Allianz Global Intelligent Cities Income

Monthly commentary

- The Fund aims at long-term income and capital growth by investing in global equity and bond markets with a focus on companies whose business will benefit from or is currently related to evolution of intelligent cities and connected communities 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, asset allocation, concentration, intelligent cities and connected communities, emerging market, company-specific, creditworthiness/credit rating/downgrading, interest rate, default, valuation, volatility and liquidity and 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 high-yield (non-investment grade and unrated) investments and convertible bonds which may subject to higher risks, such as volatility, loss of principal and interest, creditworthiness and downgrading, default, interest rate, general market and liquidity risks and therefore may adversely impact the net asset value of the Fund. Convertibles may also expose to risks such as prepayment, equity movement, and greater volatility than straight bond investments.
- 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 was modestly higher, helped by Europe and Asia ex-Japan stocks, US equities were slightly lower over the period. The technology-heavy Nasdaq Composite faced headwinds in December, despite a strong year overall. The underperformance was mostly driven by profit-taking in mega-cap tech names, following 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. Utilities and real estate were the weakest performing sectors over the month.

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

US bonds had a mixed performance in December, with Treasuries and investment-grade (IG) corporates declining while high-yield (HY) bonds gained. The Treasury yield curve steepened as two-year yields fell slightly following a 25 bp Fed rate cut, but longer-term yields rose. HY bonds benefited from tighter spreads and shorter duration, whereas IG corporates fell as rising long-term yields offset modest spread narrowing.

Brent crude oil prices eased in December, closing at just over USD 61 per barrel to round out their worst year since 2020. Prices hit a five-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 early on 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 underperformed its custom benchmark (70% MSCI All Country World Index + 30% ICE BofAML US Corporate & High Yield Index) on both a gross- and net-of-fees basis. From a sector perspective, information technology and communication services were the top positive absolute contributors. Industrials and financials were the top absolute detractors. On a single security basis, our positions in a US space exploration and infrastructure company (convertible, aerospace and defense), a global manufacturer of optical and photonic products (convertible, communications equipment), and Coherent Corp.* (equity, electrical components) contributed to performance. In contrast, our positions in Broadcom Inc.* (equity, semiconductors), a leading US manufacturer of HVAC (heating, ventilation, and air conditioning) systems (equity, building products), and Welltower Inc.* (convertible, health care real estate investment trusts (REIT)) detracted from returns.

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 signaled future cuts to keep financial conditions supportive of economic growth. In the United States, 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 outlook across the ecosystem of innovation and companies involved in intelligent cities remains healthy. The landscape has been boosted from new AI data centre announcements, more supportive advanced semiconductor export policies and executive orders from the Trump administration that supported power generation.

We continue to maintain a balanced portfolio of innovative companies with durable business models, strong management teams, and unique products or services that can navigate the current 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. Ongoing secular trends, which include the growing demand for data centre infrastructure, power grid upgrades, electrification, smart buildings and factories, and investments in the energy and industrial transition, provide significant tailwinds for the modernisation of cities around the world.

As cities get smarter, they become more liveable and more responsive – and today we are seeing only a glimpse of what innovation can do to significantly improve the quality of life in urban environments. Investments are growing to transform cities by improving infrastructure, creating better public services, enhancing transportation and reducing traffic, and keeping citizens safe and more engaged in the community. We are excited about the investment opportunities ahead and believe our research driven, bottom-up process across key asset classes is the most effective means to capture the value generated as we build a better future.

Source: Bloomberg, IDS and Allianz Global Investors and as at 31 December 2025 unless otherwise stated.

On 31/08/2022, Allianz Global Intelligent Cities was re-named to Allianz Global Intelligent Cities Income. There was a material change of the Fund's investment strategy and restrictions. Please refer to the offering documents for details.

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").

*The information above is provided for the purpose to demonstrate the Fund's investment strategy only, it should not be considered a recommendation nor investment advice to buy or sell any shares of securities. There is no assurance that any securities discussed herein will remain in the Fund at the time you receive this document.

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Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.

Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance. Investors should read the offering documents for further details, including the risk factors, before investing. This material and website have not been reviewed by the Securities and Futures Commission of Hong Kong. Issued by Allianz Global Investors Asia Pacific Limited.

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