence of another pharmaceutical company proved beneficial. Similarly, our exposure to the food and beverages sector – namely a supplier of food and beverage ingredients to industrial markets – also weighed on returns. Our holding in a sales, marketing and business support services group, which reported lacklustre results, further detracted from performance. The fund did not hold defence companies such as a German automotive and arms manufacturer, a British aerospace and defence company, and a French aerospace, defence and security corporation, all of which posted double-digit gains during the month.

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

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