Allianz Global Investors

Allianz

Global Artificial Intelligence

Monthly commentary

- The Fund aims at long-term capital growth by investing in the global equity markets with a focus on the evolution of artificial intelligence in accordance with environmental and social characteristics. With the adoption of the Sustainability Key Performance Indicator Strategy (Relative) ("KPI Strategy (Relative)"), the Fund aims 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 within the same period ("Sustainability KPI").
- The Fund is exposed to significant risks of investment/general market, concentration, company-specific, emerging market, 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 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 May

Global equities were higher in the month of May, continuing its recovery that started earlier in April. The technology heavy Nasdaq Composite Index led major indices, notching the best May month returns since 1997. The de-escalation of trade tensions between United States and China was a key upside catalyst. The US coming to a trade agreement with the United Kingdom was also constructive for risk assets. The rally was further supported by better-than-feared corporate earnings amid tariff headwinds, artificial intelligence (AI) tailwinds from strong NVIDIA* results and Middle East deals, and an uptick in mergers and acquisitions and initial public offering (IPO) activity. Although credit rating agency Moody's downgraded the US government's credit rating due to the fiscal deficit, equity markets were mostly unaffected.

MAY 2025

The US Federal Reserve (Fed) kept rates on hold at its monetary policy meeting, with officials citing economic uncertainty and inflationary risks. Meanwhile the Bank of England (BoE) and the People's Bank of China (PBoC) cut rates. US recessionary fears eased, with the Fed Bank of Atlanta's GDPNow running estimate indicating growth of 3.8% for the current quarter. The flash S&P Global US composite purchasing managers' Index rose from a final reading of 50.6 in April to 52.1 in May, reflecting improvements in both services and manufacturing activity.

Oil prices fluctuated in May, ending the month around USD 63 per barrel. Brent crude initially moved lower on expectations of accelerated output increases by Organization of the Petroleum Exporting Countries (OPEC+) before strengthening on expectations of increased global energy demand as trade war tensions eased. The fifth round of US-Iran nuclear talks ended inconclusively, with oil prices rising in anticipation that US sanctions on Iranian oil exports will remain firmly in place, and later amid reports that Israel was planning a series of air strikes on Iranian nuclear facilities. Meanwhile, gold prices eased from April's record highs, but remained elevated, ending the month just above USD 3,300—an increase of around 30% since this time last year.

From a sector perspective for the MSCI All Country World Index, the information technology sector was the strongest performer amid positive earnings results. The industrials sector was another outperformer. Real estate and health care were laggards during the month, with health care being in the only sector with negative returns.

Portfolio Review

During the period, the Fund outperformed on a gross- and net-of-fees basis versus the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). From a sector perspective, information technology and utilities were the largest contributors, while health care and industrials were slightly offsetting. AI related stocks continued their recovery that started in April as trade tensions eased. The AI infrastructure theme was the strongest performer, helped by positive earnings results and new AI data center announcements. Although AI applications and AI-enabled industries generated positive absolute returns, the two themes slightly underperformed the benchmark as a few companies reported earnings that missed investor expectations.

Constellation Energy Corp.* was among the top contributors for the period. The company is a leading American energy company specializing in clean energy generation, primarily through its nuclear, wind and solar assets. Shares were higher as management expressed optimism on nearing long-term nuclear power deals with more hyperscalers that do not need regulatory clarity. The demand for data center power is expected to drive significant growth in energy consumption. The rise in AI-driven electricity demand could lead to substantial power contracts with data center operators over the coming years.

Our underweight position in a technology hardware producer was among the top contributors due to its significant weighting in the custom benchmark. The company had an average 10.67% weight in the benchmark, while the Fund had an average exposure of 2.49%. Shares were lower during the period over risk of higher tariffs in China where the company produces a significant percentage of its smartphone and a court ruling that could allow developers to direct users to alternative payment options on its app store.

A leading innovative pharmaceutical company. Although the company reported solid quarterly results, shares underwent profit taking following earnings after a pharmacy benefit manager and a global healthcare company announced a partnership that made the global healthcare company's glucagon-like peptide-1 (GLP-1) drug a preferred medication on the pharmacy benefit manager's standard formularies. Looking forward, the company's growth prospects appear attractive, which should be driven by its robust drug pipeline and franchises, which include oncology, diabetes and ventral nervous systems. The company's innovation in obesity treatments is another key growth driver, that has a large addressable market with strong momentum.

Microsoft Corp.* is a software provider with a wide range of services that include operating systems, software applications, cloud computing and security solutions. While shares outperformed on better-than-feared earnings driven by Azure growth acceleration, the underweight position represented a relative performance headwind. Microsoft* had an average 10.93% weight in the blended benchmark, while the Fund had an average exposure of 5.16%.

Outlook and Strategy

We continue to maintain a positive long-term outlook for equities, but markets may undergo short periods of volatility. A more complicated policy backdrop can contribute to potential risks of inflation and slower economic growth. For now, equity markets have been on a recovery path since April 9, 2025, when President Trump announced a 90-day pause on higher reciprocal tariffs. We believe the recovery of AI-related stocks could continue with a more benign policy environment and re-acceleration in earnings.

The outlook across the AI ecosystem remains healthy. From first quarter earnings results, management across AI-related companies generally had constructive commentaries on business trends and progress with AI projects. The landscape also got a boost from new AI data center announcements, strong demand for AI workloads from new reasoning AI models, and more supportive advanced semiconductor export policies.

As we get more clarity on policy in the coming months, a more constructive backdrop may develop as we see some framework trade deals and look towards Trump's tax cuts and pro-business agenda. We continue to believe the Trump administration wants the US to maintain its leadership in innovation and is focused on bringing more manufacturing back onshore. Several announcements have been made to further onshore the technology supply chain to the US. More announcements should be constructive for the innovation ecosystem.

We continue to maintain a balanced portfolio of companies benefiting from AI innovation and favor companies that are better positioned to navigate through a more complicated environment. There may be opportunities to upgrade select names and add to high conviction ideas amid the market volatility to better position the portfolio for improved performance.

From an innovation perspective, progress with AI development is accelerating as more powerful capabilities become readily available from the robust "Phase 1" infrastructure buildout. We are beginning to enter "Phase 2" where new generative AI use cases and application adoption drive significant benefits over the coming years. Our analysis suggests that investments in AI could lower the marginal costs of operations, much like the information technology (IT) revolution did. Furthermore, the advanced features of AI-enhanced products or services can drive new levels of productivity, cost savings and revenue opportunities across industries in "Phase 3". Given the transformative potential of AI investments, we believe profit margins may not simply hold steady but could in fact grow, supporting valuations for innovative companies that are investing now to disrupt the status quo.

AI infrastructure: Spending on AI infrastructure should continue to be robust over the next several years as more powerful AI data centres are built around the globe. NVIDIA's* upcoming AI chips provide up to a 30 times performance increase compared to the previous generation and more hyperscalers are designing custom AI chips to meet their unique specific needs. This is driving demand for new data centre architectures that can handle the higher power, cooling, space and networking requirements. Overall demand for generative AI training remains durable as more companies across the ecosystem are rushing to build better foundational models or fine tune other models. Growth in AI inference systems is also expanding to process and respond to new data in real time and support applications that require low latency and high reliability at the edge of the network. Newer reasoning engines require more "think time" to yield better results, driving additional workload demand.

AI applications: Generative AI applications are evolving into their next phase with the emergence of AI agents. Unlike AI copilots designed to answer a single question, AI agents have decision engines that allow them to operate autonomously and complete complex tasks. AI agents can be easily customised to handle repetitive tasks and have human-like decision making capabilities to adapt to different situations. This can create a new level of automation and dramatically cut costs and improve productivity. We believe there will be an upcoming surge of new generative AI-infused applications across many areas of consumer and enterprise workflows over the next several years, driving more investment opportunities.

AI-enabled industries: AI continues to open up new possibilities to drive true industry transformation across every industry. Many companies in AI-enabled industries are increasing investments in generative AI to train one's own industry-specific model on its proprietary content or knowledge to compete better. In Health Care, the application of AI could dramatically speed up the time for drug discovery, accelerate clinical trials and dramatically improve the efficacy of medical devices. Within Financial Services, there are companies with significant volumes of data related to transactions, customer interactions and research. This allows for the creation of AI solutions to enhance operational efficiency, improve fraud detection and personalise client service. There are similar opportunities within Automotive, Consumer, Industrials, Energy and even Mining. We think this is only the beginning as innovative companies embrace AI to enhance efficiency, lower costs, launch new products, take market share and drive higher levels of profitability.

We are still in the early innings of the AI era. Despite significant advancements, there is a lot more potential to be unlocked in the future. The industry is rapidly evolving, with major investments and innovations continuing to drive progress towards artificial general intelligence, possibly within the next decade. AI is becoming more integrated into various fields, from finance to health care to humanoid robotics. It is an exciting time, and we are likely to see even more transformative changes in the coming years.

Our view remains that the compounding effect from AI disruption will create opportunities for innovative companies across every sector. We believe that stockpicking will be essential to capturing the benefits of this opportunity, as today's AI winners may change in the future in an environment characterised by rapid change and disruption. We remain focused on identifying the companies that can best leverage AI to deliver the most shareholder value creation over the long term.

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Source: Bloomberg, IDS and Allianz Global Investors and as at 31 May 2025 unless otherwise stated.

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

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