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 April

Global equities had a choppy month in April. Stocks initially sold off on President Donald Trump's aggressive retaliatory tariffs announced on 2 April "Liberation Day". The initial reaction was a sharp risk-off environment that was broad-based with most equity styles down double digits until markets reached a bottom on 8 April. In the following weeks, tariff tensions began to ease, and earnings were better-than-feared, helping stage a market recovery over the last few weeks.

The US economy unexpectedly shrank in Q1, with gross domestic product (GDP) falling 0.3% on an annualised basis, as companies accelerated imports ahead of tariff. Headline year-on-year inflation fell to 2.4% in March, down from 2.8% in February, while core inflation also eased more than expected, reaching the lowest rate since March 2021. In Asia, the Bank of Japan (BoJ) and the People's Bank of China (PBoC) held key lending rates steady at their meetings during the month.

Meanwhile, the European Central Bank (ECB) cut interest rates by 25 basis points (bps) to 2.25%, as widely anticipated, citing the deteriorating growth outlook due to rising trade tensions.

Oil prices fell in April as heightened trade tensions softened the outlook for global energy demand. Brent crude prices fell following the "Liberation Day" tariff announcement, briefly dipping below USD 60 per barrel – the lowest level in more than four years. Fears of a supply surplus also weighed on oil prices after the Organization of the Petroleum Exporting Countries Plus (OPEC+) announced plans to increase output in May. Meanwhile, gold continued to soar on safe-haven demand, breaching USD 3,500 an ounce for the first time on record before retreating modestly into month-end on profit-taking.

From a sector perspective, for the MSCI All Country World Index, Consumer Staples and Utilities were the top performing sectors given the preference for defensive stocks amid a volatile environment. Energy and Health Care were the only sectors with negative returns.

Portfolio Review

The market backdrop in the second half of April rebounded as tariff tensions started to ease, allowing artificial intelligence (AI) related stocks to recover some from oversold conditions. From a sector perspective, Information Technology and Energy were the largest contributors, while Consumer Discretionary and Communication Services were slightly offsetting. The AI infrastructure theme experienced a sharp recovery as new data points indicate healthy data centre buildout trends. AI applications performed slightly below the benchmark due to a pullback among our China equity holdings, which have been outperformers in prior months. AI-enabled industries also slightly underperformed from our Health Care and Industrials exposure.

Among the top relative contributors over the period was Broadcom Inc., which designs, develops and supplies a broad range of leading semiconductors, enterprise software and security solutions. Shares recovered off oversold conditions, as semiconductors were given some tariff exemptions and AI companies provided positive commentary on the data centre spending environment. 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.

Our underweight position in technology hardware producer Apple Inc.* was among the top contributors due to its significant weighting in the custom benchmark. Apple* had an average 11.87% weight in the benchmark, while the Fund had an average exposure of 3.01%. Shares were lower during the period given supply chain risks from tariffs.

The top detractor was a Chinese e-commerce operator. The company operates primarily as a business-to-consumer platform, selling products directly to customers and manages a vast logistics network. Shares pulled back on growing competition with its new food delivery business. In longer term, the company remains well positioned for a China recovery, which could be catalysed by more stimulus policies. Further, given the combination of aggressive buybacks, improving business trends and an undemanding valuation, the company continues to have an attractive reward-to-risk profile.

Shares of a Chinese internet and e-commerce company were lower as trade tensions escalated between the US and China but recovered as the situation eased towards the end of month. Looking forward, the company is positioned to benefit from a recovery in gross merchandise value as macroeconomic conditions improve, greater penetration into lower-tier cities and new monetisation opportunities on its platform.

Outlook and Strategy

Although we maintain a positive long-term outlook for equities, markets may undergo short periods of volatility. A more complicated policy backdrop can contribute to potential risks of inflation and a growth slowdown. For now, tariff tensions appear to be easing but it remains to be seen when trade deals will be signed. As deals get announced, they would serve as blueprints for other countries to follow.

A lot of uncertainty remains discounted into equity prices, especially with stocks in the AI innovation ecosystem. Near-term earnings expectations have come down while valuations have compressed. As lingering uncertainties get resolved and companies resume their long-term earnings growth trajectory, markets should find their footing and continue to recover.

We continue to believe the Trump administration wants the US to maintain its leadership in AI innovation and is focused on bringing more manufacturing back onshore. Several announcements have been made to further onshore the AI ecosystem and the technology supply chain to the US. This included plans for a USD 500 billion investment from Nvidia and a USD 500 billion investment from Apple. More announcements should be constructive for the AI innovation ecosystem.

We continue to maintain an opportunistic approach to security selection, as we seek companies that are better positioned to navigate through a more complicated environment. Amid additional volatility, there may be opportunities to upgrade select names and add to high conviction ideas 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.

Source: Bloomberg, IDS and Allianz Global Investors and as at 30 April 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").