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 December

Global equities delivered mixed results in December. While the MSCI All Country World Index (ACWI) was modestly higher, helped by Europe and Asia ex-Japan stocks, US equities were slightly lower over the period. This included the Technology-heavy Nasdaq Composite experiencing headwinds in December, as the index faced profit taking in larger Technology names, which had outsized gains earlier in the year. The end of the government shutdown in mid-November allowed for a clearer flow of economic data in December. This included non-farm payrolls rising modestly, retail sales exceeding expectations, and November consumer price index (CPI) coming in below expectations, while unemployment edged slightly higher. Equity markets also saw a continuation of the cyclical rotation, as the Materials, Financials, and Industrials sectors led performance for the MSCI ACWI. Utilities and Real Estate were the weakest performing sectors over the month.

Major central banks around the world were active in December. The US Federal Reserve (Fed) delivered a 25-basis point (25-bps) rate cut, bringing the federal funds rate to 3.5-3.75%, the lowest level in three years. Similarly, the Bank of England (BoE) lowered the base rate by 25 bps to 3.75% – also the lowest in three years. The European Central Bank (ECB) and People's Bank of China (PBoC) both left their key borrowing rates unchanged. Japan remained an outlier, with the Bank of Japan (BoJ) delivering a 25-bps rate rise to 0.75% – the highest level since 1995 – amid rising inflation and continued Japanese yen weakness.

Brent crude oil prices eased in December, closing at just over USD 61 a barrel to round out their worst year since 2020. Prices hit a 5-year low on supply glut concerns and progress in the US-led Ukraine peace talks, before recovering on fading optimism over a potential ceasefire. This diminished the possibility of sanctioned Russian crude re-entering global markets. Gold prices rose amid heightened expectations of a Fed rate cut at its final meeting of the year and touched a series of fresh highs into month-end, closing the month of December just below USD 4,350 per ounce.

Portfolio Review

During the period, the Fund outperformed versus the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). From a sector perspective, Financials and Information Technology were the largest contributors, while Industrials and Communication Services were offsetting. Artificial intelligence (AI) enabled industries was the top performing dimension, helped by a continued broadening of the markets and positive stock selection in the Financials sector. AI applications also outperformed, helped by better-than-expected earnings results from our enterprise software and digital advertising names. AI infrastructure slightly underperformed as companies tied to the custom AI silicon value chain underwent some profit taking after outperforming in the past prior months.

One of the top contributors was Lam Research Corp.* is a leading global supplier of wafer fabrication equipment (WFE) and services for the semiconductor industry. Shares outperformed in December, supported by optimism for greater WFE orders to meet the strengthening memory demand backdrop. On a longer-term basis, the fundamental backdrop for semiconductor capital equipment spending environment remains healthy given the growing demand for leading edge semiconductors that include advanced logic chips and high-bandwidth memory. Lam Research is well positioned through its broad product portfolio that can address customer technology roadmaps and production objectives.

Our underweight position in a technology hardware producer was another relative contributor due to its significant weighting in the custom benchmark. The company had an average 11.3% weight in the benchmark, while the Fund had an average exposure of 2.5%. The stock underwent some profit taking over December, while overall demand trends remain healthy.

One of the top contributors was 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 underwent some profit taking following outperformance in prior months, while the company's strong multi-year demand outlook remains intact. Looking forward, the company continues to be a beneficiary of an AI infrastructure buildout from hyperscale cloud customers. Demand for the company's advanced networking hardware and storage solutions should benefit from this multi-year investment cycle.

Among the top relative detractors for the month was Broadcom Inc.*, which designs, develops, and supplies a broad range of leading semiconductors, enterprise software and security solutions. Although Broadcom delivered strong fiscal Q4 results with record revenue growth that exceeded expectations, shares experienced some profit taking after earnings, following a period of stock outperformance in prior months. Looking forward, the company is on track for meaningful acceleration in revenue and earnings growth driven by AI-related computing and networking programmes, software infrastructure and a recovery in its wireless semiconductor business.

We re-initiated a position in a leading semiconductor company specialising in memory and storage solutions, which benefits significantly from the ongoing buildout of AI infrastructure, as AI data centres and edge computing require vast amounts of high-performance memory like high-bandwidth memory (HBM) to support graphics processing unit (GPU)-intensive workloads. The sharp rise in demand has created a supply imbalance, strengthening the company's pricing power and positioning the company for sustained multi-year growth.

We initiated a position in one of the world's largest hospitality companies, operating an asset-light business model focused on franchising and managing hotel properties. at this time as we believe the fundamental backdrop for the company is improving. Also, the company is seeing some benefit from its AI initiatives, and we believe the growth of agentic AI commerce should be a tailwind for the company.

We exited the position a leading global entertainment company operating a subscription-based streaming service.due to concerns surrounding its pursuit of a global media and entertainment company, which introduces uncertainty tied to a potentially lengthy antitrust review. The ongoing bidding process also creates an unfavourable risk-reward profile at this time.

We exited the remaining position in a leading enterprise software company as the company is rumoured to be pursuing an acquisition of a private company in a market adjacent to the company's core markets. We are concerned that such an acquisition will be dilutive to future earnings and require added investment to scale.

Outlook and Strategy

As we look ahead to 2026 and beyond, we maintain a constructive outlook for equities. An improved economic and earnings growth backdrop across more sectors should drive a broadening out effect in the equity market. Many major central banks have cut interest rates or signalled future cuts to keep financial conditions supportive of economic growth. In the US, the Trump administration's pro-business agenda also provides tailwinds through tax cuts, deregulation, domestic investments, and manufacturing reshoring. These efforts should help stimulate growth for both consumers and corporations across more areas of the economy.

The topic of an AI bubble has been a key area of focus for the media and many investors. In our view, it is too early to draw a conclusion. We think it is important to highlight that current valuations and capital intensity are materially lower than the dotcom bubble. Also, the AI capital expenditure cycle is being funded by some of the biggest and most profitable companies in the world. There are likely pockets of speculation with some data centre projects and private companies, and we may see period of digestion at some point in a few years.

While the Technology sector may continue to perform well, we expect improved earnings growth from a wider set of companies across other sectors. This should lead to broader equity market participation, creating a healthier and more balanced environment compared to one dominated by a concentrated group of mega cap stocks. The Fund is designed to invest across a broad spectrum of technologies and industries embracing the disruptive power of AI. This includes sectors such as Financials, Health Care, Consumer, and Industrials that are beginning to see early benefits from AI. As earnings re-accelerate across more companies and sectors, we believe this creates compelling stock selection opportunities for our diversified AI investing approach.

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 December 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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