

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. With the adoption of the Sustainability Key Performance Indicator Strategy (Relative) (“KPI Strategy (Relative)”), the Fund also seeks 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 advanced over May. US equities set fresh record highs, although the market came off its best in the closing days of the month. The appreciation was mostly driven by robust gains from the technology sector. As a result, the tech-heavy Nasdaq Composite Index outperformed the broad-based S&P 500 Index, with growth stocks topping value ones by a sizable margin. In contrast, Japanese and United Kingdom shares rose only modestly, while the MSCI Emerging Markets Index was pressured by weak returns from Brazil and Mexico, among others.

On the monetary policy front, US Federal Reserve (Fed) Chair Jay Powell signaled that investors would need to be “patient and let restrictive policy do its work” in reducing inflation: however, he also confirmed that the likelihood of a further increase in rates was “very small”. In the eurozone, the European Central Bank (ECB) gave its strongest hint yet

that rates would be cut in June, despite higher-than-expected wage growth. Hopes that the Bank of England would also cut rates in June were dashed when United Kingdom inflation fell less than forecast and the government unexpectedly called a general election, to be held on 4 July.

In the commodity markets, oil prices eased, touching their lowest level since March on fears of a looming supply glut. Conversely, metals prices moved higher. Gold touched a fresh high of USD 2,450 a troy ounce, while copper topped USD 11,000 a ton for the first time on record as concerns over curtailed supply added to expectations of a pick-up in demand.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, all sectors had positive returns. The information technology sector was the top performer, with outperformance from the semiconductors and semiconductor equipment industry group. The utilities sector was another outperformer. Conversely, the energy and consumer discretionary sectors lagged broader markets.

Portfolio Review

During the period, the Fund underperformed the benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). Market performance was narrowly concentrated among the mega cap technology companies, a sharp short-term reversal from the recent market broadening. This backdrop was a headwind for returns relative. From a sector perspective, information technology and consumer discretionary were the largest detractors to relative performance, while the industrials and consumer staples sectors were offsetting. Although the artificial intelligence (AI) capital investments remains strong, the portfolio's AI Infrastructure exposure underperformed the blended Index, as a few AI foundational software companies reported earnings results that missed expectations. AI Application also underperformed because of a transitory slowdown across the software industry. AI-enabled Industries outperformed from strength among our renewable energy names.

The top contributor over the period is a vertically integrated solar manufacturer and specializes in the production of high-performance cadmium telluride (thin film) based solar photovoltaic panels. The company is implementing AI across its value chain to drive innovation, enhance efficiency and improve customer service. Shares were higher during the month on news of potential new tariffs for Chinese solar panels, and investor recognition that the company is a direct beneficiary of higher power demand from AI and datacenters. The company remains well positioned to capture the growth potential of US utility scale solar. The company will be the clearest beneficiary of the Inflation Reduction Act (IRA) guidelines for domestic content. Also, the company has strong visibility with orders extending through 2027 and margins being set to trend sharply higher, while the announcement of additional manufacturing capacity in the United States could provide another catalyst.

Another top contributor was a company which provides enterprise AI software. Its platform empowers organizations to develop and deploy enterprise-scale AI applications. Shares were higher as the company reported better than expected earnings results, as subscription revenues accelerated for the fifth consecutive quarter. The company noted continued success in the government vertical and strong increase in pilot agreements. The company is currently benefitting from the developments of large language models (LLMs) and generative AI. Bookings trends have been solid given new products and increased interest from various organizations to leverage AI technologies.

Our position in a company who is a leading data developer platform used to build highly available and scalable cloud applications was among the top detractors during the period. Shares fell as the company provided disappointing forward guidance, given a slower than expected start to the fiscal year for consumption growth and new workload wins. We believe these headwinds to the business are more transitory in nature and that company fundamental factors remain intact. The company continues to strengthen its market position and technological leadership in the growing database-as-a-service market.

Among the largest detractors on a relative basis was a chipmaker. Although the stock was a meaningful position in the Fund, we were underweight relative to the benchmark. Shares were higher during the month as the company delivered a better-than-expected earnings report and as management highlighted that demand continues to out-strip supply.

Outlook and Strategy

We continue to believe that the equity market recovery can extend from 2023 into 2024. Although inflation has trended lower over the trailing 12 months, inflation has moved sideways this year. As a result, The Fed will likely maintain the restrictive stance by holding policy interest rates at current levels. Despite tight monetary conditions, the US economy remains resilient.

Expectations for Fed rate cuts have been lowered from six to under two, over the year to date period. Amid this backdrop, equity markets have demonstrated resiliency, especially for AI and cloud infrastructure companies. From the most recent Federal Open Market Committee meeting, Fed Chair Powell indicated that rates likely stay elevated for the time being. As the Fed gets comfortable that inflation is moving towards its 2% target, we should see rate cuts, which are looking likely to happen closer to the latter end of 2024.

A normalised monetary policy backdrop should be conducive for economic strength to broaden. We are already seeing a broader recovery of earning growth that encompasses sectors outside of Technology and for mid-and small market capitalisation stocks. Even if there is more volatility ahead, we believe smaller companies have discounted more uncertainties, offering attractive risk rewards for longer term investors. Lower rates should eventually ease financial conditions and help broaden the recovery as we head into 2025. These conditions should translate to better demand across customer segments, easier access to capital and increased investment in high return-on-investment (ROI) projects like generative AI. There are likely bumps along the way, but we remain optimistic for the rest of 2024.

AI's impact on every industry is starting to take hold, and we see a growing opportunity set beyond just the Magnificent 7 and the technology sector. ChatGPT and early use cases of generative AI have proven that these breakthroughs can greatly improve efficiency and drive a new wave of automation. We are likely at the dawn of a long-term AI investment cycle that will have significant growth implications across the value chain and in every sector of the economy.

AI Infrastructure: The developments around generative AI and large language models further demonstrate that the demand backdrop for AI Infrastructure companies should remain strong given the computing requirements for training complex AI models and subsequent inference needed for edge intelligence. More companies are now motivated to build out their own domain-specific generative AI capabilities through continuous training and refinement. As these launch for broad-based use, demand should also expand to networking and storage infrastructure to support the explosive growth in new AI workloads. Investment also appears to be expanding to smaller cloud providers, governments and corporations in more countries around the world, which should be supportive of the ongoing build-out of critical AI infrastructure in the coming years.

AI Applications: A new wave of AI Applications is emerging that infuse generative AI capabilities into their software to drive greater value and create more monetization opportunities. Today's general purpose AI models were trained on the internet, and they can't respond to questions based on proprietary knowledge or data housed privately within an organization. Many internet and software companies have a wealth of proprietary data sets and workflows to train AI models that can result in a new era of more intelligent applications and systems, opening up many new opportunities for monetization and value.

AI-enabled Industries: AI is helping to reinvent digital transformation, introducing new generative AI possibilities that can significantly boost productivity and reduce costs. As more processes go digital, the opportunity for AI to react to new information or unexpected changes can revolutionize 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 and innovate in the future. We are witnessing an increasing number of companies across automotive, consumer, health care, and finance sectors leveraging proprietary datasets that could yield differentiated AI models and applications that are difficult to replicate and can handle tasks better than general purpose AI. We believe this is just the tip of the iceberg as companies become more comfortable with AI's potential to drive greater efficiencies and automation across every part of their business.

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advances in – and the deployment of – AI. We believe these changes will drive meaningful growth for companies that can take advantage and drive disruption within their respective industries. Our view is that the compounding effect from AI disruption will create massive opportunities for innovative companies across every sector. Stock picking will be essential to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change. As we have done since the launch of the strategy, we remain focused on identifying the companies that leverage AI to deliver the most shareholder value creation over the long term. Compared to the technology innovation ahead of us, humanity is still on day one of our journey through the AI revolution.

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Source: Bloomberg, IDS and Allianz Global Investors and as at 31 May 2024 unless otherwise stated.

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