Allianz Global Investors

Allianz Global Hi-Tech Growth

Monthly commentary

- The Fund aims at long-term capital growth by investing in global equity markets with a focus on the information technology sector or on an industry which forms part of this sector and to achieve the Sustainability KPI with the adoption of Key Performance Indicator Strategy (Absolute) ("KPI Strategy (Absolute)"). The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, concentration, emerging market, company-specific, liquidity and currency.
- The Fund is exposed to sustainable investment risks relating to KPI Strategy (Absolute) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or reducing risk diversifications compared to broadly based funds) which may result in the Fund being more volatile and have adverse impact on the performance of the Fund and consequently adversely affect an investor's investment in the Fund.
- 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 Q1

Global equities rallied strongly over the first quarter of 2024, recording their strongest first-quarter returns in five years and beating bonds by the widest margin in any quarter since 2020. Many markets notched fresh record highs as sentiment was buoyed by solid corporate earnings, the ongoing resilience of the US economy and signs that economic activity may be improving in Europe and China. Additionally, while central banks moved to dampen speculation that interest rates may be cut as soon as March, they continued to indicate that rates were likely to be lowered in the summer. Japan was the strongest market by quite some margin, but emerging markets lagged due to weak returns in Brazil, South Africa, China and Mexico. At a sector level, information technology, communication services, financials, industrials and energy performed the best, delivering double-digit gains, while real estate and utilities companies rose the least.

The US dollar strengthened against the British pound and the Euro as US policymakers dismissed speculation that US rates could be cut as many as six times in 2024, stressing that their guidance remained for just three rate cuts. In contrast, the European Central Bank (ECB) refused to comment on the number of rate cuts it may enact during 2024, while the hopes of United Kingdom rate cuts were boosted when inflation fell by more than expected. The Japanese yen weakened. While the Bank of Japan (BoJ) increased borrowing costs for the first time since 2007 and ended its yield curve control policy, it stressed that borrowing costs would not rise sharply until inflation expectations were anchored at its 2% target.

Inflation proved to be stickier than expected, with escalating tensions in the Red Sea raising fears of another inflationary spike due to higher shipping costs and extended delivery times. Central banks remained dovish but stressed that they would be in no rush to reduce borrowing costs quickly. In March, the Swiss National Bank became the first major central bank to lower rates this cycle, while the BoJ finally ended its below-zero interest rate policy.

Portfolio Review

The Fund posted a double-digit advance for the quarter and slightly trailed the return of the MSCI World Information Technology Index due to stock selection and allocation impacts. Allocation to communication services and industrials sectors contributed to relative results for the quarter. This was primarily offset by conservative stock selection in information technology, as well as exposure to the health care sector. Country results were aided by gains in Taiwan, Japan and France, while the United States was a laggard, followed by exposure to South Korea and the Netherlands.

On a single stock basis, our active underweight allocation to a smartphone and personal computer maker contributed to relative performance given its significant double-digit benchmark weight and negative return. The company continues to underperform its broad technology peers amid the lack of near-term catalysts alongside greater competition and slowing growth in China, translating to relatively weak investor sentiment. We continue to hold shares given their sizeable benchmark weight and history of innovation, alongside expectations of benefits from artificial intelligence (AI) related exposure are likely underappreciated by the market. Active positions in datacenter and cooling solutions provider and social media technology leader also contributed to performance for the quarter.

Conversely, a below-benchmark allocation to a graphics processing and related software maker offset results due to its resilient advance and sizeable benchmark weight. We continue to have a high degree of confidence in the stock, given its leadership position and excitement over AI related demand and will remain at a structural underweight given its double-digit benchmark weight, which is above our maximum single position limit. A modest weight in an electric vehicle maker offset results due to concerns of moderating growth, product capacity limits and profit margin moderation, while a software application provider was lower despite posting a strong upside earnings surprise as the sell-side anticipated higher future guidance and suggested the company's new CEO may need more time to drive sales and profit growth by adding additional AI features to the product line.

Outlook and Strategy

2024 continues to be off to a strong start with technology stocks have been among the best market performers during the first quarter thanks to positive earnings results, robust outlooks for the coming quarters and expectations of more accommodative interest rates from the US Federal Reserve and other central banks. A more normalized monetary policy is likely to translate to better economic growth and higher return-on-investment projects, all else equal. Earnings growth looks poised to expand in 2024 and should be conducive for a broadening of performance down market capitalization spectrum. Our expectation is that the merger and acquisition environment is likely to accelerate for both public and private companies. Valuations remains reasonable, particularly following a strong finish to the prior calendar year and we believe there is ample room for estimates to increase which should be the primary driver of performance over the course of the year.

In our view, information technology and related sectors continue to benefit from tailwinds which should continue to drive attractive long-term appreciation. Many businesses are struggling to find workers to meet customer demand and need technology solutions to improve productivity of limited staffs. As companies need to reduce costs and improve productivity, we expect to see accelerating demand for innovative and more productive solutions such as cloud, software-as-a-service, AI, cyber security, etc. We are in a period of rapid change, where the importance of technology is key to the prosperity of most industries. This environment is likely to provide attractive growth opportunities in many technology stocks over the next several years. The incorporation of health care, communication services with select industrials and consumer-related exposure is intended to provide both diversification and alpha potential over time.

All data are sourced from Allianz Global Investors dated 31 March 2024 unless otherwise stated.

Allianz Global Investors and Voya Investment Management (Voya IM) have entered into a long-term strategic partnership, and as such, as of 25 July 2022, the investment team transferred to Voya IM and Voya IM became the delegated manager for this fund. AllianzGI continues to provide information and services to Voya IM for this investment through a transitional service agreement.