

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 September

Global equities mostly rallied over September, buoyed by the US Federal Reserve's (Fed) larger-than-usual cut in interest rates, its first reduction in four years. The S&P 500 Index closed the month at a fresh record high, while the Nasdaq Composite Index remained below its July peak. With only five weeks to go until the presidential election, Vice President Kamala Harris remains ahead of Donald Trump at a national level, but the race is neck-and-neck in the seven swing states that will decide who wins the most electoral college votes. In late September, a raft of further stimulus measures

from the People's Bank of China (PBC) and the Chinese government further boosted sentiment, particularly towards Chinese stocks which surged over the month.

Global bonds rallied as the Fed joined an increasing number of developed market central banks in starting to ease monetary policy. The yield on the 10-year U.S. Treasury bond fell around 55 basis points (bp) over the quarter to close near 3.80%. European bond yields also declined, albeit to a lesser extent, with the 10-year German Bund yield declining 40 bp to 2.10%. Corporate bonds rallied but tended to lag government debt on a global basis.

Headline inflation eased to 2.50% in August, from 2.90% the previous month. At its September meeting, the U.S. central bank cut rates for the first time in more than four years, implementing a bigger-than-usual 50 bp reduction, the first cut of this size since the early pandemic days of March 2020. Policymakers indicated rates were likely to be reduced by another 50 bp in total before year end, with further cuts likely in 2025. The European Central Bank also reduced borrowing costs, marking its second cut this year, while the Bank of England (BoE) kept rates on hold but indicated that borrowing costs were likely to be reduced later this year. While the Bank of Japan (BOJ) also kept rates on hold, the PBC announced a package of measures aimed at supporting the economy and the property sector, including lowering the reserve requirement ratio for banks and cutting some loan rates.

Oil prices fell, briefly moving back below USD 70 per barrel amid ongoing concerns over the health of the U.S. economy. Saudi Arabia also signaled it was planning to raise production in December as it seeks to reclaim market share. Elsewhere, industrial metals such as copper, surged following China's announcement of massive stimulus measures, while gold, which is often seen to be a safe haven in times of uncertainty, rallied, with the precious metal breaching USD2,600 an ounce for the first time on record.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, performance was led by the consumer discretionary and materials sectors. Soft-landing optimism and China stimulus news were constructive for these sectors. Energy and health care were the top laggards over the period.

Portfolio Review

During the period, the Fund outperformed its custom benchmark (70% MSCI All Country World Index + 30% ICE BofAML US Corporate & High Yield Index). On a single security basis, our positions in a electric utilities company (equity), an application software company (equity) and a hotels, resorts and cruise lines (convertible) contributed to performance. In contrast, our positions in a pharmaceuticals company (equity), a systems software company (convertible) and a semiconductor materials and equipment (equity) detracted from performance. From a sector perspective, information technology and consumer discretionary were the top absolute contributors, and health care was the only absolute detractor over the period.

Outlook and Strategy

We continue to have a constructive mid-to-long term outlook for equity markets. However, we expect higher market volatility in the near term as markets digest some additional risks. Investors are now fearful of a deeper US economic slowdown and late timing of interest rate cuts given recent softer employment numbers, economic indicators, and consumer spending trends. A closer race in the upcoming US elections is also adding to volatility, especially around geopolitics and global supply chain. An unwind of the Japanese yen carry trade has also introduced additional uncertainty. However, overall corporate earnings appear relatively resilient, as most companies reported better-than-expected earnings and revenues for the second quarter. Amid the volatility, we are opportunistically looking to upgrade select names and add to our highest conviction ideas to better position the portfolio for improved performance.

Since inflation is now moving towards the Fed's target of 2% and employment conditions have moderated, the central bank is now in a more comfortable spot to normalize policy. From the most recent Federal Open Market Committee

meeting in September, the Fed started its cutting campaign by reducing the Federal Funds rate by 50 bp. Chair Powell highlighted that the decision reflects a recalibration of policy stance in order to maintain the labor market, which continues to grow albeit at a slower rate, while inflation continues to ease towards the target of 2%. Since the risk of inflation has abated, the Fed has greater latitude to pursue its goal of maximum employment. An easier monetary backdrop should be constructive for the economy to regain its footing, but it may take time for effects to take hold.

Separately, a key characteristic of the equity market strength over the past year is that returns have been concentrated among a handful of large technology companies. Coming into 2024, investors were worried over the risk of recession, timing of interest rate cuts and geopolitical tensions, so preferred larger caps and higher quality stocks. Also, the large technology giants were the early beneficiaries of this first phase of AI given their large infrastructure investments. However, we believe some caution is warranted when mega-cap technology earnings begin to slow compared to other sectors as interest rates moderate and the market broadens out more.

We continue to maintain a balanced portfolio of innovative companies with profitable business models, strong management teams, as well as unique products and services that should help navigate the current environment better. Ongoing policy support like the US Infrastructure Investment and Jobs Act, European Green Deal and other stimulus proposals from around the world should help to provide more funding over the coming years to improve our cities and fight climate change. Ongoing secular trends, which include the electrification of transportation, energy transition to clean and renewable power and decarbonization of industrial infrastructure, provides additional tailwinds for the modernization of cities around the world.

As cities get smarter, they become more livable and more responsive — and today we are seeing only a glimpse of what technology could eventually do to significantly improve the quality of life in urban environments. As an example, we continue to see advances in technology around Internet of Things (IoT — sensors and devices connected by networks to computing systems). IoT has enormous potential to advance how smart cities work. Research on big data and analytics from massive streams of real-time data is being applied to numerous initiatives. The resulting work can transform cities by improving infrastructure, creating more efficient and cost-effective municipal services, enhancing public transportation, reducing traffic congestion and keeping citizens safe and more engaged in the community.

Citizens and businesses will benefit from improvements in air quality, convenience, cost, energy provision, healthcare, safety, traffic, waste management and more. The growth of intelligent cities should only accelerate over the coming years and their potential is limitless. We are excited about the investment opportunities presented, and believe our research-driven, bottom-up process is the most effective means to capture the value generated as we build a better future.

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Source: Bloomberg, IDS and Allianz Global Investors and as at 30 September 2024 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 have entered into a long-term strategic partnership, and as such, as of 25 July 2022, the investment team has transferred to Voya Investment Management. This will not change the composition of the team, the investment philosophy nor the investment process.

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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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