

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 March

Global equities were lower in March due to multiple factors. Fears of a growth slowdown, geopolitical tensions and tariff uncertainty weighed on investor sentiment. In the United States, the technology heavy Nasdaq Composite Index closed the month at a six-month low, while the S&P 500 Index briefly fell into correction territory, having dropped 10% from its early-January peak. Value stocks outperformed their growth counterparts, as investors rotated into more defensive areas of the market. European shares also moved lower as hopes for a ceasefire faltered in Ukraine and trade tensions rose. Emerging markets held up better, with China stocks continuing its recovery from the prior month.

US Corporate bonds declined, lagging US Treasuries as credit spreads widened. High-yield bonds recorded the weakest returns as credit spreads jumped, moving back above 300 basis points (bps), reflecting deepening concerns over the outlook for the US economy given policy uncertainty and risks of a growth slowdown. US Treasuries eked out modest gains over the month. The yield on the 10-year bond closed the month little changed. Meanwhile, in the two-year part of the curve, yields moved back below 4.00% for the first time since October 2024.

Fears of a global trade war and slowing global growth overshadowed economic news for much of the month. The US Federal Reserve (Fed) and Bank of England (BoE) held rates steady, as did the Bank of Japan (BoJ). Meanwhile, the European Central Bank (ECB) cut its key interest rates by 25 bps to 2.50%, as expected, and slashed its gross domestic product (GDP) growth outlook for 2025, citing the tariff environment and heightened economic uncertainty. Meanwhile, German parliament passed a bill to step up government spending to fund higher defense and infrastructure investment.

Oil prices closed March little changed. Brent crude briefly fell back below USD 70 per barrel—the lowest level since December 2021—amid fears that recently imposed US tariffs will diminish global energy demand at a time when the world's oil producers are increasing output. But prices recovered later in the month after President Donald Trump threatened to impose tariffs on countries buying Venezuelan oil. Meanwhile, gold continued to advance on safe-haven demand, breaching USD 3,100 an ounce for the first time on record.

From a sector perspective for the MSCI All Country World Index, energy and utilities were the only sectors with positive absolute returns given the market's preference for value and defensive characteristics. The information technology and consumer discretionary sectors were laggards over the month due to profit taking in growth and momentum stocks.

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 a single security basis, our positions in an online travel agency (convertible, hotels, resorts and cruise lines), a real estate investment trust (REIT) (equity, other specialised REITs), and a provider of telecommunication services (equity, integrated telecommunication services) contributed to performance.

In contrast, our positions in a multinational design, manufacturing, hardware platform, and supply chain electronics manufacturing services (EMS) company (equity, electronic manufacturing services); a database and infrastructure software developer (equity, internet services and infrastructure); and a clean energy company (equity, electric utilities) detracted from performance. From a sector perspective, there were no absolute contributors. The information technology and industrials sectors were the top absolute detractors over the period.

Outlook and Strategy

Although we maintain a positive long-term outlook for equity markets, the Trump administration unfortunately is taking a more aggressive approach with reciprocal tariffs. The tariffs were larger than expected with a shorter than expected phase-in period. It remains to be seen how other countries will react and the extent of the retaliatory actions, which in turn may take longer to find a compromise. Such a policy backdrop can contribute to potential risks of inflation and a growth slowdown, weighing on investor sentiment.

In the longer term, we continue to believe the Trump administration wants the US to maintain its leadership in innovation and is focused on bringing more manufacturing back onshore. However, markets will need to settle into this new policy regime, as investors await clarity on the impact on economic activity and earnings expectations. US-based companies with extensive overseas supply chains as well as export-oriented companies that sell into the US will likely be most impacted.

It is important to highlight a lot of uncertainties are now being discounted into equity prices. As we get more clarity over the coming months, markets may begin to stabilize and stage a recovery from oversold conditions.

From a monetary policy perspective, the Fed looks to be in a comfortable spot balancing inflation with economic stability. In a recent interview, Fed Chair Jerome Powell acknowledges the current high level of uncertainty associated with tariffs that includes impacts on inflation. Powell also reiterated that the Fed is well positioned to wait for greater clarity before resuming its rate cut path. Eventually, an easier monetary policy backdrop should offset some of the tariff headwinds and help the market find its footing.

We recognise that more caution is warranted given a more uncertain backdrop and favor companies that are better positioned to navigate through a more complicated environment. As markets digest these additional risks, there may be opportunities to add to names that have overshot to the downside relative to their fundamental attributes and growth trajectory. 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.

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. Ongoing secular trends, which include the growing demand for data centre infrastructure, power grid upgrades, electrification, smart buildings and factories as well as 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.

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Source: Bloomberg, IDS and Allianz Global Investors and as at 31 March 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").

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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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