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 October

Global equities closed October higher. This included a rally in US equities, although they pulled back mid-month amid renewed US-China trade tensions. The market recovered later in the month, helped by upbeat Q3 earnings, de-escalating US-China trade headlines, cooler-than expected inflation, and positive headlines for the artificial intelligence (AI) ecosystem. Elsewhere, Asian stocks were the strongest performer, led by Korea and Taiwan. European equities edged higher as the eurozone posted stronger-than-expected gross domestic product (GDP) expansion. Turning to sectors in the MSCI All Country World Index, Information Technology led the way, helped by healthy Q3 earnings results. Utilities was another outperformer over the period. Real Estate and Materials were laggards over the month.

On the macroeconomic front, the Federal Reserve Bank of Atlanta's GDPNow running estimate indicates continued growth for Q3. September headline inflation in the US came in softer than expected at 3.0%. Core inflation, which excludes volatile food and energy prices, was also cooler than expected and slowed to 3.0%. With the ongoing US government shutdown, many other key economic data releases remain suspended. In monetary policy news, the US Federal Reserve (Fed) delivered its second consecutive 25-basis point (25-bps) rate cut, bringing the fed funds rate to 3.75-4.00%, its lowest level since 2022. Elsewhere, the European Central Bank (ECB), the People's Bank of China (PBoC), and the Bank of Japan (BoJ) also held meetings in October and kept their respective benchmark lending rates on hold.

Brent crude oil prices initially weakened in October, nearing USD 60 a barrel for the first time in six months amid increased US-China trade war tensions. However, prices rebounded on news that the US had imposed fresh sanctions against Russia's two largest oil companies, closing the month just below USD 65 a barrel.

Gold prices broke through the USD 4,000 barrier for the first time on record, rising to a fresh high of USD 4,379 amid the US government shutdown and trade war fears. Profit taking and optimism about trade war tensions triggered a sharp correction later in the month, with the precious metal closing October at just above USD 4,000 per ounce.

Portfolio Review

During the period, the Fund outperformed on both 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 Industrials were the largest contributors, while Communication Services and Consumer Discretionary were offsetting. AI-related stocks remained on their upward trajectory that started in April. AI infrastructure was the top-performing theme, driven by favourable headlines surrounding AI data centre investment activity. Some of these announcements included better-than-expected revenue expectations from Nvidia for the intermediate term, and discussions of initial public offering (IPO) of an AI research and deployment company potentially in 2026-2027. AI-enabled industries generated positive absolute returns but slightly underperformed the blended benchmark. AI applications underperformed due to weakness among our digital advertising names.

Top contributor was Celestica Inc.* is a leading electronics manufacturing services (EMS) company that designs, builds, and supplies critical hardware infrastructure – such as servers, storage systems, and networking switches – for AI data centres and hyperscale customers. Shares were higher after the company delivered strong Q3 earnings results, raised its 2025 guidance and introduced a stronger-than-expected 2026 outlook, showcasing multi-year visibility tied to accelerating AI-driven data centre demand. Celestica* remains a beneficiary of an AI infrastructure buildout from hyperscale cloud customers. Demand for Celestica's advanced networking hardware and storage solutions should benefit from this multi-year investment cycle.

Another contributors Caterpillar Inc.* manufactures construction and mining equipment, engines as well as power generation solutions. Despite some tariff headwinds, shares were higher after the company delivered healthy Q3 results, driven by higher equipment volume across segments, cost discipline, and a record backlog. The company also benefitted from investor optimism around its AI-enabled equipment and strategic partnerships in data centre power generation. Caterpillar* continues to have a compelling growth trajectory, as its leadership in heavy machinery and onsite power solutions positions it to benefit from the AI infrastructure buildout. The company is also favourably positioned to capitalise on a recovery in global demand for autonomous and efficient industrial systems.

One of the detractors was a social media operator was the top detractor over the period. Despite delivering healthy earnings results, shares underwent some profit taking as the company raised its expectations for capital expenditures and expenses, citing investments in AI infrastructure and compute capacity. Over the longer term, we believe these investments should yield benefits to its business, as the company has a track record of implementing AI to drive better financial results. The company continues to work on new ways that generative AI can improve experiences across its platforms – spanning search, social discovery, advertisements, messaging, and more. We believe these new innovations can help drive greater user engagement and stickiness, as well as improvements with advertisement targeting and monetisation.

Another detractor on a relative basis was Nvidia Corp.* Although the stock was a meaningful position in the Fund, it was a relative underweight in the blended benchmark, which had an average weight of 12.7% versus the Fund's average allocation of 7.8%. Shares were higher following Nvidia's Washington DC GTC event, as the company announced a USD 500 billion graphics processing unit (GPU) order visibility through 2026. Nvidia should realise this revenue potential as the company executes on the production ramp of the current generation Blackwell GPU product and the next generation Rubin GPU product. We still favour the company as a core position within a diversified approach to the AI infrastructure opportunity.

We initiated a position in a provider of equipment and services for power generation, grid solutions and renewable energy. The strengthening growth in AI data centres is driving electricity demand (projected to double US power needs by 2030), and is directly benefitting the company. This has driven a surge in orders for its gas turbines and grid equipment that should convert to strong revenue and profit growth for years to come.

Another new position is a leading global supplier of lithography systems for the semiconductor industry. The company is the sole producer of extreme ultraviolet (EUV) lithography machines, which is critical for the production of leading edge semiconductors. It benefits significantly from the buildout of AI infrastructure, as the surge in demand for high-performance AI chips – such as those used in data centres for training and inference – drives chipmakers to invest in cutting-edge fabrication processes that rely on the company's EUV lithography machines.

We exited our remaining position in a mass media and entertainment conglomerate due to increasing concerns around its CEO succession planning. While the CEO has done a commendable job stabilising operations, uncertainty around long-term leadership weighed on our conviction. Given the company's unique attributes in media, theme parks, and cruises, we are concerned about the challenges of finding the right leader for the company.

We sold the small position of a leading property and casualty insurer serving customers in the US after the company reported mixed earnings results. It appears the company may be headed into a more difficult pricing environment that could weigh on growth over the interim term.

Outlook and Strategy

We remain positive on the long-term outlook for equities, with Q4 historically being a seasonally favourable period for stocks. With the market looking towards the potential of improving 2026 earnings across sectors, this setup is conducive for a market broadening beyond the Technology sector. However, it is possible that markets undergo short periods of volatility, as a more complicated policy backdrop can contribute to potential risks of inflation and slower economic growth. For now, equity markets have been on an upward trajectory since early April and we believe the outperformance of AI-related stocks could continue with a more benign policy environment.

As we continue to follow the fundamental factors of the AI ecosystem, we maintain the view that growth trajectory remains in its early stages. From a demand perspective, the landscape continues to experience tailwinds from new AI data centre announcements and rapidly growing compute workloads from adoption of new AI reasoning models. The spending environment remains disciplined from across the ecosystem. At the downstream end, semiconductor and component suppliers have yet to materially ramp capital spending in response to the surge in AI infrastructure announcements. Unlike prior hype cycles, suppliers are responding with caution, choosing to wait for firm purchase commitments. Further upstream, cloud hyperscalers and internet leaders are increasing data centre spend, supported by solid earnings and AI growth opportunities. While the afore-mentioned an AI research and deployment company has captured headlines with sizable investment ambitions, they are part of a much wider movement advancing AI innovation. Taken together, these dynamics suggest that the current AI investment cycle remains early, broad-based, and underpinned by solid fundamental factors rather than speculative excess.

A more constructive backdrop is developing, as we see a continued narrowing of trade and tariff outcomes, implementation of Trump's tax cuts and pro-business agenda, and an easier monetary policy stance. The Trump administration continues to encourage global companies across the innovation value chain bring more leading-edge manufacturing to the US. The passage of the One Big Beautiful Bill Act should further support US domestic investments through tax incentives. Moreover, as the Fed resumed its rate-cut path, the easing of financial conditions and policy stimulus should be constructive for a potential re-acceleration in 2026 earnings more broadly across sectors, including areas that have lagged. This set up could catalyse a broadening of performance beyond Technology that includes underappreciated areas of AI-enabled industries and AI applications.

We continue to maintain a balanced portfolio of companies benefitting from AI innovation and favour 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 stock picking 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 October 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").